# FUNDING FOR LEVELLING UP

## Submission to the Select Committee inquiry from the Industrial Communities Alliance

### Industrial Communities Alliance

The Industrial Communities Alliance is the all-party association of local authorities in the older industrial areas of England, Scotland and Wales. More than fifty authorities are members. Levelling Up is central to the concerns of the Alliance, which represents many of the most disadvantaged parts of Britain. These areas have been badly affected by job loss over the years and whilst there has been progress in regeneration they generally lag well behind the most prosperous parts of the country on a wide range of social and economic indicators. Alliance areas should, in theory, be the prime beneficiaries from Levelling Up.

This submission draws on discussion at regional and national meetings over an extended period. It also reflects the assessment of local authority officers from around the country at a meeting specially convened to consider the Select Committee's questions. The submission was signed off at national meeting, involving representatives from around the country, on 25 November.

### Defining Levelling Up

The Industrial Communities Alliance is clear that Levelling Up should be about narrowing the gaps in prosperity between the nations, regions and local areas of the UK. It is Levelling Up of this kind – focussed on the economy and labour market at the regional and sub-regional scale – that is needed in just about all of older industrial Britain where jobs, incomes and productivity lie at the heart of the problem. Levelling Up of this kind, which in former times would probably have been labelled 'regional policy', has always been understood to be ministers' original conception.

That the focus should instead be disadvantaged neighbourhoods, which are found in all parts of the country, would be a mistake. Disadvantage at this highly local scale mostly reflects residential separation between rich and poor, which in turn generally reflects the housing stock, not the strength of the local economy.

## Responses to the Committee's questions

The responses below sometimes cover more than one question.

**Q.1** *How can the Government ensure that all areas that need funding for Levelling up receive adequate support with the bidding process and subsequently receive adequate funding?*
**Q.2** *What are the challenges of competitive bidding and will this impact areas with limited resources and capabilities for bidding?*

Alliance member authorities do not regard competitive bidding as a satisfactory method of allocating Levelling Up funding, nor as an approach that delivers funding to the places most in need. There are multiple problems with competitive bidding. It absorbs substantial staff time and resources – a wasted effort in the case of unsuccessful bids. Senior officers are diverted from other important tasks. The timescales for assembling bids are often unreasonably short. There is the potential for political interference in picking winners. And otherwise similar authorities can end up with very different outcomes. There is a widely-held view that competitive bidding favours the best bid-writers rather than the places with the greatest needs or best ideas.

The challenge is not to provide additional financial support for the bidding process, which anyway often ends up in consultants' pockets, but rather to allocate resources by formula on the basis of need. The key therefore lies in designing formulas that reflect the objectives of the funding and the measurable circumstances of local areas.

There is a good case for consulting on formulas before they are finalised. Government officials are not the sole source of expertise and there were ineptitudes in the statistical methods used to identify priority areas for the Levelling Up Fund and for the Community Renewal Fund, resulting in a number of bizarre outcomes. It is important that there is confidence in the formulas the government might apply.

**Q.3** *How does levelling up funding integrate with other funding streams such as the Towns Fund, the High St Fund, the Sustainable Transport Fund etc?*
**Q.4** *How can the Government achieve its aim of streamlining funding for Levelling Up?*

There is overlap between the objectives of a range of Levelling Up funds, and it is wasteful of time and resources to develop separate plans and evaluations. The government is known to favour the simplification and streamlining of funding streams. This is something that the local authorities within the Industrial Communities Alliance would welcome, provided it is done well.

Whatever streamlining is introduced, the Alliance would suggest that it needs to be driven by six principles:

1. No overall reduction in funding
2. Longer-term financial commitments
3. Strong targeting
4. A restricted role for competitive bidding
5. Simplification for all
6. Respect for the devolution settlement

A note on the six principles is included as an appendix to the present submission.

**Q.5** *How can funding focus on both wider regions, as well as individual towns?*

The geographical scale at which funding is targeted is important. If the aim is to address the gaps in prosperity across the country it makes sense to focus on local economies, which usually operate across local authority boundaries but stop short of whole regions. This points to financial allocations to sub-regions, for example England's Combined Authorities.

