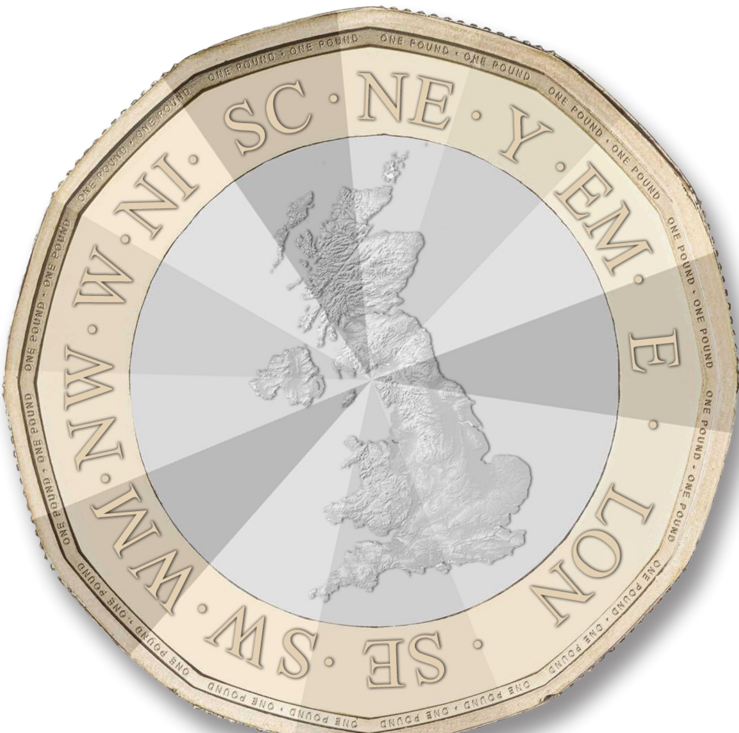
Funding for local and regional development

Proposals for a Labour government

(Post-election update)



Industrial Communities **Alliance**

The new government needs to decide what to do with the 'levelling up' funding streams inherited from the Conservatives:

- **The big differences in local and regional prosperity haven't gone away.**

- **Most of the inherited funding ends in March 2026 – and important parts a lot earlier.**

- **In the present three-year Spending Round these budget lines are worth around £16bn. Adjusted for inflation, that would be at least £19bn in the forthcoming round.**

- **How should a Labour government allocate any follow-on money, and for what purposes?**

Starting point: the present budget lines

'Levelling up' has become a discredited slogan, not least because under the previous government it was often badly managed.

But the problems that 'levelling up' was intended to solve haven't gone away. There are still huge differences in prosperity and well-being between different parts of the country. Some of the differences are long-standing and were never going to be resolved just by short-term funding programmes.

Nevertheless, in purely financial terms the sums allocated to 'levelling up' spending programmes remain significant[1]:

Levelling Up Fund (three rounds)	£ 4,756m
UK Shared Prosperity Fund	£ 2,512m
Towns Fund	£ 2,350m
Town endowments	£ 1,500m
Future High Streets Fund	£ 831m
Levelling Up Partnerships	£ 400m
Community Renewal Fund	£ 203m

In addition, the UK regions have received around £3bn in EU funding rolled forward from the EU's 2014-20 spending round and the devolved administrations have been receiving funding via the Barnett formula to compensate for the programmes (such as Towns Fund) that don't operate in Scotland, Wales and Northern Ireland.

Adding all this funding together, around £16bn was allocated to 'levelling up' funding as part of the 2021-25 Spending Round.

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[1] Source: HM Government

Under the Conservatives, the Department for Levelling Up – now the Ministry for Housing, Communities and Local Government (MHCLG) – was responsible for most of this money, including spending in the devolved nations. The Departments for Transport and Education have also played a role.

Labour needs to decide what to do with these funding programmes. Its manifesto for the 2024 General Election was silent on this issue.

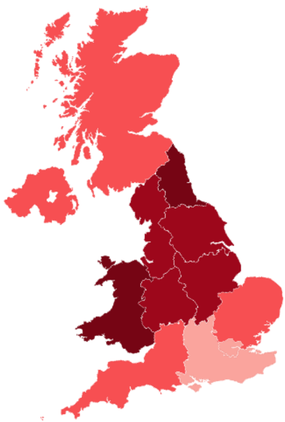
Decisions are needed – not just for the forthcoming Spending Review but also looking further ahead.

