The future of growth funding

Report

Contents

Executive summary

Background to the study

Commissioned by the Local Government Association for England and Wales in December 2023, this analysis, conducted in consultation with local and national government, explores future models for funding for local economic growth, development and regeneration initiatives and activities, drawing on lessons learned from recent policy and practice.

In the run up to the 2024 General Election, national political parties made growth one of their primary missions. This report responds to those priorities outlining a mechanism for the next government to drive forward the inclusive growth and economic development agenda.

For the local growth funding mechanisms that have operated over the past five years, several challenges have been identified that potentially constrain local authorities' and partners' ability to enable and promote long-term sustainable economic development, growth, and regeneration. These challenges include short time horizons with strict adherence to financial years – which has meant that 'delivery ready' projects and programmes are usually prioritised, rather than those that might foster long-term solutions.

A 10-point plan for the future of local growth funding

The evidence gathered and analysed during this research project and thinking how lessons can be constructively brought to bear on future local growth policies leads to the identification of a 10-point plan for successful local growth funding:

A clear national economic policy that articulates the role of local economies and devolution

The UK needs a clearly articulated national economic policy and set objectives, and a clear local devolution policy and how local economic growth contributes to this. Over the past 14 years, the UK has developed some very coherent national economic policies, such as the UK Industrial Strategy, and comprehensive policies for local devolution and growth, such as the Heseltine Review – but has never fully implemented them.

Match resources and delivery mechanisms to the scale of challenges and opportunities

The UK2070 Commission's Inquiry into Regional Inequalities estimated that addressing regional inequalities would require an investment of £300 billion over 20 years – equivalent to raising annual Shared Prosperity Funding from £1.15 billion per annum currently to £15 billion per annum. Germany's reunification budget is equivalent to £30 billion per annum.

Long-term challenges and opportunities require long term solutions – which means a funding commitment of at least 20 years, and funding cycles of six to eight years

The levelling up challenge facing many parts of the country will take decades to address, and policy and funding commitments need to match this timescale. Local authorities cited six to eight year funding cycles as being better for long-term benefits and impact rather than the current two to three year funding cycle.

Build operational capacity and capability

Developing staff and organisational capacity, experience and capability will result in better designed and delivered initiatives and solutions for local economic growth, development and regeneration. This means that central government funding needs to allow for sufficient technical assistance or on-costs; sufficient local authority revenue funding; and encouraging a community of practice and the sharing of lessons and best practice.

Capital funding – aim for quality, need, opportunity, impact and a more predictable funding pipeline

Capital projects need time and investment to plan, design and deliver. A more predictable funding pipeline, and funding criteria that emphasise benefits and impacts will lead to the development of more coherent and impactful projects.

Bigger role for fixed allocations but retain better designed competitive funds where appropriate
A hybrid model of fixed allocations and competitive funding for appropriate uses seems sensible. Fixed allocations can help to put in place long-term capacity and delivery, and allow better-designed responses. Competitive funding is appropriate where there are some specific economic or geographical features that may apply, or private sector match funding is a goal.

Funding mechanisms that promote partnership working and relationship building between tiers of government and stakeholders
Growth funding should consider the future transformation of local government delivery such as devolution approaches, shared services and resources. Government policy should evolve to receive bids from larger areas that are subject to collaborative agreements.

Encourage match funding and leverage where suitable and can improve impact
Some projects and activities benefit from collaboration and co-funding with the private sector, not-for-profit sector, and higher and further education sector. The use of match funding should be further incentivised and encouraged where appropriate.

Funding system that builds-in efficiency and impact
Clear goals and objectives that are relevant and meaningful to local economic growth, development and regeneration help steer spending to where it will be most effective. Develop funding criteria that set a high standard for efficiency and impact. There is also a need to continually build efficiency and impact through monitoring, evaluation, training, development and sharing of best practice.

Processes and compliance that are clear and uniform, supported with training and use existing 'fit for purpose' approaches
Single processes for applying for funding, appraisal, monitoring and reporting back to government, that build on existing approaches such as what the Cabinet Office is doing with grant funding.

Introduction

This study explores future models for local growth funding

Commissioned by the Local Government Association for England and Wales in December 2023, this study focuses on funding for central and local government activities that explicitly aim to increase economic growth, development, regeneration, and inclusion in local areas. This is often referred to as ‘local growth’ funding, but explicitly relates to funding for local economic growth, development and regeneration initiatives and activities.

In the run up to the 2024 General Election, national political parties made growth one of their primary missions. This analysis, conducted in consultation with local and national government, explores future models for funding for local economic growth, development and regeneration initiatives and activities, drawing on lessons learned from recent policy and practice.

The analysis draws on lessons learned from recent and live funding programmes and initiatives. Those reviewed include:

- **Levelling Up Fund**
- **UK Shared Prosperity Fund**
- **Towns Fund**
- **Community Renewal Fund**
- **Community Ownership Fund**
- **European Structural Funds including the European Regional Development Fund and European Social Fund**
- **Future High Streets Fund**
- **Growth Deals**
- **City Growth Deals**
- **Regional Growth Deals**
- **Regional Growth Fund**
- **Rural Growth Networks**
- **Enterprise Zones**
- **Freeports**
- **Business Improvement Districts**
- **Investment Zones**
- **Strength in Places Fund**
- **Growth Hubs.**

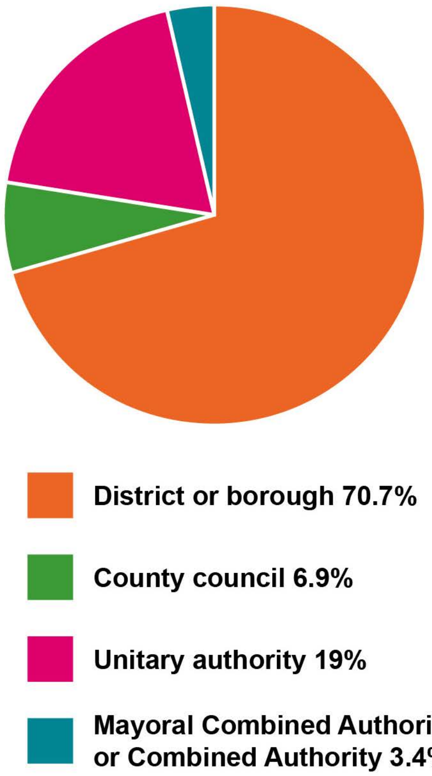
This study takes a systemic approach, exploring a broad range of factors and features needed to address this agenda, including:

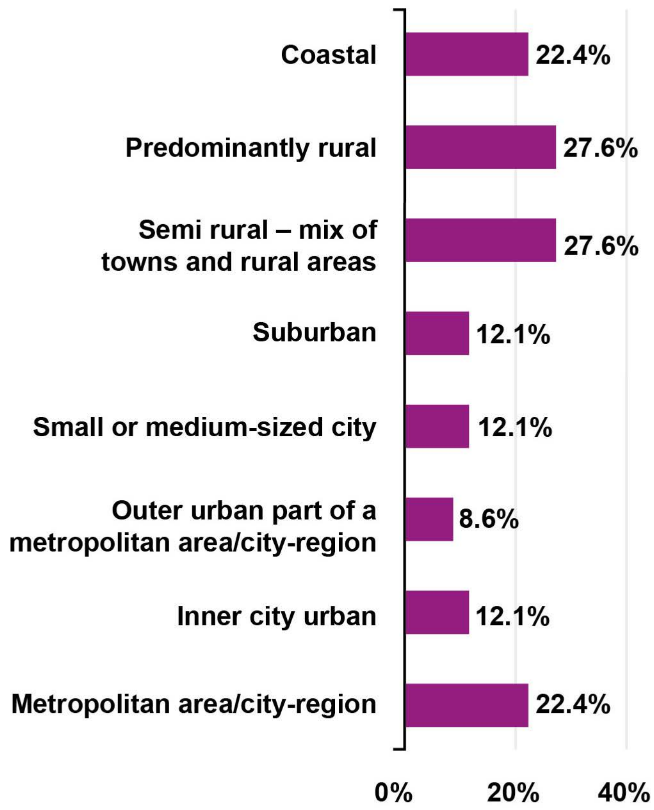
- skills, expertise, capacity, and capability
- factor inputs such as capital, infrastructure, technology, skills and labour
- relationships, understanding and partnerships
- institutional remit, statutory responsibilities, and capabilities
- the delivery capacity and capability to design, manage, deliver, monitor, evaluate and continually improve
- clarity of mission, objectives, relevance, and stability – which enables and attracts private sector investment and activity
- agility and responsiveness to adapt and change to economic events, ttends, and challenges
- The long-term commitment, capacity, capability, and approaches needed to address the levelling-up challenge.

This study involved desk-based research, covering evaluation evidence; House of Commons Select Committee, National Audit Office and other research publications; consultation with 20 civil servants and local authority officers; the Chair of CEDOS (the Chief Economic Development Officers Society) and a survey of 95 local authorities. The local authorities consulted and surveyed included a mix of rural, coastal, and urban geographies with varied political control, and tiers (counties, unitaries, districts, combined authorities) – as highlighted in **Figure 1.1**.

A review of relevant international policy and practice was undertaken, as well as relevant legacy UK funds which no longer operate, but provide lessons and evidence to inform alternative approaches.

Figure 1.1: Type of local authority and type of geography surveyed in this study





Source: Future of Local Growth Funding Survey of 95 local authorities, 2024.

Local economies continue to face significant economic challenges

Inequalities between local economies, and within them are a prominent feature of the UK economy

Local economies in the UK, England and Wales continue to face significant challenges in terms of inequalities in rates of growth, economic performance, and prosperity, lagging rates of productivity and productivity growth, and the extent and concentration of deprivation.

According to Professor Philip McCann, the UK has severe regional inequality, ranking among the worst in developed nations, who ranked the UK behind Slovakia, and the Czech Republic, for example when comparing the UK's interregional inequalities (McCann, P, 2016, The UK Regional–National Economic Problem: Geography, globalisation, and governance). The OECD, in 2018, found in their working paper that the UK is the most inter-regionally unequal large high-income country. Differences in productivity rates between London and other UK regions and nations is greater than that between the states of West Germany and former East Germany, according to the Productivity Institute report.

The consequences of poor local economic performance are often revealed in terms of the incidence and extent of poverty

The cumulative impact of local and regional inequalities on economic performance and prospects are significant. The UK Poverty 2023 report by the Joseph Rowntree Foundation found there are stark differences in the geography of poverty within England, with the North East of England and London having the highest rates. Research carried out by Loughborough University and published by EndChildPoverty.org shows that four local authorities in London have the highest child poverty rates: Tower Hamlets (51 per cent), Newham (49 per cent), Barking and Dagenham (46 per cent) and Hackney (45 per cent). These are followed by Luton at 45 per cent. Centre for Cities, Cities Outlook 2024 report found the proportion of children in relative poverty has risen in every city except Belfast and Basildon, and in work poverty is up almost everywhere. DEFRA's 2024 Statistical Digest of Rural England shows rural deprivation is evident in coastal areas in Lincolnshire, North Norfolk and Kent, and in former mining communities in the North East of England.

The required scale and length of commitment required for policy to be funded and delivered is huge

The scale and length of commitment of the investment required to reduce spatial inequalities is large, and long-term. The German government spent €1.1 trillion (excluding social transfer payments) on reunification over a thirty-year period. The Northern Powerhouse's 2016 Independent Economic Review estimated that for rates of jobs growth to converge with the UK average, this would require an additional 800,000 jobs in the North of England by 2050. The UK 2070 Commission's Inquiry into Regional Inequalities estimated that addressing regional inequalities would require an investment of £300 billion over 20 years – equivalent to raising annual Shared Prosperity Funding from £1.15 billion per annum currently to £15 billion per annum – and this is balanced against the estimated cost of the £40 billion productivity gap that already exists in the three northern regions of England.

Concerns about the level and nature of funds for local economic growth, development and regeneration

Local growth fund design and operation has constrained the ability to address local economic challenges and meet opportunities

For the growth funding mechanisms that have operated over the past five years, several challenges have been identified that potentially constrain local authorities' and partners' ability to enable and promote long-term sustainable economic development, growth, and regeneration. These challenges include short time horizons with strict adherence to financial years – which has meant that 'delivery ready' projects and programmes are usually prioritised, rather than those that might foster long-term solutions.

Short-term capital funding has made it difficult to deliver integrated, long-term solutions

Most funds have provided capital expenditure with small amounts of revenue funding, making it difficult to develop quality support programmes across all intervention themes, and retain organisational memory of what works. Some funds have operated strict criteria in terms of eligibility and use. This has constrained the ability of local government to design and deliver integrated, joined-up solutions, or new and innovative approaches.