If local economies are the priority it is questionable whether neighbourhoods are an appropriate basis for funding allocation. Neighbourhoods, whether prosperous or poor, are in virtually all cases deeply integrated into local economies and labour markets that operate across much wider areas.

**Q.6** *How can Government ensure that spending across all departmental budgets can be adjusted accordingly to ensure all of government is focused on achieving levelling up and that resources are directed to the areas most in need?*

This is a massive task and it is unclear that all departmental budgets – defence, social security and most of the health service for example – could ever be aligned to focus on Levelling Up. Better, perhaps, to focus on those budget lines that already have (or clearly should have) a distinctly geographical focus and make sure that they are genuinely targeted where they are needed and delivered in ways that maximise the impact. Directing resources at the areas most in need requires reliable statistical measures of 'need' and allocation formulas based on those statistics.

**Q.7** *How are Levelling Up projects being measured in terms of value for money and for their contribution to Levelling Up?*

It is questionable whether individual Levelling Up projects can be reliably measured in terms of value for money. The problem is that projects take place in a wider context where there are often other schemes and initiatives underway at the same time, and its is the combined impact of these activities that is most likely to be making a difference. A development site may take off, for example, but only because transport infrastructure has been put in, financial support to businesses is available and there is investment in local skills. It is also unrealistic to expect quick, measurable results. The full benefit of a scheme may not be felt until several years after the investment has been completed.

**Q.8** *Is the UKSPF a sufficient replacement of the European Structural Investment Funds?*

There are important aspects of the UKSPF that are welcome, specifically the allocation by formula to all parts of the UK and the strong targeting on less prosperous parts of the country, which reflects the previous EU focus. There has been no shift in funding from north to south in England, nor away from the devolved nations. It is also the case that by 2024-25, when legacy EU funding drops out of the picture, UKSPF spending builds up to roughly the same in real terms as the EU funding it is intended to replace.

There are also serious flaws in the UKSPF. EU funding was allocated over a seven-year period with the potential for a roll-over of a further three years and without narrowly defined budgets for each financial year. It has been replaced by a three-year (or more accurately two-and-a-bit year) UKSPF with no provision for roll-over and limited scope for shifting spending between financial years. There is a fundamental problem here in the way the Treasury manages spending. It is nigh-on impossible for example to undertake significant capital projects within this timeframe. It also places pressure on local authorities and others to get spending 'out of the door' rather than deliver the best and most strategically valuable projects.

The allocation of the UKSPF by formula, though preferable to competitive bidding, has been imperfect. The government has essentially replicated the distribution of EU funds to nations and sub-regions in 2014-20, which was based on data from some years earlier. This has failed to reflect the evolving economic geography of the UK. Cornwall has done very well in UKSPF funding per head, which reflects previous EU funding, but South Yorkshire and Tees Valley & Durham, which now have GVA per head figures similar to Cornwall, are receiving only around a third as much per head.

The government has divided up UKSPF funding between Local Enterprise Partnership areas in England but away from Combined Authorities it has taken the novel step of allocating funding down to lower-tier local authorities using a largely population-driven formula. Some less prosperous places have lost out as a result – Stoke on Trent within Staffordshire for example, and disadvantaged areas in East Kent within the otherwise prosperous South East LEP area.

The big question-mark is what will happen after 2024-25. If we take the UKSPF budget for 2024-25 of £1.5bn as a guide to what the UK would have received on an annual basis from the EU, then a seven-year EU programme would have been worth £10.5bn to the UK. The total financial allocation to the UKSPF is presently £2.6bn over three financial years. If the UK nations and regions are to be no worse off as a result of Brexit, as the government has promised, this points to the need for a second, four-year tranche of around £8bn, or £2bn a year, and that's before allowing for the current bout of inflation.