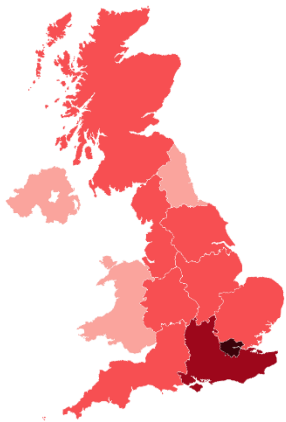
Spending from the Towns Fund and from Levelling Up Fund rounds 2 and 3 runs on to March 2026, a year beyond the end of the present Spending Round. The Town endowments have been structured to be spent over ten years. All the money from the UK Shared Prosperity Fund, however, currently has to be spent before the end of March 2025 – which in financial and operational terms is just round the corner.

So some of the decisions that are needed will need to be taken quickly.

The present funding has at least been skewed to the less prosperous parts of the UK:

	'Levelling up' funding[2] £ per head	*GVA per head 2021[3] (UK=100)*
Wales	377	74.1
North East	346	70.6
North West	265	87.4
Yorkshire & the Humber	262	80.5
East Midlands	257	80.3
West Midlands	225	81.2
South West	182	89.8
Scotland	165	90.5
Northern Ireland	157	79.4
East	139	89.3
South East	91	107.4
London	56	183.4





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[2] The figures here combine the seven 'levelling up' spending programmes but exclude roll-on EU funding and monies allocated via the Barnett formula.

[3] Source: ONS. The figures measure production in each region in relation to the resident population. Net commuting boosts London's figure at the expense of the East and South East.

Labour’s approach

We take it as given that a Labour government would wish to continue and strengthen efforts to promote local and regional development. The UK is one of the most unequal countries in the western world, with London and much of the South East forging ahead and many other places lagging badly behind.

The new government has already dropped the ‘levelling up’ label. However, previous Labour governments have traditionally been much more dynamic than Conservative administrations in promoting economic development and regeneration in the less prosperous parts of Britain. We would expect this to continue.

We also take it as given that as part of its approach Labour intends to devolve power from Westminster and Whitehall. This is welcomed by local authorities. However, if devolution applies equally to all parts of the country it does not by itself imply that less prosperous places will be given additional support to catch up:

- Dividing up the funding equally between authorities, say on the basis of population, would lead to a shift in resources to more prosperous areas in London and the South

- Absorbing the funding into the mainstream government grant to authorities would probably provide more help for less prosperous places, but when councils are so strapped for cash much of the money would inevitably leak into the delivery of statutory services.

- Devolving funding without any strings attached to promote local and regional growth would be an abdication of government responsibility to narrow differences in prosperity and well-being.

- In Scotland, Wales and Northern Ireland, where local government is a devolved matter, local authorities can't simply be fitted into an English model of new responsibilities.

These complications point to the need for political choices. They also point towards the merits of budget lines that continue to be held by central government to target the places most in need.

The proposals in this booklet have all been discussed and agreed at national and regional meetings of the Industrial Communities Alliance – the all-party association of local authorities in the industrial areas of England, Scotland and Wales.

As the local authorities representing many of the most disadvantaged and least prosperous parts of the country, and therefore many of the places most in need of support, our views are based on hard-won lessons and experience.

PROPOSAL 1

Focus on economic development

Under the Conservative government ‘levelling up’ became a woolly, amorphous concept. It was originally understood to mean helping less prosperous places catch up with the rest of the country but the various funding schemes ended up focussing on things such as ‘pride in place’, public safety and cosmetic improvement to shopping malls.

Labour needs to be clear about the primary objective of any new spending: it needs to be about economic development in the places most in need. That means more jobs, better jobs and a stronger and larger business sector. Get the local economy right and other benefits will follow. For example, more people in work earning higher incomes will support more local spending and make it easier to sustain town centres.

Local economies generally operate at the sub-regional scale, across the boundaries of local authorities but stop short of whole regions. It is at this sub-regional scale that differences in prosperity are best measured and most funding is best allocated.

PROPOSAL 2

Sustain at least the present level of spending

Given the persistence of regional and local inequalities, there should be no retreat from the present volume of expenditure, which should be regarded as a 'base line' and uprated for inflation.

This would imply that over a new three-year Spending Round the sum of successors to the 'levelling up' budget lines listed earlier would need to be around £19bn.