Local authorities juggle many different sources of funding

As can be seen in **Figure 1.2**, local authorities juggle many different sources of funding. Grants from central government are part of the funding sources and frameworks that they use. For 42.6 per cent of local authorities surveyed during this study, external non-competitive government grants form the sole source of funding for local economic growth, development and regeneration. External competitive grant sources were the sole source of funding for 19.1 per cent of local authorities responding to the survey.

Figure 1.2: Sources of funds used for local economic growth, development, and regeneration (per cent)

	No source	Minor source	Half of funding	Majority of funding	Sole source of funding
Internal council funds	4.3	48.9	21.3	14.9	10.6
Council borrowing	46.5	20.9	20.9	4.7	7.0
From external non-competitive government grants (UKSPF, local transport funding)	0.0	17.0	14.9	25.5	42.6
From external competitive grant sources	6.4	36.2	25.5	12.8	19.1
Private sector contributions	33.3	31.1	17.8	6.7	11.1
Non-profit sector and university contributions	60.0	24.4	4.4	2.2	8.9
User charging	54.5	34.1	2.3	4.6	4.6
Earn back agreements (e.g. rates revenue, EZs)	44.2	34.9	9.3	7.0	4.7

Source: Future of Local Growth Funding Survey of 95 local authorities, 2024.

Frequent changes to objectives are also a feature of UK government policy
A recent example is how the basis for local economic strategies in England was changed within two years, when Local Enterprise Partnerships were required from 2019 to prepare local industrial strategies as a framework for prioritisation and expenditure in their local areas – but then these were abandoned as a policy by central government in 2021 as soon as they had been completed. This 'cliff edge' is a prominent feature of provision in local economic growth, development and regeneration services and activities, as discontinuity in government policies and funds leads to gaps in provision emerging once funding sources end, which may or may not be restarted months or years later when alternative funding is made available.

The 2021 publication by Martin et al, Levelling Up Left Behind Places – The Scale and Nature of the Economic and Policy Challenge, found the often short-term, fragmented nature of a variety of growth funds, operating at different timescales and for different eligible use has led to a lack of coordination, and integration with other relevant central and local government objectives. For example, climate change policies and objectives have not been integral to most of the local growth funds.

For local authorities, the costs of bidding have been high
This has been recognised in some local growth funds, with some initial funding being offered for bid development in some cases. Delays to awards and funding have also been a feature of local growth funds over the past five years, perhaps reflecting the high number and diversity of grant funds and programmes and reliance on central government to assess and disburse funds. As **Figure 1.3** indicates, many local authorities have bid for a variety of funding sources. Combined with the role of government grants in supporting local economic growth, development, and regeneration this indicates significant activity relating to bidding for, utilising and managing many different sources. **Figure 1.4** details the reasons why local authorities have not applied for local growth funds, with the main reason, after eligibility (50.0 per cent) being insufficient capacity and expertise to develop project concepts, plans, or funding applications (40.0 per cent) followed by the funding criteria or eligibility did not fit with existing projects or needs (33.3 per cent).

Figure 1.3: Sources of funding, eligibility, and bidding activity (per cent)

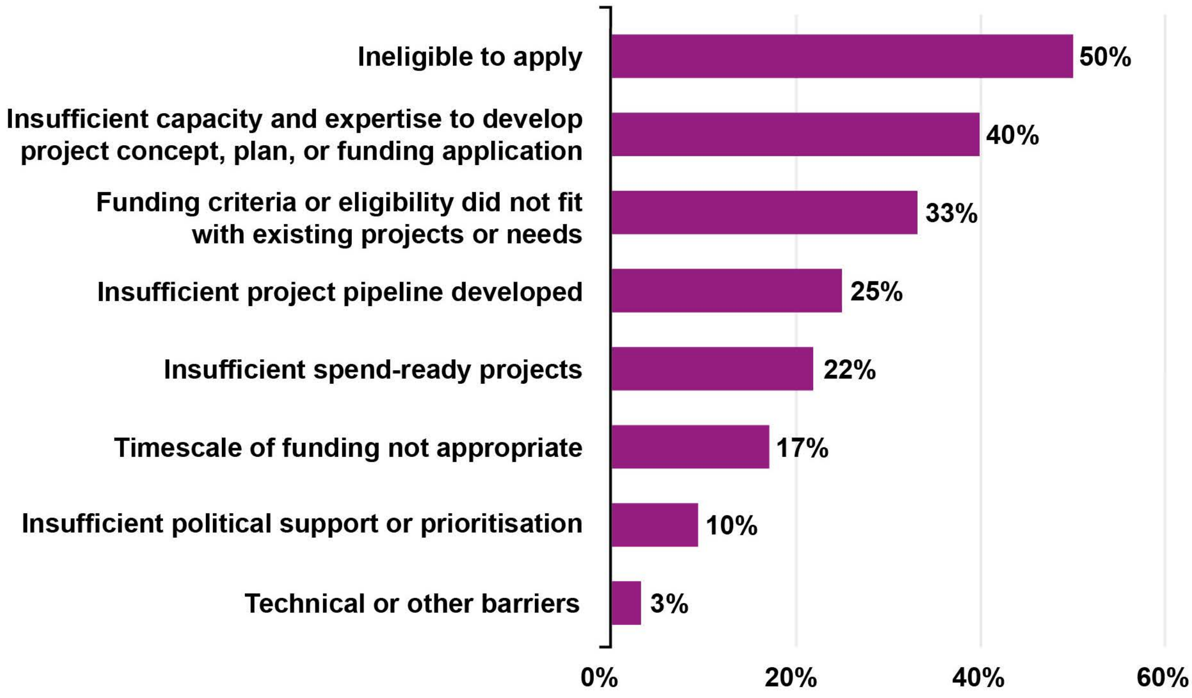
Source of funding	Ineligible or did not apply	Applied or supported as accountable body – unsuccessful	Applied or supported as accountable body – successful
Levelling Up Fund	13.6%	31.8%	54.5%
Towns Fund	46.2%	18.0%	35.9%
Community Renewal Fund	42.4%	15.2%	42.4%
Community Ownership Fund	84.4%	9.4%	6.3%
Future High Streets Fund	28.9%	47.4%	23.7%
Growth Deals	72.7%	9.1%	18.2%
City Growth Deals	90.9%	6.1%	3.0%
Regional Growth Deals	81.8%	6.1%	12.1%
Regional Growth Fund	66.7%	9.1%	24.2%
Rural Growth Networks	93.8%	6.3%	0.0%
Enterprise Zones	56.8%	8.1%	35.1%
Freeports	74.3%	17.1%	8.6%
Investment Zones	61.3%	38.7%	0.0%
Strength in Places Fund	93.6%	6.4%	0.0%

Source: Future of Local Growth Funding Survey of 95 local authorities, 2024.

Competitive funding has a role to play, but there are costs and missed opportunities if this is the main source of funding for local authorities

The experience of local government is that stakeholders across the economic development scene, especially in the business community, are suffering from consultation and bid fatigue. The experience of failed bids for competitive funds, or drawn-out and uncertain processes, undermines the ability of public sector bodies to work with the private and third sectors in setting strategic priorities and delivering change. A funding environment completely dominated by competitive bidding is not considered effective or appropriate by local government officers and stakeholders. Of course, it must be recognised that competitive funding bids and negotiations around growth deals can be beneficial to raising ambitions and focusing attention on how growth can be delivered. And competitive funds can be used to drive innovative thinking and partnership solutions to economic opportunities and challenges.

Figure 1.4: Reasons why local authorities have not applied for local growth funds



Source: Future of Local Growth Funding Survey of 95 local authorities, 2024.

Local authorities are often frustrated that centrally designed funds and interventions aren't always suited to local circumstances and opportunities

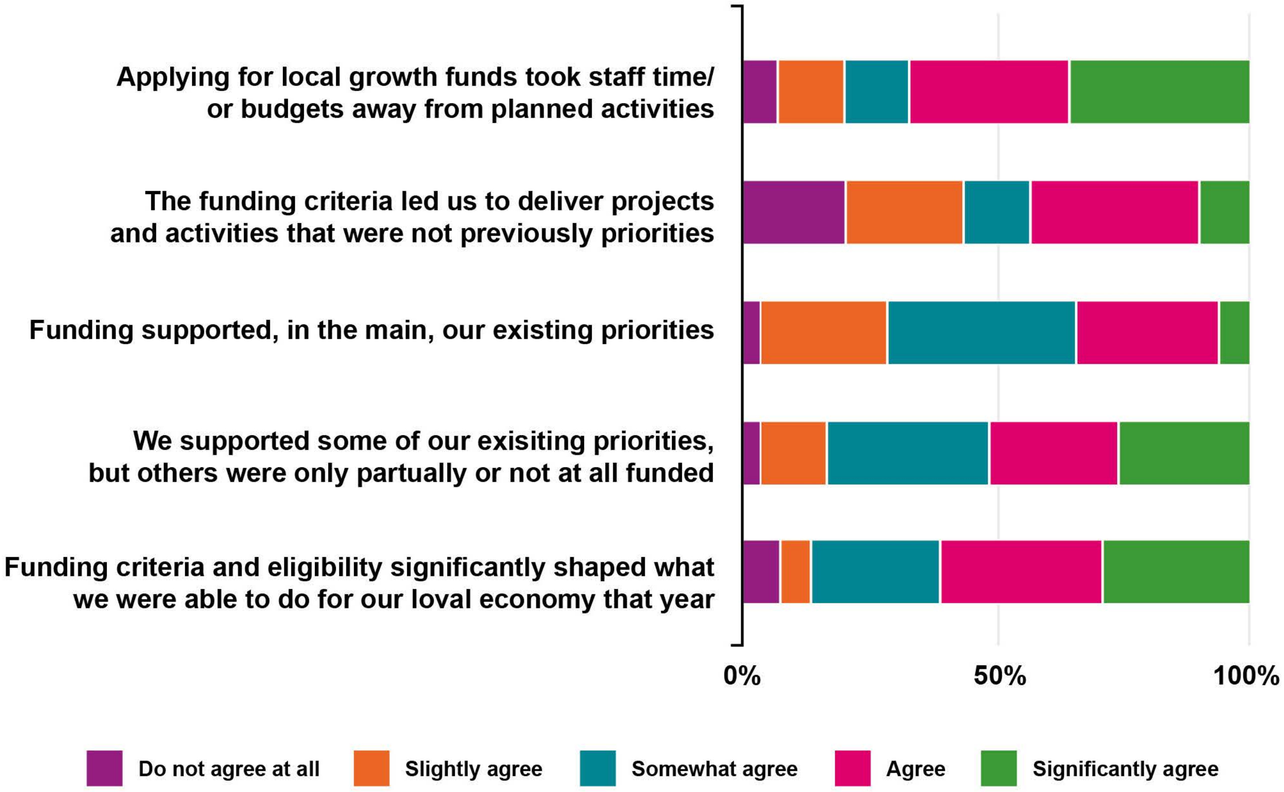
Probably the most significant discourse concerning growth funds over the past decade has been the assumption that central government understands and can design responses to all the challenges and opportunities facing every local economy in England. This is implicit in the conditionality and criteria of most growth funds, and other funding that touches on economic development and regeneration. Understandably, local government sees this differently. Local councils view themselves as much better informed about the challenges facing local economies, having a greater appreciation of the operational context, and being more knowledgeable about the solutions that will work. To them, local context is of fundamental importance. This is reflected in the survey findings presented in **Figure 1.5**, where local authorities were asked how the nature of funding and eligibility shaped the activities and investments made in local areas. As can be seen, on balance, the funding eligibility, value, and type available has led to the delivery of projects that were not previously priorities; some priorities remained partially or not funded; and funding criteria significantly shaped what local government was able to do in that year.

Funding mechanisms can have different characteristics and qualities that might be appropriate to specific circumstances

For example, short-term capital funds can offer stimulus spending in an economic downturn. More complex and sophisticated challenges and opportunities require investment of time, expertise and sometimes additional costs to devise and design effective solutions, before any programme or project is ready to be funded and delivered. Helping unemployed people back into work, reskilling, numeracy, and literacy education require appropriate services and capacities to be established for a reasonable amount of time and revenue funding, primarily for staff.

Finally, the UK government has centralised the design, assessment, and disbursement of growth funds – which many local authorities regard as somewhat unnecessary given the existing financial rules, regulations, and assurance processes that local authorities already have in place.

Figure 1.5: How the nature of funding and eligibility shaped the activities and investments made in local authority areas



Source: Future of Local Growth Funding Survey of 95 local authorities, 2024.

How this report is structured

The report is structured as follows:

Part 2 discusses the current growth funding landscape, how local authorities and the UK government define local economic growth, development, and regeneration. It introduces the main issues and challenges with local economic growth and funding.

