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:

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
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Industrial Communities **Alliance**

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