**Q.9** *What is your assessment of the Levelling Up Fund, and what improvements could be made, with reference to:*

- *The bidding process*
- *Feedback on unsuccessful and successful applications*
- *Transparency*
- *The impact of inflation*

The member authorities of the Industrial Communities Alliance do not favour competitive bidding, for the reasons set out earlier.

Following Round 1 of the Levelling Up Fund there were concerns about the lack of feedback on unsuccessful bids. This was relayed to government officials and the National Chair of the Alliance wrote to the then Secretary of State to call for feedback. The welcome response was that this would be given. Whether the feedback is felt to have been in the right form or in sufficient detail will no doubt vary from authority to authority.

Inflation is now a serious worry. Having committed to specific projects, it is clear that rising costs are creating severe delivery problems.

**Q.10** *How should the success of Levelling Up funding be measured against the Government's desired outcomes for Levelling Up?*

Once more, it needs to be emphasised that measurement of a project or programme's impact on social and economic variables (as opposed to its physical delivery) is an imprecise science. Added complications are that it is the combined impact of several initiatives that normally makes a difference and there are time-lags before the full impact is usually felt.

**Q.11** *How will the proposed Investment Zones contribute towards the key objectives of Levelling Up? And is this different approach the right approach?*

The Investment Zones proposed in September in the government's *Growth Plan* were similar in many respects to the first-generation Enterprise Zones, established in the 1980s and early 1990s. These were exhaustively evaluated. There is clear evidence that they did have a significant impact of the location of businesses and jobs, though only a proportion of the jobs were additional to the local economy (others were local 'displacement'). On this basis it is reasonable to expect that Investment Zones would have had a significant impact, though whether this would have assisted Levelling Up would have depended on the location of the Zones.

The revised Investment Zones, announced in the *Autumn Statement*, are likely to be far fewer in number and the government's intention is that they will focus on knowledge-intensive growth clusters. Potential development sites in older industrial towns, often lacking nearby universities or research centres, may struggle to fit the bill.

**Q.12** *Will the Government's approach to funding for levelling up achieve its objective of levelling up the country?*

Taken as a whole, the five main Levelling Up funds – the Towns Fund, High Streets Fund, UKSPF, Community Renewal Fund and the Levelling Up Fund itself – have so far allocated more funding per head to the less prosperous regions of the UK than to the rest of the country.  This is right and proper, and to be welcomed.

However, the government is deluding itself if it believes that this funding by itself will Level Up the country.  Indeed, the five funds together are broadly worth no more in real terms than the funds that preceded them – the Local Growth Fund (in England) and EU funding in the case of the UKSPF.

Local and regional economic development is a long-term challenge that requires long-term funding and activity.  It is sobering to remember that the UK has had regional policies since at least the 1930s, and continuously in varying strengths since the 1960s, and many of the assisted areas have been the same thoughout.  In older industrial areas the task has often been to replace the entire economic base of communities when jobs in industries such as coal, steel, shipbuilding and textiles disappeared.  Regional policy – the precursor of Levelling Up - has delivered real progess in many places but it has often had to work against the tide of job losses.  It is unrealistic to expect that long-established disparities in economic well-being and life-chances will be eradicated by 2030.

***Industrial Communities Alliance***
***November 2022***

**APPENDIX**

# SIX PRINCIPLES FOR STREAMLINED LEVELLING UP FUNDING

## Proposals from the Industrial Communities Alliance

### Background

The UK government intends to streamline Levelling Up funding. This intention was flagged up in the February 2022 *Levelling Up* White Paper:

> *"The UK government will engage with local government and key stakeholders on the simplification of the local growth funding landscape with respect to the publication of further plans later this year."* (p.247)

The commitment was underlined in the September 2022 *Growth Plan*:

> *"The government has invested in local growth through a wide range of competition and grants, but recognises that the sheer number of different funds has become onerous for some councils to navigate and deliver. Over the next two years, the government will streamline these, reducing inefficiency and bureaucracy, and giving local government the flexibility it needs to deliver for local economies."* (p.30)

And in the November 2022 *Autumn Statement*:

> *"…..the government will explore with Greater Manchester Combined Authority and with West Midlands Combined Authority the potential to provide single departmental-style settlements at the next Spending Review. This could give local partners more flexibility and accountability over key economic growth funds, moving away from competitive bidding processes. Subject to the progress of these discussions, the government will consider the eligibility of other mayoral combined authorities for these settlements, noting the need to ensure appropriate accountability structures are in place."* (p.34)

Now that some of the Levelling Up funds apply across the whole of the UK there is no reason to suppose that the commitment to simplification does not apply to Scotland, Wales and Northern Ireland as much as to England.