Part 3 reviews the growth funds, drawing on the interviews and survey conducted as part of this study, and existing performance reports and reviews from sources such as the Levelling Up, Housing and Communities Committee and Public Accounts Committee.

Part 4 discusses the main conclusions and lessons and presents a 10-point plan for improving local growth funding.

Part 2: **The current growth funding landscape**

Defining economic growth, development, and regeneration

Local economic growth is about increasing output in the economy, economic development considers the well-being of residents and distribution of economic growth

In academic terms, local economic growth focuses on increasing the net output of goods and services in an area. This can be achieved by attracting more resources (workers, machines, etc.) or by using existing resources more productively. Local economic development aims to broaden the focus beyond just growth. It considers the overall well-being of residents, including living standards and how growth can benefit everyone – and this is often referred to as prosperity by some groups. This approach emerged in response to job losses in the 1980s, as localities took more independent action in the absence of national policies.

Local regeneration initiatives aim to address a range of challenges and opportunities taking an integrated, often place-based approach

Local regeneration policies are targeted on areas facing decline that are experiencing relatively high unemployment, poor housing, and social problems. It aims for a comprehensive improvement, addressing economic, social, and environmental issues, not just physical upgrades. Collaboration among stakeholders is key, but challenges such as resident displacement can arise. Regeneration is a long-term, complex process.

There has been a shift to more holistic approaches to economic development in recent years

Over recent years there has been a shift towards more holistic approaches to economic strategies and initiatives that consider the environment, social well-being, and health alongside economic concerns. This reflects growing recognition of the interconnectedness of these issues, especially after the COVID-19 pandemic, and the emergence of local climate emergency declarations and statements. A useful example is the local application of the United Nations Sustainable Development Goals, which have been adopted by several local authorities and in areas such as Bristol.

In 2022, the UK government set out its growth plan to achieve a target 2.5 per cent annual rate of economic growth

The 2022 Autumn Budget Statement - The Growth Plan 2022 – made growth the government's central economic mission, setting a target of reaching a 2.5 per cent trend rate. The proposed policies included reducing inflation, addressing high energy bills, tax cuts, supply side measures, infrastructural investment and planning liberalisation. Proposed local economic initiatives and programmes include:

- Investment Zones
- Planning and regulatory reforms
- Streamlining local growth funds over the next two years
- Funding for specific local infrastructure projects

The 2022 Levelling Up White Paper is the UK government's most recent, dedicated statement regarding local economic policies

The UK government published the Levelling Up White Paper on 2 February 2022 which is the most recent dedicated statement regarding local economic policies. The paper identifies economic and social disparities across the UK and proposes plans to address them, setting out 12 targets or 'missions' under four objectives, as illustrated in **Figure 2.1.** To support these aims, the UK Government launched the UK Shared Prosperity Fund – £2.6 billion of funding available from April 2022 to March 2025, intended to replace the European structural funds (European Regional Development Fund and European Social Fund). An additional Rural England Prosperity Fund was also created which intended to replace the LEADER fund for regional and local economic initiatives and projects.

Figure 2.1: Objectives and 12 missions of the 2022 Levelling Up White Paper

Objective one: Boost productivity, pay, jobs and living standards by growing the private sector, especially in those places where they are lagging	• **Living standards** – foster a growing private sector to raise productivity, pay and living standards across the UK. • **R&D** – boosting research and development spending, focusing on areas outside of south-eastern England. • **Transport infrastructure** – improving transport connectivity outside London. • **Digital connectivity** – improving connectivity, including by rolling out high-speed gigabit-capable broadband.
Objective two: Spread opportunities and improve public services, especially in those places where they are weakest	• **Education** – Improve literacy and numeracy among primary school children. Create new 'Education Investment Areas'. • **Skills** – focus on improving skills, including of those in the workforce. Local Skills Improvement Plans to be introduced. • **Health** – reduce health disparities across UK, with a new white paper to be published in 2022. A food strategy white paper will also be published. • **Wellbeing** – the 'overarching objective' for levelling up is for improved wellbeing and the gap across local areas to close.
Objective three: Restore a sense of community, local pride and belonging, especially in those places where they have been lost	• **Pride in place** – includes policies to support regeneration, communities, green spaces, and cultural activities. The aim is to create stronger and more cohesive communities. • **Housing** – the aim is to increase home ownership and improve housing quality. Policies include reforms of the planning system, the target of building 300,000 new homes per year in England, a new Levelling Up Home Building Fund, and a new white paper on the private rented sector. • **Crime** – to create safer neighbourhoods.
Objective four: Empower local leaders and communities, especially in those places lacking local agency	• **Local leadership** – a 'devolution revolution' across England is proposed. This includes the introduction of 'County Deals' and expanding the number of Mayoral Combined Authorities. A new devolution framework will be set out. Local growth funds, such as the Levelling Up Fund and Shared Prosperity Fund, will provide funding to improve local areas.

Local definitions and interpretations of economic growth, development, and regeneration

Local leaders want to create inclusive, sustainable, and thriving local economies where people want to live and work, and where employers want to invest

The Local Government Association (LGA) does not provide a single, strict definition of economic development activities for local councils in the UK. Instead, they take a broader approach, highlighting crucial areas under the umbrella of economic development. LGA members vary in their priorities for economic development and how they deliver it.

In its publication A guide on the role and future skills needs of economic development teams, the LGA states that 'Local leaders want to create inclusive, sustainable, and thriving local economies where people want to live and work, and where employers want to invest.'

The key areas of economic development in the LGA's view involve:

- **Supporting employment and skills**: This involves initiatives like helping people enter or return to work, promoting apprenticeships and vocational training, and facilitating workplace health and wellbeing.
- **Boosting business growth and prosperity**: This includes activities like attracting new businesses and investment, supporting existing businesses, promoting entrepreneurship, and fostering innovation.
- **Regenerating town centres and high streets**: The LGA emphasises revitalising these core areas by improving infrastructure, supporting local shops and businesses, and enhancing cultural offerings.
- **Championing a thriving local economy**: This embraces broader goals like fostering sustainable economic growth, reducing inequalities, and ensuring all communities benefit from economic progress.

Local councils in England have a wide range of themes and activities that they focus on for economic development and regeneration. These can be broadly grouped into four main areas:

Supporting businesses and entrepreneurship:

- business advice and support
- developing infrastructure and workspace
- promoting enterprise and innovation.

Investing in skills and training:

- working with schools and colleges to ensure that young people have the skills that businesses need
- providing adult skills training and retraining programme
- supporting apprenticeships and other work-based learning opportunities.

Creating attractive places to live and work:
- investing in town centres and high streets to make them more vibrant and appealing to businesses and residents
- improving public transport and other infrastructure
- developing green spaces and other amenities.

Promoting sustainable economic growth:
- encouraging businesses to adopt environmentally friendly practices.
- supporting the development of low-carbon technologies
- investing in renewable energy.

The definition of '**regeneration**' adopted by local councils in England can be multifaceted and context-dependent, encompassing not just physical improvements but also social and economic aspects. Here are some key perspectives on how they define themes and activities for regeneration:

Addressing deprivation and inequality:
- targeting areas suffering from economic decline, social disadvantage, and poor housing conditions
- improving housing stock and public spaces, including parks and green areas
- investing in infrastructure like public transport, schools, and healthcare facilities
- tackling crime and anti-social behaviour
- promoting community cohesion and social integration.

Boosting economic development:
- creating attractive environments for businesses, attracting investment, and supporting job creation
- developing skills and training programmes tailored to local needs
- facilitating business start-ups and growth
- connecting local businesses with wider markets and opportunities
- leveraging digital technologies to enhance economic potential.

Empowering communities and enhancing quality of life:
- engaging residents in planning and decision-making processes
- developing local cultural offerings and amenities
- promoting health and wellbeing initiatives
- supporting community organisations and volunteering programmes
- fostering social inclusion and diversity.

Examples of regeneration themes include:

- **Town centre revitalisation:** Focusing on improving retail diversity, enhancing public spaces, and promoting cultural activities.
- **Brownfield redevelopment**: Transforming derelict land into housing, business premises, or green spaces.
- **Inclusive communities:** Addressing social isolation and building stronger connections between residents of different backgrounds.
- **Sustainable regeneration:** Integrating environmental considerations into all aspects of regeneration projects.

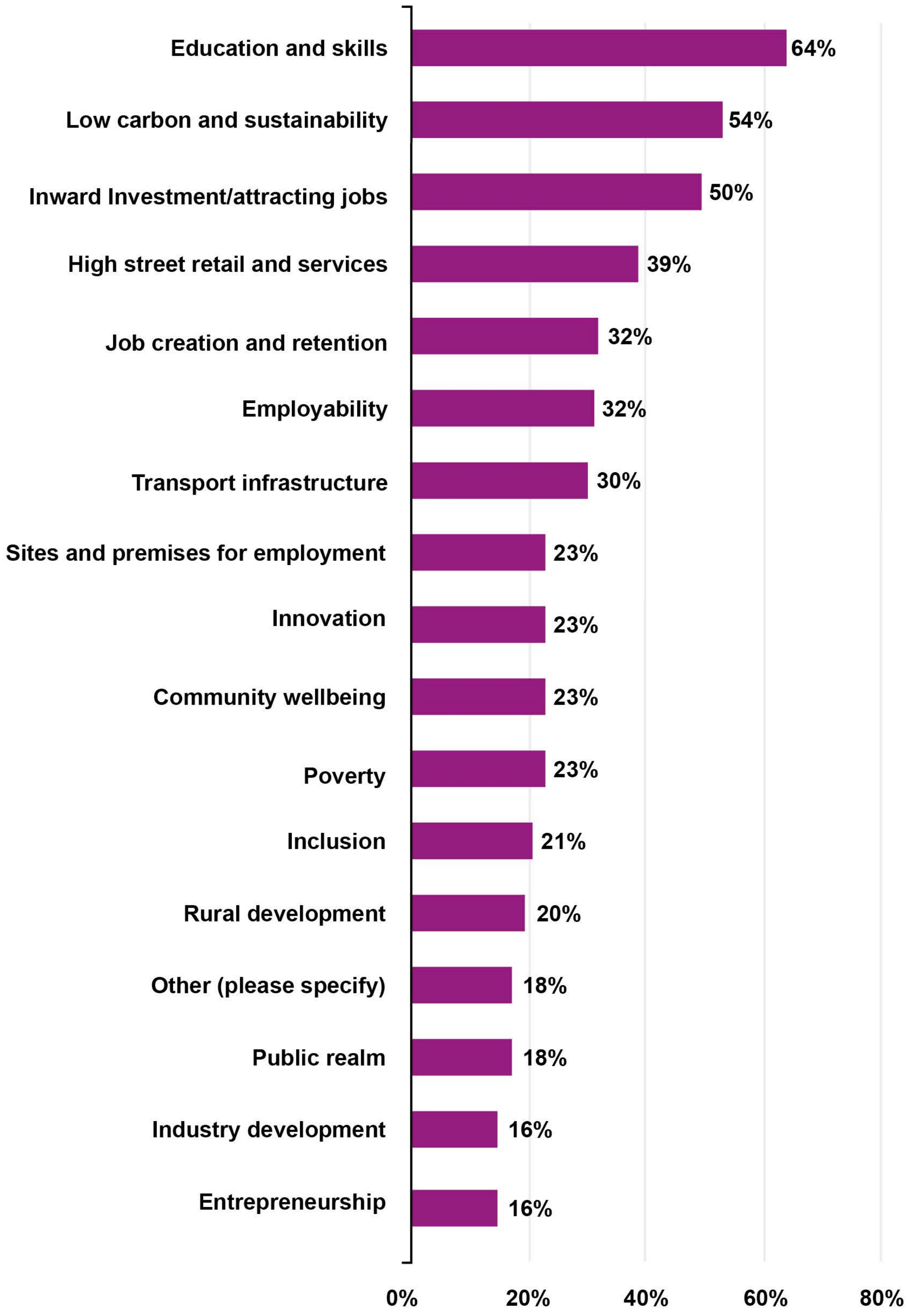
For example, Essex County Council's plan, 'Everyone's Essex' makes five commitments for 2021 to 2025 - good jobs, infrastructure, future growth and investment, green growth and levelling up.

Hull City Council's economic strategy for 2021 to 2026 aims to exceed previous employment, productivity, and growth levels across three interlinking themes of people; place; and productivity.

Devon County Council defines its role in the economy as to 'work to promote sustainable economic growth in Devon through commissioning and delivering a range of activities, both independently and through partnerships with other organisations and also work closely with the Heart of the South West Local Enterprise Partnership.'

As **Figure 2.2** reveals, local authorities have a wide range of current priorities, reflecting local needs, challenges, and opportunities.

Figure 2.2: Current economic growth, development and regeneration priorities facing local authorities, when asked to list their top five priorities

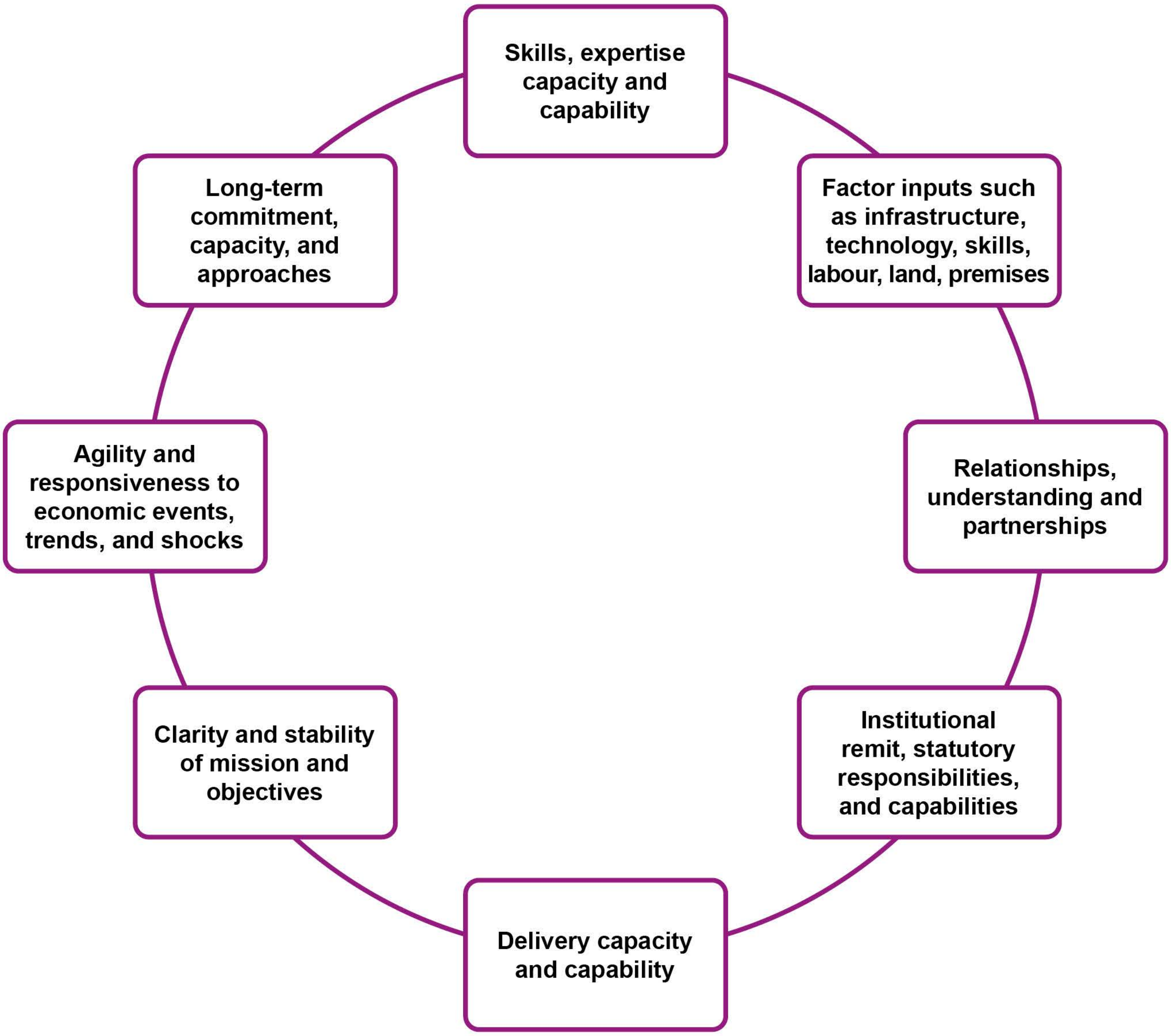


Source: Future of Local Growth Funding Survey of 95 local authorities, 2024.

Success factors for economic growth, development, and regeneration

Much of the growth funding made available over the past decade has been to support specific activities and delivered outcomes for economic growth, development, and regeneration. A valid observation could be that there are multiple ingredients for success or system requirements that enable economic growth, development, and regeneration, such as those outlined in **Figure 2.3**. In this study, it is imperative that the effectiveness of recent funding mechanisms is assessed in terms of how well they can support this system, as well as the specific purposes for which they were designed.

Figure 2.3: System requirements for successful local economic growth, development, and regeneration



Part 3:
Reviewing the growth funds

Individual funds

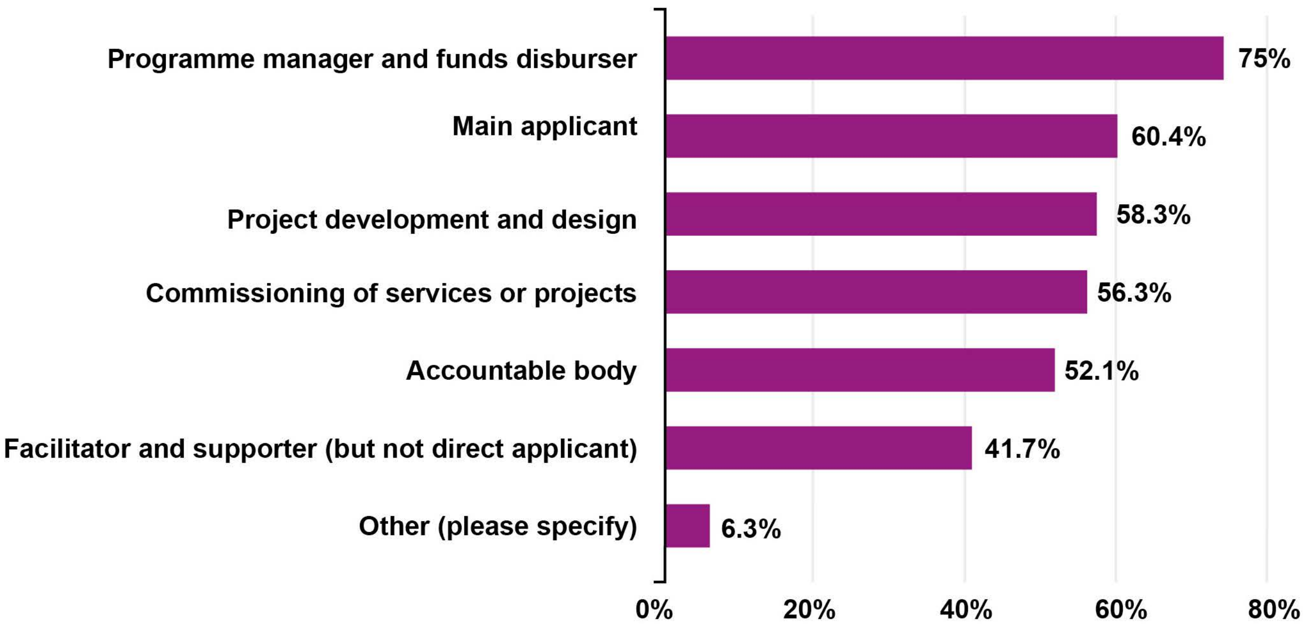
The three most significant funds, by value for local economic growth are currently the Towns Fund, Levelling Up Fund and UK Shared Prosperity Fund

The local government activities that this report focuses on include those that encourage or stimulate economic growth, development, regeneration, and inclusion. The local growth funds from the UK Government included in the analysis in this part are listed in the introduction.

Currently, the three most significant funds by total expenditure are the Towns Fund, Levelling Up Fund and UK Shared Prosperity Fund, summarised as follows. Between them, the government has allocated up to £10.47 billion to be spent during the period 2020 to 2021 to 2025 to 2026.

Local authorities undertake a range of roles in local growth funds, including programme management, applications, project management and design, commissioning, accountable body, and facilitator, as outlined in **Figure 3.1**.

Figure 3.1: Main role of local authorities surveyed during this study (percentage of respondents)



Source: Future of Local Growth Funding Survey of 95 local authorities, 2024.

Towns Fund (England)
The Towns Fund is a £3.6 billion fund intended to drive the economic regeneration of towns to deliver long-term economic and productivity growth through urban regeneration, planning and land use; skills and enterprise infrastructure; and connectivity. The fund is divided into three strands:

1) **Town Deals:** Where 101 towns were invited to develop investment plans and bid for up to £25 million each, with some exceptional cases receiving up to £50 million.

2) **The Future High Streets Fund:** A separate £675 million fund specifically targeted the regeneration of town centre high streets.

3) **A Discretionary Fund:** Which is a smaller pot of money for the government to invest in specific projects or programmes that align with the overall goals of the Towns Fund.

Ninety per cent of funding is for capital expenditure. Town Deals are funded up to March 2025, and the Future High Streets Fund was funded up to the end of March 2023.

Significant criticism of the Towns Fund selection process has been made. A 2020 National Audit Office Report highlighted the lack of transparency, comprehensiveness, and regional balance in the selection process for the Town Deals scheme. It offered recommendations for improvement to ensure a fairer and more effective allocation of resources to support struggling towns across England.

In 2020 the Public Accounts Committee (PAC) criticised the Towns Fund's lack of clear objectives and impact to date. For example, taking job creation as an example, the PAC was not convinced that the Department had thought through how it will define and measure job creation to ensure that the Towns Fund will result in additional, good quality, sustainable jobs. In 2021, the Department for Levelling Up, Housing and Communities published the Towns Fund monitoring and evaluation strategy.

Levelling Up Fund (UK wide)
The Levelling Up Fund, a £4.8 billion fund – allocated for four years from 2021/22 up to 2024/25, is intended to invest in infrastructure that improves everyday life across the UK, including town centre and high street regeneration, local transport projects, and cultural and heritage assets. Funding was awarded for capital projects – between £20 and 50 million for Transport projects; and up to £20 million for non-transport projects. Levelling Up Fund awards were made in three rounds. For Rounds 1 and 2, local authorities had to have been pre-selected – on the 'list' as classified by socio-economic need. Capacity Funding was awarded to pre-selected local authorities to develop their Levelling Up Fund projects and bids.

In Round 1, 305 bids were received, of which 105 were successful, with a total value of £1.7 billion. The largest successful bid was worth just under £50 million. In Round

2, the first stage was a pass/fail gateway based on information about bid eligibility and concept. The second stage involved the assessment and shortlisting bids. 529 bids were submitted, of which 111 were successful, with a total value of £2.1 billion. The two largest successful bids were worth £50 million each, while a further two bids worth just under £50 million were also successful. Successful bidders in Round 1 could not bid for Round 2, although some did submit bids and there has been some feedback that guidance was not made explicit enough. Levelling Up Funds were also awarded in Round 3 for 55 bids that were unsuccessful in Round 2.

Difficulties have been experienced in the bidding process. As the House of Commons Select Committee reported, new questions were set out shortly before the bid deadline, including further formatting and accessibility challenges. A local authority consulted also reported that for their Round 3 Levelling Up Fund bid, they had already spent the money set aside for their unsuccessful Round 2 bid, made 18 months before this project was then awarded Round 3 funding.

A NAO report found that 50 per cent of the main construction contracts for Levelling Up Fund projects due by March 2024 were unsigned, rising to 85 per cent for construction contracts due by March 2025. DLUHC's processes were also criticised in the report for contributing to delays.

The latest scrutiny into Levelling Up funding, from the Public Accounts Committee (PAC) in March 2024 found that the Government was unable to provide any compelling examples of what Levelling Up funding has delivered so far, with only 10 per cent of funds provided actually spent. The PAC report found that, of £10.47 billion in total funding from central government, which must be spent between 2020-21 and 2025-26, local authorities have been able to spend only £1.24 billion from the Government's three funds as of Sept 2023. Furthermore, only £3.7 billion had been given to local authorities out of the total allocation by the Department for Levelling Up, Housing and Communities (DLUHC) by December 2023. The report found that more impactful bids to funding lost out due to optimism bias in favour of so called 'shovel-ready' projects.

Some organisations have argued that the Levelling Up Fund criteria was not focused on actual need. The Productivity Institute, in its submission to the Levelling Up, Housing and Communities Committee argued that the focus of Levelling Up Funds should be on deprivation and economic disadvantage, not simply on projects that align with the government's agenda.