The simplification of Levelling Up funding is widely welcomed by local authorities, who recognise the overlapping objectives of many of the present funds and the substantial administrative burden presently placed upon them.

**PRINCIPLE 1**
**No overall reduction in funding**

It is unclear exactly which funds might be bundled together under the 'Levelling Up' label. It is vital however that whatever funds might be merged there should be no overall reduction in funding. A reduction in real terms (i.e. after allowing for inflation) would be wholly inconsistent with the UK government's commitment to Levelling Up. At present, the main Levelling Up funds are probably:

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|---|---|
| Towns Fund | £2,350m |
| Future High Streets Fund | £830m |
| Levelling Up Fund | £4,800m |
| UK Shared Prosperity Fund | £2,600m |
| Community Renewal Fund | £200m |

These sums are to be spent by the end of the present Spending Round in March 2025. The combined value of the five funds comes to just under £10.8bn.

This is however by no means the full picture. Two of the funds – the Towns Fund and the High Streets Fund – operate only in England so the devolved nations receive 'Barnett consequentials' of around £600m as part of their block grants. Additionally, the UK regions are still drawing down EU funding. When EU funding finally drops out of the picture in 2024-25 the UK Shared Prosperity Fund for that year, intended to be a full replacement, has been set at £1.5bn – equivalent to £4.5bn over three years. On this basis, a further £1.9bn (£4.5bn less the present three-year UKSPF allocation of £2.6bn) needs to be added to adjust for legacy EU funding. That brings the running total to £13.3bn. Add in inflation – currently at high levels – and a three-year budget needs to be **well in excess of £15bn**.

If additional funds are merged into the Levelling Up pot, which seems likely, the overall funding would need to be proportionally higher.

**PRINCIPLE 2**
**Longer-term financial commitments**

The changeover from EU funding to the new UK Shared Prosperity Fund has demonstrated the absurdity of the financial constraints imposed by the Treasury:

- EU funding to the UK regions was allocated in seven-year spending rounds (most recently 2014-20) with the ability to roll on spending for a further three years and without the constraint of spending limits for each individual financial year.

- The UK Shared Prosperity Fund operates over three financial years (more realistically, less than two and a half) with limited provision for roll-over between financial years and none at present beyond March 2025.

Local and regional economic development is a long-term task requiring long-term funding. In particular, it is nigh on impossible to bring forward and deliver significant capital projects within the three-year timescale of Spending Reviews. This is deeply damaging. Indeed, it can lead to wasteful public expenditure because the present system builds in pressure to spend money quickly and on-time rather than on the best and most desirable projects.

The Treasury does of course have a legitimate interest in financial control. It is also important not to commit spending so far ahead that in-coming governments have no scope for imposing their own priorities. What is required is a pragmatic compromise.

It might, for example, make sense to set capital budgets up to six years ahead, covering two Spending Rounds. Revenue spending is easier turned on and off and might remain set on a three-year cycle covering single Spending Rounds.

Within each Spending Round there is a good case for removing constraints on spending in any given financial year and for allowing roll-over for a period at the end. In practice this is likely to push a proportion of spending further away in time, resulting in a one-off reduction in spending that the Treasury is likely to welcome at a time when public spending is under pressure. The absence of budget lines for individual financial years and the option of roll-over should not in practice prove a problem: the Treasury already has substantial experience of forecasting likely expenditure levels year-by-year, not least in managing EU funding over the years.