UK Shared Prosperity Fund (UK wide)

The UK Shared Prosperity Fund (UKSPF) is intended to be the replacement for European Structural and Investment Funds (ESIF). It was launched shortly after the publication of the Levelling Up White Paper, in April 2022. It is set to run until at least March 2025, with total funding of £2.6 billion over three financial years 2022/23 to 2024/25. Funding is distributed by formula based on measures of population and deprivation, for the delivery of area Investment Plans (IPs). In England these are prepared for Combined Authority areas, Unitary Authority areas and lower-tier authorities in two-tier local government geographies. In Scotland, 'strategic' geographies are based on Regional Economic Partnership areas and Regional Strategic Geographies for Wales.

The Rural England Prosperity Fund was added to UKSPF allocations, comprising £110 million for expenditure between April 2023 and March 2025. To allocate the Fund, Defra has used an official statistical definition of rural areas based on the 2011 Census. 89 per cent of the rural population in England are in eligible authorities. The funding allocation is based on the share of rural population in each local authority area.

Originally the UKSPF's rules precluded the rollover of underspend from one year into the next, but delays to the DLUHC's approval of Investment Plans led to some loosening of the rules for Year 1, with some rollover possible on receipt of 'credible plans.' However, with new guidelines less detailed than previous ones for EU funds, some councils concluded that provision of advanced funding in lieu of central government UKSPF funding even for long-established projects was too risky.

Local Investment Plans propose activities across three themes:

- improving communities and places through better amenities, infrastructure, and cultural offerings
- supporting local businesses to drive economic growth and job creation, enhancing skills training, education
- employment opportunities for residents.

There is a pre-defined list of intervention types for which minimal information is required for Local Investment Plan sign-off by DLUHC. Lead authorities are free to choose which combination they want to suit local circumstances. It is possible to fund activities that are not listed, if they align to the broad themes, but it requires the submission of more detailed appraisal materials. The UKSPF is set up as a revenue-intensive funding programme but there is some flexibility to veer from resource to capital spending within Local Investment Plans. Rather than meet a fixed ratio, Local Investment Plans must satisfy a minimum ratio for capital spending, and this doubles over the first three years of the programme, from 10 per cent over 2022 to 2023 to 20 per cent in 2024 to 2025.

Moving from ESIF to UKSPF caused complications around overlapping timelines, eligibility criteria changes, and continuity of service delivery. Some of the strategies that local authorities have used to manage these difficulties include using their own financial resources to temporarily cover shortfalls. Some local authorities have established agile bidding teams primed to respond to new competitive funding opportunities.

Other growth funds

There have also been a range of other growth funds in operation since 2011 that we can draw lessons from, discussed briefly as follows.

City Deals are bespoke packages of funding and decision-making powers negotiated between central government and local authorities. This includes freedoms to invest in growth – including a single capital pot, the prospect of Tax Increment Financing (TIF) schemes, business rate discounts and pooled business rate retention. The total value of City Deals is estimated at £2.3 billion, mainly for capital projects. By June 2017, there were 31 city deals, with programmes typically ranging over 15 years. In 2015, a National Audit Office report concluded that City Deals have been an important catalyst for cities to develop their capacity to manage devolved funding and responsibilities, but that the government and cities continued to find it difficult to know what works best in boosting local growth without a robust and shared evaluation approach. The main lessons are that City Deals have been specific and limited, focused on capital projects, and that the focus on infrastructure and capital expenditure may have come at the expense of broader public policy goals.

The Community Ownership Fund made £150 million worth of grants available to community groups during a five year period from 2021 to 2025 to acquire, renovate, run or relocate community assets at risk of closure. Recipients included voluntary and community groups, town, and parish councils. Funding was prioritised for left-behind communities but open to all if the programme criteria was met.

The Community Renewal Fund was a pilot programme that was launched to inform the design of the UK Shared Prosperity Fund and prepare places for its introduction. With a total budget of £220 million, projects aimed to trial new approaches to local economic development. Over 470 projects received funding over one year only, from July 2021 to the end of March 2022. The initial timeline was extended due to a four-month delay in the bid judging process. The main lessons have been that long-term funding assurance is needed for national programmes supporting local growth interventions, and that the one-year timeframe was insufficient for effective project delivery.

Enterprise Zones were established in 2011 to drive economic growth and regeneration in designated areas. Implemented through a mix of financial incentives, streamlined planning and development control, Enterprise Zones offer tax breaks (on business rates), simplified planning, and infrastructure investment to businesses locating in EZs. As of February 2024, there are 48 live Enterprise Zones in England. Although there is no evaluation relating to the recent programme of UK Enterprise Zones since 2011, previous Enterprise Zone policies have been evaluated and researched extensively worldwide, including their past delivery (in the 1980s and 1990s) in the UK. These evaluations point to the importance of generous tax reliefs and strategic location choices as crucial for attracting investment; and other success factors including the establishment of time-limited zones, public or simple ownership structures, limited remediation needs, and existing infrastructure. Careful selection of tenants and occupiers can help to minimise deadweight.

Freeports are special economic zones with tax breaks, customs advantages, and innovation support. They are managed by a consortium of local authorities, businesses, and other stakeholders. Freeports were launched in 2021, and early indications suggest that over £475 million in public and private investment has been secured. Their long-term benefits and impacts are yet to be evaluated.

Investment Zones offer tax breaks, infrastructure investment, programme funding, and other benefits to attract businesses, particularly in priority sectors. Eight Investment Zones have been designated across England for an initial 10-year period between 2023 and 2033, each overseen by a Mayoral Combined Authority with annual funding of £160 million per zone. Investment Zones are still in their early stages, but some have attracted private investment, such as South Yorkshire's Factory 2050 project.

The characteristics and delivery of the local growth funds

The June 2013 Spending Review asked Local Enterprise Partnerships (LEPs) to develop multi-year local Strategic Economic Plans, used as a basis for negotiating 'Growth Deals' with Government – resulting in funding from the Single Local Growth Fund. These local growth deals totaled £9.1 billion between 2013 and 2018, 90 per cent of which was capital funding for up to 15 years. The recipients were the 39 LEP areas. Weaknesses in LEP local assurance frameworks were found and subsequently addressed through the Mary Ney Review in 2017. The Public Accounts Committee found that there were no clear objectives or performance criteria established prior to or during the disbursement of funds, nor any monitoring or evaluation plans. It also found that pressure on LEPs to spend their Local Growth Fund allocation in each designated year created a risk that LEPs will not fund projects more suited to long-term economic development. Another key Public Accounts Committee finding was that LEPs had consistently underspent their Local Growth Fund allocations.

Rural Growth Networks were a pilot initiative run between 2012 and 2013 to support economic growth and diversification in rural England. Initial funding of £15 million from DEFRA and an additional £5 million RDPE funding for micro-enterprise grants was provided. The initiative offered capital grants for infrastructure and equipment, and revenue grants for support services like mentoring and training. Rural Growth Networks supported business start-ups, job creation, and growth across different sectors in each pilot region (for example, Cumbria focused on food and drink, digital industries, agriculture, and tourism).

The Regional Growth Fund was a grant fund worth £3.2 billion over six rounds between 2010 and 2016, aimed at stimulating private sector growth and jobs in areas in England more vulnerable to public sector job cuts. As of 2013/14, the Department for Communities and Local Government had stated that the RGF has created or safeguarded 65,000 jobs. In 2012, the Public Accounts Committee was critical that neither the Departments of Business Innovation and Skills and Communities and Local Government knew "what works best in fostering private sector growth" and had not prepared plans on how they will evaluate whether the Fund actually delivers the jobs and growth predicted. The PAC in 2014 further reported that in 2014, £1 billion of total funding remained parked and unspent with intermediary bodies.

The Strength in Places Fund (SIPF) was a competitive funding scheme run by UK Research and Innovation (UKRI) between 2016 and 2022 that aimed to support innovation-led regional growth and enhance local collaborations involving research and innovation (R&I) across the UK. The total value of the funding was £314 million. Initial stage 1 expressions of interest were submitted, then those bids shortlisted to apply for stage 2 assessment were awarded £50,000 to develop their bids. 12 qualified at stage 2 for full stage project funding, which comprised of in excess of £10 million per project.

The characteristics and delivery of the local growth funds

One of the consistent findings from the review of literature, Select Committee, National Audit Office reports, research and our own consultation and survey findings are that local growth funds have been, to date, a 'patchwork quilt' – that aims to make do and mend, rather than provide a long-term and agile solution to local economic needs and opportunities.

> "Over £13bn of funding has been provided for levelling up since 2019 via 12 different funding streams. Over 400 bodies are recipients of this funding encompassing over 350 local authorities, 21 county councils, 12 combined authorities, 27 Local Economic Partnerships, 11 Freeports and 22 other forms of partnership/body."
>
> University of West London, 2023

> "We identified 53 funds, all with different criteria and varying timescales and eligibilities being offered by 10 government departments and agencies."
>
> University of Sheffield, 2022

There is a variety of funds, eligible uses, timescales of expenditure and monitoring and claims processes. Some are allocative/some are competitive. The Town Deals were offered to 101 selected towns. The UK Shared Prosperity Fund was allocated to places based on a formula. The Levelling Up Fund and Towns Fund are supporting more than 1,300 individual projects between them, while the UK Shared Prosperity Fund is supporting more than 3,000 projects.

There's a lack of transparency in resource allocation and cross-departmental coordination and no clear evidence of any over-arching strategy guiding involvement.

Local authorities consulted for this report expressed frustration that competitive bidding processes for funds like the Leveling Up Fund were not transparent, with a lack of feedback on why bids failed. Some felt processes were politicised – or gave the impression of being politicised – undermining their ability to work with stakeholders on future bids.

Inconsistency has also been a feature of funds, with instances of last-minute changes to guidance and application processes, and inconsistent advice and requirements across government departments. This has increased the burden on local authorities in terms of revising fund applications and timelines.

> **"There's quite a contrast in the eligibility and reporting requirements of different funds. The Towns Fund is relatively hands off, but the Levelling Up Fund is quite demanding in terms of monitoring, finance, and approval."**
>
> Local authority officer, unitary council in coastal area

This complexity is illustrated by the Department for Levelling Up, Housing and Communities collecting over 400 indicators across 13 funds. It has established 'pathfinder Levelling up funding to local government simplification pilots' that allows ten local authorities who are receiving money from multiple funds to pool these funds so they can manage their individual projects as one. However, as noted in the March 2024 Public Accounts Committee Report, DLUCH is yet to draw any conclusions from this initiative, but a number of pathfinder local authorities interviewed and surveyed in this study commented that this new approach was a significant improvement on previous arrangements.

Short termism is a defining feature of many local growth funds

> **"We've got concerns that the SPF tap will be turned off, and there's no confirmation yet that there will be any extension of the fund… Our biggest issue is we've got a lot of staff that may be on short-term contracts and if that's not resolved soon, these people will leave. This is particularly problematic if we are left short of delivery capacity with one year of delivery to go. The long-term ability to provide the programme management function and project delivery becomes extremely difficult."**
>
> Economic development officer, unitary council in coastal area

Consultation with local authorities has reinforced the Levelling Up, Housing and Communities Committee's findings that funding for 'levelling up' is short term, competitive, and inadequate. Evidence suggests that funding mechanisms and grants change every one to three years.

The announcement in November 2023 that Round 3 Levelling Up Fund awards would go to unsuccessful Round 2 project bids caught many local authorities by surprise, and in some cases, matched funding had already been allocated to other uses, putting some in a difficult position.

> "For the Levelling Up Fund Round 3, the government turned around and said 'oh, you can have it now after all.' The council's financial contribution to the project was allocated in 2022 but withdrawn when we didn't win Round 2 bid. Now DLUHC are still expecting us to deliver to a March 2026 deadline. So, 18 months after our failed Round 2 bid, we are expected to reactivate the project, find the matched funding and deliver."
>
> Local authority officer, unitary council in coast area

Many local authorities consulted cited the Comprehensive Spending Review (CSR) period at the root of the cause of short-term funding programmes, and that this was something that both local authority and central government consultees acknowledged had proved immovable and unchangeable to date.

During this study, it was reported by local authorities during consultations and the survey that the consequences of short-termism included:

- Difficulty planning for long-term interventions and strategic projects that require a long-term delivery period.
- Pressure to spend money quickly rather than strategically and ensure impact and value.
- The emergence of a 'cliff edge' in funding for services as short-term funds close and there are no other funding sources to ensure continuation or adaptation.
- Difficulty maintaining continuation of capacity, capability and levels of services and short-term funds end.

In future, it is recommended that there is greater transparency and clarity in selection criteria and rationale

Many sources of local growth funding have proved controversial in terms of geographic eligibility and targeting – particularly Towns Fund allocations. The National Audit Office reviewed the Towns Fund selection criteria and process, and found that there were two selection lists – one detailing and ranking towns by socio-economic need, and the other involving ministerial choice. The NAO further concluded that the rationale for selected towns was not published, nor were the specific reasons for selecting individual towns, and limited information was provided on data sources and methodology. The report raised concerns that the selection process resulted in an uneven geographical distribution of funding, with certain regions like the Midlands and the North receiving a higher proportion of allocated towns.

In future, it is recommended that there is greater transparency and clarity in selection criteria and rationale, with the publication of a clear explanation of the selection process, including detailed data sources, methodology, and rationale for choosing specific towns, as well as consideration of additional criteria. It is also recommended to ensure a more balanced distribution of funding across different regions to effectively address regional inequalities.

Local growth funds have been predominantly capital funds

> "You've got a capital project and 18 months to spend the money. And that's, you know, for a capital project – that's quite challenging, isn't it?"
>
> Civil Servant, Government Department

Local growth funds have been predominantly capital funds. Whilst a number of local authorities consulted welcomed the level of capital funding that they could access, there were a number of challenges. One is the lack of flexibility in capital fund allocations and schedules.

> "There's another message the government could send… That there will always be money for capital projects… This would be much better than the current modus operandi of springing it on places and telling them they need to you need to apply, go through the interview process, set everything up over two years, but in reality, it's spend it in 12 months by the time things get signed off."
>
> Director, Combined Authority

Capital funding programmes often lack flexibility to adjust plans as projects progress or unforeseen circumstances arise. Cost inflation has been a recurring challenge, making it difficult to implement some projects by the time funding has been awarded. While capital funding can be used to build infrastructure or purchase equipment, it does not cover ongoing operational costs. This can lead to difficulties in maintaining and utilising the funded assets.

In addition, public procurement procedures can be lengthy and time-consuming, delaying project initiation and completion. Revenue funding is also important to making the most productive use of certain types of capital investment. Services or personnel can be required to utilise new facilities or technology created through capital projects, and these typically cannot be funded through capital grants and budget allocations.

Overall, the observation was made by several local authorities that the UK Government regularly issues calls for short-term capital projects and it was not apparent that capital funding would end suddenly. In which case why not establish a long-term capital budget for local growth that would allow local authorities and partners to undertake long-term planning and maintain a capital project pipeline?

Finally, private sector match and leverage seems to have disappeared as a goal and mechanism to secure commercial relevance and impact of funding for local growth. Whilst some initiatives and priorities are not suitable to private sector match and leverage, in future, there should be some consideration of how to stimulate this where it is appropriate and can multiply the impact of public expenditure significantly.

Local authorities have experienced capacity constraints in bidding, delivering and compliance

Capacity constraints exist both for local authorities and central government. For some local authorities, their capacity was insufficient to bid for competitive funds, to effectively deliver programmes and projects, or monitor their expenditure and delivery. Due to budgetary pressures and cuts over the years, many local authorities lack the dedicated expertise for project development, grant funding application, appraisal, making economic and business cases, monitoring, and evaluation planning. Amongst local authorities, relevant team sizes vary greatly, with some having large, dedicated teams and others having very limited resources. The consultations and survey undertaken for this report revealed that the costs of bidding for, and managing government grants were high, often meaning that funding or support had to be withdrawn from other planned priorities or delivery.

A University of Sheffield study and survey in 2022 found that 75 per cent of local authorities had to pay costs beyond those provided as part of growth funding. They further estimated that for Round 1 of the Levelling Up Fund, authorities spent £14.7 million on bids that were unsuccessful, with £5.5 million spent on bids that were unsuccessful and not supported by capacity funding.

National government departments have also had to ramp up their capacity to launch, assess and deliver multiple funding streams. For example, many local authorities consulted reported that delays were inevitable if we considered the ability, over a short time period, of government departments to appraise, feedback on and approve the 373 Local Investment Plans required to access UK Shared Prosperity Fund allocations.

DLUHC is providing focused support to a small number of local authorities to help them unblock and deliver their projects. This includes support to 25 local authorities from area teams and departmental experts, and an additional £65 million to provide additional funding to local authorities who received funds under the Levelling Up Fund and to provide external experts to build capacity and capability in local authorities.

More could be done to make funding processes accessible, efficient, and streamlined, such as:

- Standardised minimum requirements and functional standards could improve local growth fund administration.
- Extension of existing guidance and best practice, as is happening with the Cabinet Office's pilot extension of grants information, guidance and training to local authorities.
- Recognition of fitness of existing local government financial governance, assurance and audit procedures.
- Devolving funds to subregional partnerships or other institutions for management and disbursement to local areas.

Monitoring and evaluation have only recently been established as a mainstream commitment for each fund

By 2021, most local growth funds had monitoring and evaluation strategies and activities in place and underway, and this is now an established policy, as illustrated by the recent publication of the UK Shared Prosperity Fund Evaluation Strategy in March 2024. However, there are long periods of policy and significant levels of funding up to 2018 that have not been evaluated, including vehicles such as the Regional Growth Fund. Monitoring and evaluation plans should be put in place before funding programmes begin.

Functional and departmental silos are a significant feature of local growth funds

The siloed nature of local growth funds and government departments was a regular topic for discussion with local authorities during this study. There was considerable scope for departments to engage more extensively with each other and it was perceived that this would surely enhance the longer term effectiveness of the project delivery. Consultees highlighted the challenges of having to deal with multiple government departments and funding streams, each with their own processes and requirements, which made it difficult to coordinate efforts effectively.

There is some frustration that different government departments and programmes did not seem to be aligned or working together coherently, leading to a lack of joined up thinking in the pursuit of policy objectives, such as greening the economy. Many local authorities cited some of the good relationships they had with civil servants, and the disappointment when personnel changed and there was sometimes a lack of continuity and corporate memory in Whitehall departments. Developing longer-term capacity and continuity of personnel would help with building and maintaining good relationships and a shared understanding between local and central government.

Enterprise Zones are a useful example of the narrow definition and support for a single initiative aimed at stimulating economic and jobs growth in local economies. They were launched with little consideration as to what would be needed to make an

Enterprise Zone viable, or attractive to occupants. Enterprise Zones with no access or serviced sites took years to make progress, initially relying on loans from subsequently launched local growth funds, or local authority loans from the Public Works Board in contrast to the Enterprise Zone sites that already had sites, services, premises, and access – which could make rapid progress. Eventually, in 2013, to ensure the policy made progress, the government had to create the Local Infrastructure Fund and Capital Grant Fund to support enabling works and land assembly in and around Enterprise Zone sites.

The effectiveness and impact of local growth funds

Applying for local growth funds has taken some resources and capacity from impactful and effective delivery

According to local authorities consulted during this study, one of the main barriers to enabling impact and effective delivery in local economies was that local growth funds did not align well with local priorities, and that much time and capacity was spent in winning competitive funds. Local authorities had very few sources of alternative funding for local growth.

Many growth funds have consistently underspent and have failed to meet expenditure targets

As the March 2024 Public Accounts Committee Report noted recently, as of September 2023, local authorities had been able to spend only £1.24 billion, just over 10 per cent, of the promised £10.47 billion from the government's three Levelling Up funds (Towns Fund, Levelling Up Fund and UK Shared Prosperity Fund). It found just 64 of more than 1,100 projects have so far been finished, while more than 80 per cent of those due for completion this month will miss that deadline.

Various reasons have been given for the underspend and delays, including the Covid-19 pandemic, the impact of inflation, particularly in the construction sector, as well as supply-chain shortages. Consultations with local authorities and civil servants as part of this study also suggested that the short timeframes for the development, design, planning and delivery of many capital projects were always unrealistic and that the sheer number of local growth funds, applications, heads of terms agreements had caused delays due to lack of capacity and expertise in both local and central government.

There have been consistent warnings regarding underspend. In 2023, the National Audit Office reported that councils had paused or not started 101 projects that had been allocated money from three of the government's levelling up funds, with many expecting to miss the deadlines for completion, and that there was significant underspend across the programme. A significant consequence of delay has been cost inflation. The National Audit Office further stated that many of the funding profiles local authorities prepared and DLUHC approved were (as at November 2023) unrealistic given the changed economic circumstances.

Overall, local authorities consulted suggested that more predictable government funding announcements with longer lead times would allow local authorities to plan and prepare projects more effectively, ultimately leading to a more efficient and effective use of public funds.

Rural economic development and regeneration needs are not being met by recent and existing local growth funds

> **"The main concern is that the SPF is city-centric and that it leaves a lot of rural communities and businesses disenfranchised."**
>
> Head of Economic Development, rural local authority

There was some concern noted by local authority officers consulted during this study that the funding criteria for local growth funds were often focused on metrics that were easier to achieve in urban areas. It was also noted that rural districts councils lack the resources to compete in complex application processes, or in helping businesses access support.

Although DEFRA has launched the Rural England Prosperity Fund (Rural Fund), as a top up to the UK Shared Prosperity Fund worth up to £110 million for 2023/24 and 2024/2 – this was viewed as insufficient in some cases. There was an overall perception that the loss of European funding has created a gap in provision for rural localities, and existing programs like the UK Shared Prosperity Fund don't address some of the needs of rural areas.

There needs to be greater learning from policy and practice, and adapting and developing policy and delivery to continually improve and increase benefits

In 2023, the National Audit Office found that there was significant scope for the Department for Levelling Up, Housing and Communities to improve its understanding of what has worked well in previous local growth programmes and could do more to assess whether individual policies have had their intended impact. This was further validated by discussions with local authorities as part of this study.

> **"In this locality, more Shared Prosperity Fund has been spent on events and public realm works than it has on training on employed people and helping business productivity, both which are sorely needed."**
>
> Head of Economic Development, County Council

Other studies have found that funding allocations and design have not kept pace with the socioeconomic changes, industrial and market challenges facing local economies. A study for the Northern Powerhouse found that if the future allocation of the UK Strength in Places Fund and Levelling Up Funds mimics the allocation of pilot funding so far, some areas in need of levelling up would find themselves worse off. This study reported that if the allocation methodology was to continue, for the Tees Valley – one of the most deprived regions in the UK - annual funding could be cut from £46 million to £21 million per year, a reduction of £37 per person, per year.

There is a significant amount of policy experience, current and past practice available to draw on to improve the effectiveness, efficiency, and impact of local growth funding. For example, the Cabinet Office Grants Management Function is the recognised Centre of Excellence for grants and supports grant making in central departments and arm's length bodies through a number of forums. There is considerable scope to make government grants more uniform and streamlined, and to build on, and extend the training currently offered through the grants academy to civil servants and being extended to local government on a trial basis.

Some good policies and strategies have been developed, but there is a serious implementation gap, and many get abandoned after short period of time

Calls for single pot funding have been numerous over the past 14 years, and in cases such as the Heseltine review, there were comprehensive policy proposals for local economic growth that gained considerable support from local and national politicians, but which were never implemented. As past analysis has found there is also much to be learned from the experience of programme delivery under the Single Regeneration Budget where previous governments had brought together different programmes of local growth funding to ensure greater transparency and effectiveness.

Blueprints for local devolution of fiscal and fund-raising powers have also existed for many years. As local authorities consulted in the study noted, the London Finance Commission published a comprehensive review in 2013 and its 2016 report made a convincing case for fiscal devolution to London and the regions of England particularly in relation to property taxes such as council tax, business rates and stamp duty. These findings were endorsed by the LGA, London Councils and the London Boroughs.

Does the UK Shared Prosperity Fund offer a blueprint for the future?

The UK Shared Prosperity Fund is regarded as a 'work in progress' – something to learn from and further develop

In consulting with local authorities, the UK Shared Prosperity Fund was reported to have a number of positive qualities, including a simple process in principle, and direct funding to local authorities. The availability of revenue funding has enabled funding for projects such as supporting residents into work, which previously were not relevant to capital funding. Significantly, there has been more freedom in spending compared to previous funding schemes, with more flexibility in how the fund can be used.

However, the UK Shared Prosperity Fund was regarded as a 'work in progress' that could be improved by:

- Reducing complexity, particularly the application process, eligibility requirements and monitoring and reporting process and system.
- Relying more on the existing financial governance and assurance processes that of local government, rather than a government department signing off on each and every Local Investment Plan.
- Longer timeframes, as the two year, three month funding period was considered too short for effective project implementation and long-term planning.
- Setting higher expectations for benefits and impacts and ensuring that the fund was used to address the needs of specific communities.
- A transparent methodology using the most recent socio-economic evidence and statistics should be used as the basis for allocation.
- Reducing the number of other local growth funding pots and programmes and expanding the UK Shared Prosperity Fund.
- Encouraging collaboration and finding the most effective and impactful scale of delivery for local and regional economies.

Most of all, the levels of funding were criticised by many local authorities as being of a lower value than EU structural funding. On average, per year, £1.95 billion in EU structural funds were made available in the final round of funding 2014 to 20. Total UKSPF funding of £2.64 billion over three years equates to £880 million per year.