## PRINCIPLE 3
## Strong targeting

It's hard to see how the objective of Levelling Up can be delivered without strong targeting of funding on the more disadvantaged places across the UK. This implies a distribution driven first and foremost by need.

Taken as a whole, the present Levelling Up funds have allocated more on a per capita basis to the less prosperous regions and nations of the UK. This is welcome and it is a pattern that should not be disturbed by the merger of funding streams.

Fund by fund and authority by authority the picture is more complex and less convincing. The allocation of the Towns Fund, for example, is widely seen to have been influenced by electoral expediency. The Levelling Up Fund, based on competitive bidding, has created 'winners' and 'losers' amongst otherwise similar and neighbouring local authorities. Only the UK Shared Prosperity Fund has integrated systematic local targeting, though in this case largely on the basis of EU financial allocations driven by out-of-date data.

Strong targeting points to the need for a formula to drive allocation. The choice of indicators is important: if the primary aim is to narrow gaps in prosperity the indicators need to measure economic and labour market well-being at the sub-regional scale at which most local economies operate.  There may be a case for a formula that contains several elements, each with their own formula.

It is important too that there is consultation on formulas prior to deployment in order to avoid embarrassing statistical flaws, such as those that resulted in anomalies in the identification of priority areas for the Levelling Up Fund and the Community Renewal Fund.

Strong targeting indicates that a newly-merged budget line should be managed outside the Barnett Formula.  This is especially important for Wales, one of the poorer parts of the UK, which presently receives higher per capita funding than the rest of the country, especially from the UK Shared Prosperity Fund.  If Levelling Up funding were to be integrated into the block grant to the Welsh Government via the standard Barnett Formula, Wales would lose out badly.

## PRINCIPLE 4
## A restricted role for competitive bidding

Competitive bidding between local authorities is deeply wasteful of time and resources and not very good at delivering better outcomes.  It also displays a reluctance on the part of central government to relinquish operational control and to trust local authorities, who know their area best, to make the right decisions.

For larger local authorities, such as Combined Authorities in England, there is little reason why most if not all Levelling Up funding could not be allocated by formula.

For smaller authorities, where the sums are likely to be smaller, a blended approach may make more sense.  The problem here is that some capital projects – many road and rail schemes for example – involve relatively large sums and if the available budget were to be divided amongst all smaller authorities (as has been the case with the UK Shared Prosperity Fund) the scope for funding individually large and expensive projects disappears.

## PRINCIPLE 5
## Simplification for all

The administrative burden arising from the multiplicity of Levelling Up funding streams affects all local authorities.  Proportionally, the burden can often be greatest for smaller authorities that lack the staff numbers needed to put together convincing bids, often at short notice.

As the 2022 *Autumn Statement* indicated, the UK government is clearly tempted to proceed incrementally, beginning with a couple of Mayoral Combined Authorities and then moving on to the others.  This would be a mistake, not least because it would leave so many other authorities – including potentially all the authorities in Scotland and Wales – still facing the present-day complexity of funding.

The UK government should extend simplification to cover all local authorities. In particular, there is no rational justification for imposing the requirement that to be eligible for a simplified funding regime an authority must first have a directly elected Mayor.

## PRINCIPLE 6
## Respect for the devolution settlement

In intervening in local and regional development within the devolved nations, the UK government has strayed into territory that was formerly devolved. It has the legal right to do so under the 2020 Internal Market Act and it is worth noting that the EU too intervened in this way. Nevertheless, the interventions have proved to be a source of friction.

The problem is not simply political, about who takes spending decisions. It is also a practical problem in that the devolved administrations are major players in their own economies, often with institutional structures that differ from those in England and with their own spending programmes that overlap with the objectives of the UK government's Levelling Up funds.

Moving forward, there needs to be formal integration of the devolved administrations into the design of Levelling Up programmes and greater discretion for the devolved administrations in the allocation and management of Levelling Up funding.

***Industrial Communities Alliance***
***November 2022***

Industrial Communities **Alliance**

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