> "The UKSPF provides two and a half years funding maximum. Realistically, the time to deliver is shorter once you take into account the delayed start and the massive problems with the reporting tools. The UKSPF is far, far too short term… particularly if compared to the European programmes, which were over six to seven years."
>
> Head of Economic Development, rural local authority

Overall, views on the UK Shared Prosperity Fund are mixed. While it offers some positive aspects like direct funding and flexibility, concerns remain regarding its complexity, short timeframe, and perceived ineffectiveness in achieving its goals. There is scope to reform and improve the UK Shared Prosperity Fund.

Is there the potential to develop the combined authority and devolution model further?

Combined authorities and devolved arrangements have a role to play in local growth funding and provision in future

There are some emerging strengths from the Combined Authority model. They are strategy bodies, without the financial obligations of providing statutory duties that can lessen scope for expenditure on activities to promote economic growth, development and regeneration. They also have annual funding allocations, infrastructure funding, and funding from business rates revenues from Enterprise Zones, as well as recycled funds from Local Growth Funds which were established by LEPs.

The use of UK Shared Prosperity Funding is mixed amongst Combined Authorities, and in practice some have played less of a strategic role in setting priorities for Local Investment Plans than the funding guidance suggested that they could. Overall, for Combined Authorities, other devolution arrangements, and other local government structures, there is a lack of firm guidance from the UK government on subsidiarity and which level of local government takes the lead strategically on certain roles and responsibilities.

During consultation, there were some views that Combined Authorities could be strategic fundholders for their regions, and that the Greater London Authority could offer some lessons on how this would work in practice. To date, there is also limited coverage of rural areas by Combined Authorities. Overall, Combined Authorities and other devolution arrangements could play a more strategic role in funding but there needs to be firm principles and guidance, as well as investment in capacity building. Also there has to be consistency – as strategic funding powers or processes shouldn't get undermined by the launch of another local growth fund at another administrative tier which duplicates or undermines an approach already established.

Local authorities are delivering and have the capacity and capability to do more

Several local authorities in this study demonstrated significant capacity and capability in managing funds and projects, with robust assurance and audit procedures in place

A number of local authorities interviewed as part of this study have put the capacity and systems in place to successfully bid for and manage local growth funds. A few reported that they accessed funding levels that they would have not thought previously possible under block grant awards to local government.

One aspect of discussion was local authority financial governance, assurance and audit procedures. It was often remarked that central government departments did not understand these, or necessary validate them – and that central government requirements could duplicate, or were inferior to, the assurance systems and procedures which local authorities were implementing themselves. All local authorities interviewed for this research project had robust financial governance and assurance procedures in place, with some remarking that the assurance of local growth funding expenditure used stricter procedures than those required by government departments, often involving independent audits to ensure funds are used appropriately.

Local authorities already have the powers, capabilities and robust assurance systems to spend public money effectively and efficiently
Overall, local authorities are well-equipped to design and manage programmes suited to their specific needs and in most cases, existing financial governance and assurance frameworks are robust and effective.

A future role for competitive funds?

Competitive growth funds remain an option for specific activities, and they don't all need to be run from central government
There was some agreement amongst local authorities that competitive local growth funds might be appropriate for priorities or activities that only apply to certain places, such as Freeports, but keep the eligibility and award criteria very strict. Many saw loose eligibility criteria as inefficient, as it could lead to a situation where localities are encouraged to apply for funding for initiatives such as Freeports which were not well-suited to local conditions. Also, the point was made that not all competitive funds need to be run from Whitehall.

Lessons from other countries

Appendix B sets out some examples of local and regional economic growth and development funding in other countries. In many countries - including Canada, Australia, the United States, South Korea, and Japan. Developing nations establish funding competitions often in the context of weak local institutions – central or federal governments create and disburse grant programmes to regional, state and local governments and organisations for economic growth and restructuring.

The UK is not alone in having a 'messy' funding system. However, other nations are learning from their own, and others' experience. Australia's City Deals are fairly advanced, and some are longer-term, 20-year deals. New Zealand is looking at City Deals and they make a number of interesting caveats, which we can learn from:

- to be successful – need clear policy objectives and rationale, capacity and expertise at national and local level
- focus on gap in capital spending and infrastructure that's emerged over past 30 years
- need mechanisms to attract private capital

- not a substitution for mainstream local government action and finance
- acknowledged risks of disenfranchisement and loss of local influence and community voice than need to be addressed.

In sum, the lessons from other countries are that centrally administered growth funds need to be well designed, with clear objectives, a long-term approach, and focus on gaps that cannot be addressed at the local level.

Ten success factors for local growth funding

The evidence gathered and analysed during this research project and thinking how lessons can be constructively brought to bear on future local growth policies leads to the identification of 10 success factors for local growth funding:

1. **Clarity of mission**: Coherent policy objectives.
2. **Enabling machinery of government**: That the MOG is a coherent system and is configured to meet the policy objectives including capable of coordinating endeavour across different government departments.
3. **Analytical and strategic capability**: To identify, target, design and deliver responses that meet local needs and opportunities.
4. **Resources and factor inputs**: Capital, infrastructure, technology, skills and labour required for economic outputs and production.
5. **Funding for services, activities, and investments:** To support local economic growth, development, and regeneration.
6. **Co-production**: The relationships, shared understanding, and partnerships to successfully collaborate and deliver.
7. **Institutional remit, powers, responsibilities:** To apply for, hold, and disburse government funds and to ensure due diligence, value for money, and to evaluate performance, efficiency, and effectiveness.
8. **Institutional delivery capability:** To design, manage and deliver actions and services to help develop and grow the economy.
9. **Agility and responsiveness:** To adapt and change to economic events, trends, and challenges as they emerge.
10. **Long-term frameworks and systems:** That can develop the capacity, capability, and approaches that are required to deliver positive change in local economies.

Part 4:
The future of local growth funding

Support for change

The focus of this report

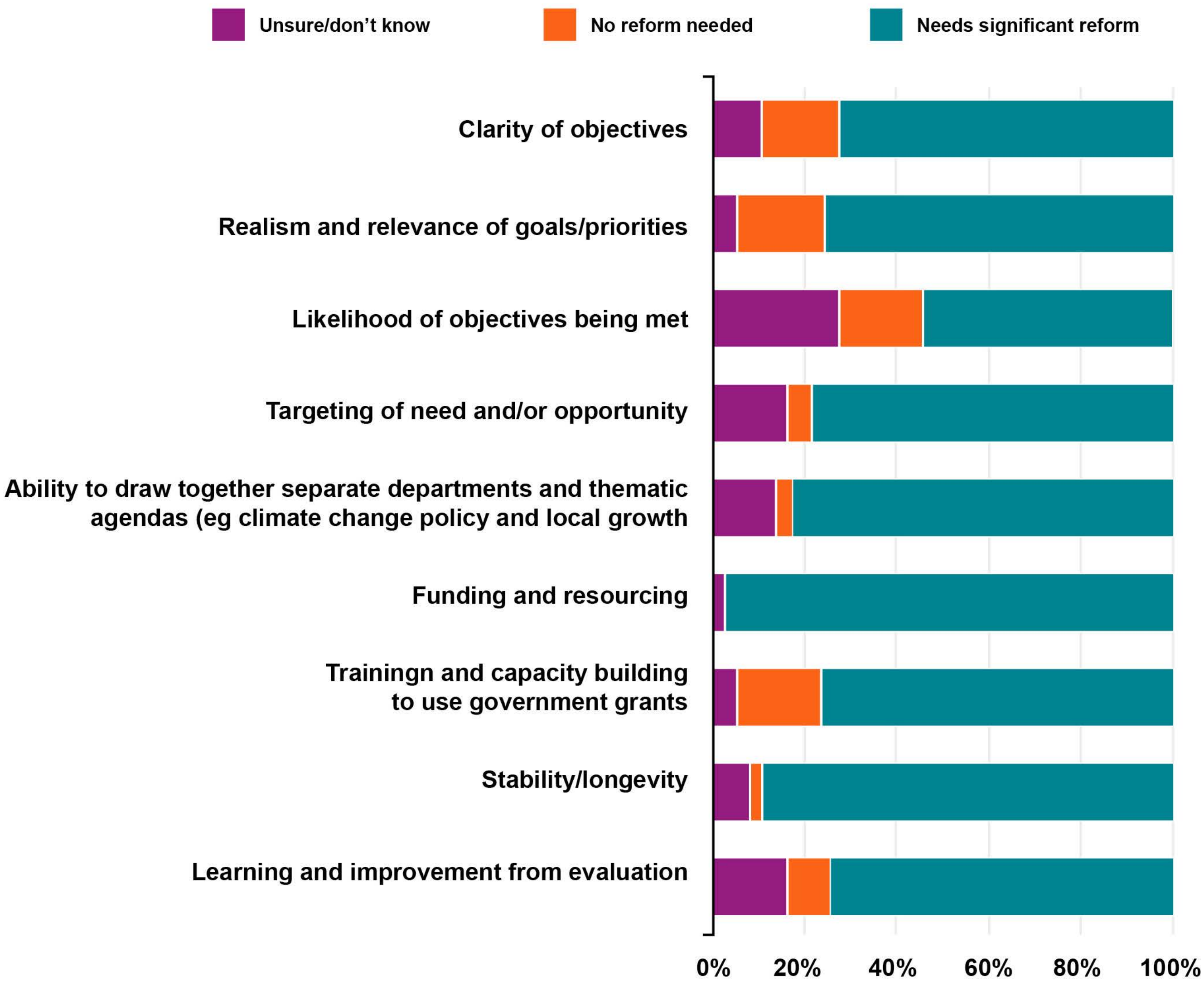
Commissioned by the Local Government Association for England and Wales in December 2023, this analysis, conducted in consultation with local and national government, explored future models for funding for local economic growth, development and regeneration initiatives and activities, drawing on lessons learned from recent policy and practice.

In the run up to the 2024 General Election, national political parties have made growth one of their primary missions. This report responds to those priorities by drawing the main lessons from past approaches and outlining a mechanism for the next government to drive forward the inclusive growth and economic development agenda.

The majority of local authorities want to see significant reform to local growth policies

In the study survey, local authorities were asked to assess how much reform was needed for central government policies for local economic growth, development and regeneration.

Figure 4.1: Local authorities' assessment of central government policy for local economic growth, development, and regeneration (percentage of survey respondents)



Source: Future of Local Growth Funding Survey of 95 local authorities, 2024.

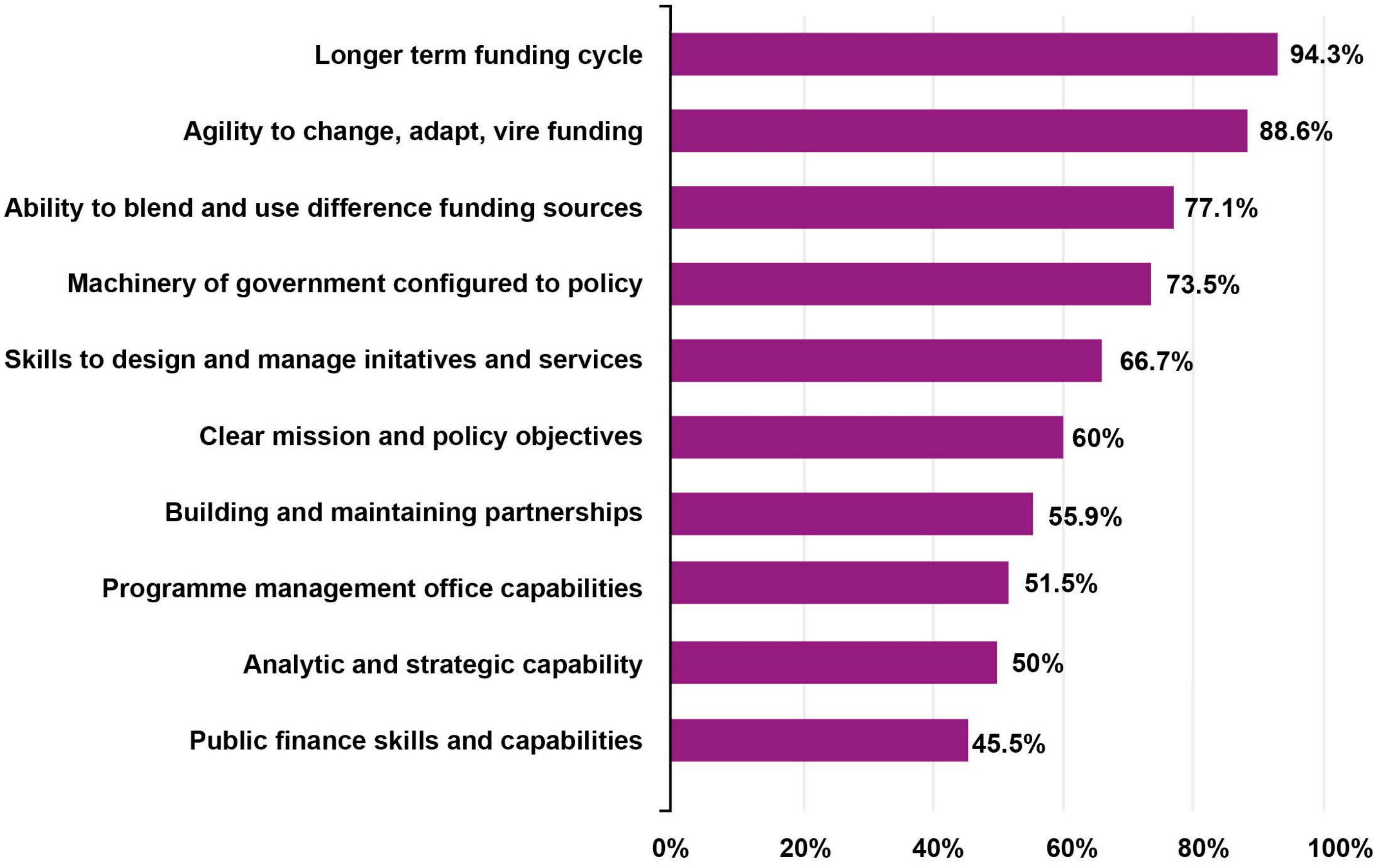
As **Figure 4.1** details:

- Seven out of ten local authorities surveyed thought that there needed to be clarity of objectives.
- Eight out of ten wanted to see realism and relevance of goals and priorities.
- Eight out of ten wanted to be able to draw together separate departmental and thematic agendas.
- Nine out of ten wanted more stability and longevity. Seven out of ten wanted better learning from evaluation.
- Ten out of ten thought that funding and resourcing levels needed significant reform.
- Eight out of ten wanted improved targeting of need and opportunity.
- Eight out of ten wanted improvements in training and capacity building.

For local authorities, priorities for policy reform include a longer term funding cycle and more flexibility

Figure 4.2 details where local authorities would prioritise changes to local growth funding for greater impact and success. As can be seen, a longer-term funding cycle, and the flexibility to change, adapt and vire funding between functions were the top two policy priorities. Better configuring the machinery of government to meet policy objectives was also ranked highly.

Figure 4.2: Where local authorities would prioritise changes to local growth funding for greater impact and success (percentage of survey respondents)



Source: Source: Future of Local Growth Funding Survey of 95 local authorities, 2024.

Restoring national purpose and coherence is essential to improve funding and outcomes for local growth

Improving local growth policy requires fundamental improvements to national policy and the machinery of government

An overwhelming finding of this study is that the problems and challenges that arise from local growth funds in practice originate in the founding policies and machinery of government that designs and launches them, including:

- **Policy drift and ad hoc initiatives** result from the lack of clear national government policy for the national and subnational economy including how devolution contributes to national economic growth and development.
- **The lack of trust between national and local government**, and the lack of capacity in both is a result of the lack of knowledge of existing local government powers, capabilities and assurance, and the lack of investment in long-term operational expertise at a national and local level.
- **Unstable, discontinuous funds** are a result of the Comprehensive Spending Review Periods, and the lack of stable policy platforms. Instead, departments use short-term competitive funding pots as their go to solution to do something about local issues.
- **The implementation gap**, where there are insufficient resources or plans or actions to build capacity for delivery – emerges when White Papers are conceived in terms of ambitions rather than a comprehensive blueprint for resources and delivery.
- **Departmental silos** are evident in contrast to the joined-up solutions that can be implemented in local places.
- **There are no subsidiarity principles** or guidance to determine the right scale of administration – for example, principles or preferred scales and administrative levels of decision making and delivery for efficiency and impact.

> "There's nobody in the government that is responsible or has the necessary powers to put in place a long term strategic plan for the economy… that has worked out the consequences and links to housebuilding, transport, planning, green and blue infrastructure."
>
> Director, Combined Authority

Overall, the UK government's lack of strategic objectives and focus on immediate results, project completion and in-year spend over short timescales has led to a stop-start, fragmented approach to local growth funding that has been proven incapable of addressing the long-term challenges and opportunities facing local economies.

It is important that local economic growth, development, and regeneration is prioritised at the national level, with clear objectives and principles, as illustrated in **Figure 4.3** – that future national policy establishes:

- Clear policy objectives
- Trust and capacity
- Stability and continuity
- White Papers with credible delivery plans and budgets
- A restored Cities and Local Growth Unit and other joining-up initiatives for place
- Clear and rational subsidiarity arrangements.

As many local authorities consulted in this project reflected, in the past - these national policy principles and objectives were well established, and strong foundations were laid for local growth and devolution in the 2012 Heseltine Review. In terms of a focused national economic strategy that could be localised – the 2017 UK Industrial Strategy and subsequent local industrial strategies were well regarded. Unfortunately, these national policies, although well regarded, were never fully implemented nor sustained in the long-term.

Figure 4.3:Establishing the principles for successful local economic growth, development and regeneration at a national level

The past	The future
• policy drift plus ad hoc • lack of trust and capacity • unstable, discontinuous funds • implementation gap • departmental silos • no subsidiarity principles to determine the right scale of administration.	• clear policy objectives • trust and capacity • stability and continuity • White Papers with credible delivery plans and budgets • restore Cities and Local Growth Unit and other joining up initiatives • clear and rational subsidiarity arrangements.

Is there still a place for competitive funds?

Many local government officers consulted as part of this study agreed that competitive funds should form part of the future funding portfolio for local growth, where appropriate – but should play a smaller, complementary role to fixed allocations – not be the sole, or main source of funding.

Competitive funding was thought to be suitable for activities such as:

- Activities and opportunities that apply to some localities but not others (for example, such as Freeports and Enterprise Zones).
- Where the focus is on attracting commercial co-investment.

For all competitive funds, longer lead times and capacity building would be welcomed.

Local Authorities are also aware of models of engagement that have worked better, such as the ‘continuous market engagement’ approach used by Homes England. This, alongside a reformed and reduced number of grant bids could give a better relationship between central & local delivery. There were some calls by Local Authorities for funding allocations to be made in a hybrid style, with discretionary funding blended with specific funding for central government determined priorities.

The levelling up report card

The Levelling Up White Paper identifies the correct challenges does not demonstrate sufficient learning from past policy. Lacking the sufficient scale of resources, delivery vehicles and powers, it’s not enough to do the job

As the most recent comprehensive government policy statement and legislation on local growth, the 2022 Levelling Up White Paper provides a good overview, but the main question is whether the resources and means identified or empowered by this legislation are sufficient to meet the challenges it identifies. Little progress has been made on the White Paper’s policy objective of simplifying funding and ending short term funding. This is important, because current evidence suggests that the short-term nature and complexity of existing local growth funds is one of the main causes of the underspend of existing allocations. Local authorities and local economies are in significant need of resources and delivery programmes, and underspending existing central government financial allocations represents missed opportunities, as well as further economic decline in some cases. As one local authority pointed out during the study survey, as economic growth, development, and regeneration are not statutory functions, further pressure on funding will mean cuts to economic growth investment and services.

Integrating funds over the long-term? We’ve been here before

It is notable that progress is being made in integrating Levelling Up funding through the Pathfinder Levelling up funding to local government simplification pilots that allows ten local authorities who are receiving money from multiple funds to pool these funds so they can manage their individual projects as one. There certainly seems to be some limited progress on integrating funds, but this needs to be accelerated.

If we take a longer-term view, a major failure of the 2022 Levelling Up White Paper is that we’ve been here before, as found in the 2021 publication by Martin et al, Levelling Up Left Behind Places - The Scale and Nature of the Economic and Policy Challenge. In the 1990s, HM Government took the lessons from the fragmentation of funding in the 1980s and created the Single Regeneration Fund and RDA single pot in the 2000s. Today, we see fewer resources, and a more complex patchwork quilt of funds for local economic growth, development and regeneration compared to funding regimes of late 1990, 2000s and early 2010s. This is also in the context of pressures on local government finances and austerity – that have resulted in an overall reduction on spend on Levelling Up between 2011 to 2024 compared to the previous two decades.

A 10-point plan for the future of local growth funding

1. A clear national economic policy that articulates role of local economies and devolution

The UK needs a clearly articulated national economic policy that sets objectives, how local economic growth contributes to this, how local economic inequalities will be addressed, and a clear framework and role for local devolution policy. As mentioned in Part 3 – over the past 14 years, the UK has developed some very coherent national economic policies, such as the UK Industrial Strategy, and comprehensive policies for local devolution and growth, such as the Heseltine Review – but has not implemented them across national and local government. So, the challenge is to set out clear national objectives and follow through with policies, resources, and delivery.

2. Match resources and delivery mechanisms to the scale of challenges and opportunities

As discussed in Part 1, The UK2070 Commission's Inquiry into Regional Inequalities estimated that addressing regional inequalities would require an investment of £300 billion over 20 years – equivalent to raising annual Shared Prosperity Funding from £1.15 billion per annum currently to £15 billion per annum. Matching Germany's reunification budget for economic development and growth is equivalent to £30 billion per annum.

3. Long term challenges and opportunities require long term solutions – which means a funding commitment of at least 20 years, and funding cycles of six to eight years

The levelling up challenge facing many parts of the country will take decades to address, and policy and funding commitments need to match this timescale. Local authorities cited six to eight year funding cycles as being better for long-term benefits and impact rather than the current two to three year funding cycle.

4. Build operational capacity and capability

Developing staff and organisational capacity, experience and capability will result in better designed and delivered initiatives and solutions for local economic growth, development and regeneration. This means that central government funding needs to allow for sufficient technical assistance or on-costs; as well as encouraging a community of practice and the sharing of lessons and best practice.

5. Capital funding – aim for quality, need, opportunity, impact and a more predictable funding pipeline

For successful capital projects and to address the historic shortfall in capital investment in the UK, there needs to be longer term capital funds and the capacity and time to plan, design and deliver. A more predictable funding pipeline, increased expertise, capacity and guidance, and funding criteria that emphasise benefits and impacts will lead to the development of more coherent and impactful projects.

6. A bigger role for fixed allocations but retain better designed competitive funds where appropriate
A majority of local authorities interviewed and surveyed agreed that the scale of local growth funds are insufficient to keep pace with the changing economy, growing social and economic inequalities, and pressing climate change challenge. Many forecast a growing gap between need and funding in the next 5 years. Fixed allocations can help to put in place long-term capacity and delivery, and allow better-designed responses. Competitive funding is appropriate where there are some specific economic or geographical features that may apply, or private sector match funding is a goal.

7. Funding mechanisms that promote partnership working and relationship building between tiers of government and stakeholders
Growth funding should consider the future transformation of local government delivery such as devolution approaches, shared services, and resources. Government policy should evolve to receive bids from larger areas that are subject to collaborative agreements.

8. Encourage match funding and leverage where suitable and can improve impact
Some projects and activities benefit from collaboration and co-funding with the private sector, not-for-profit sector, and higher and further education sector. The use of match funding should be further incentivised and encouraged where appropriate. Longer-term funding arrangements will also help to build match funding and private leverage.

9. Funding system that builds-in efficiency and impact
To build in efficiency and impact, the local growth funding system needs to change. Having clear goals and objectives that are relevant and meaningful to local economic growth, development and regeneration is the first step. Secondly, developing funding appraisal criteria that set a high standard for efficiency and impact is critical. Thirdly, there is a need to continually build efficiency and impact, which means the need for effective monitoring, evaluation and sharing of best practice – as well as continually improving funding mechanisms. This would require revisions or updates to policy and funding programmes to take account of and build on monitoring and evaluation findings – which sounds simple, but has not been the case over the past 10 years.

10. Processes and compliance that are clear and uniform, supported with training and use existing 'fit for purpose' approaches
There is much scope to design single processes for applying for funding, appraisal, monitoring, draw-down and reporting back to government, that build on existing approaches such as the Cabinet Office has taken with grant funding. There is also scope to 'pre-approve' existing local authority financial governance and assurance processes – setting an accepted standard for local authorities to demonstrate or follow. Existing local government standards and practice could also be assessed and reformed where necessary in a coherent, uniform manner that can ensure instant compliance and faster decision-making in future.

Local Government Association
18 Smith Square
London SW1P 3HZ

Telephone 020 7664 3000
Email info@local.gov.uk
www.local.gov.uk

For a copy in Braille, larger print or audio,
please contact us on 020 7664 3000.
We consider requests on an individual basis.

REF 54.14