In particular, there needs to be **an immediate one-year extension to the UK Shared Prosperity Fund**.

UKSPF funding currently runs out in March 2025. Best estimates are that across the UK, 7-10,000 local authority jobs are at risk if the funding is not renewed plus at least as many if not more jobs with contractors who deliver UKSPF-funded business services and employment support. Without an early announcement, a process of wind-down will begin in the autumn and redundancy notices will have to be issued in December.

It would make sense to put in place a one-year extension of the UKSPF until March 2026, when most of the other 'levelling up' funds come to an end, to allow a considered and comprehensive review of the longer-term way forward.

PROPOSAL 3

Introduce longer-term funding

The present system of short-term funding is deeply flawed. This view is widely held by local authorities and is known to be shared by the officials in MHCLG and the Treasury who deal with this funding on a day-to-day basis.

Under the present system, funds for local and regional development are only made available for the duration of a Spending Round – typically three years – and it can be well into the first year before the government has put the funding architecture in place, thereby reducing the duration of spending to not much more than two years. This system has profound disadvantages:

- It presents an obstacle to longer-term projects, including those of a transformative nature, that need to run on beyond the end of a Spending Round.

- It renders the funding of capital projects especially difficult, since these often require significant lead-in time to work up specifications, secure permissions and put contracts out to tender.

- It undermines revenue-funded schemes, which typically require an up-front period to recruit staff who then find that they need to prioritise looking for alternative work or funding in the final year of a project.

- It requires local spending plans to be put together in a rush to satisfy deadlines, often with inadequate input from stakeholders.

The shortcomings were highlighted by the replacement of EU funding by the UK Shared Prosperity Fund. Whereas EU spending rounds ran for seven years with the option for spending to run on a further three years, the Conservative government allocated UKSPF funding for only three years with no option for monies to be rolled forward. These arrangements fail to deliver best value for money.

The straightforward option would be to earmark a proportion of funding to be spent beyond the end of each Spending Round. In effect, some of the funding would be allocated across two Spending Rounds – perhaps up to six years ahead. A stable level of spending through time would imply that at each Spending Review budget lines would be topped-up for the forthcoming round and the one after that.

This is a proposal endorsed by the Local Government Association. It does not involve additional expenditure.

PROPOSAL 4

Prioritise less prosperous places

There should be no retreat from the present skew of funding to the less prosperous regions and nations of the UK. Indeed, it would probably be desirable and possible to skew the distribution a little further, bearing in mind that under the Conservatives more than £2bn went to London and the greater South East.

Within each of the English regions, it is important to give priority to the least prosperous places. The devolved administrations in Scotland, Wales and Northern Ireland might be encouraged to adopt a similar approach.

Strong targeting of funding indicates that these budget lines need to 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. If funding for local and regional development were to be integrated into the block grant to the devolved administrations via the Barnett Formula, Wales would lose out badly.

PROPOSAL 5

Allocate on the basis of need, not 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 funding could not be allocated by formula.

The choice of statistical indicators is obviously important. If the aim is to narrow gaps in prosperity, the indicators need to measure economic and labour market well-being. It is important too that there is consultation on formulas prior to deployment in order to avoid statistical flaws and command support. The imposition, without consultation, of formulas to identify priority areas for the Levelling Up Fund and the Community Renewal Fund led to anomalies that could have been avoided. This experience must not be repeated.

PROPOSAL 6

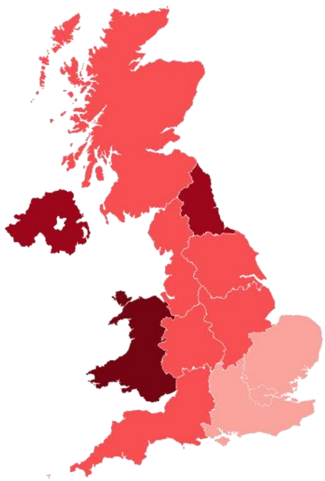
Retain a separate UK Shared Prosperity Fund

Putting aside the need for an immediate one-year extension, flagged up earlier, there is a strong case for retaining the UK Shared Prosperity Fund – the replacement for EU funding to the regions.

Among all the present funds, the UKSPF is the one most strongly skewed to less prosperous parts of the country:

UKSPF funding 2021-25
£ per head[4]

Wales	188
Northern Ireland	67
North East	64
Scotland	39
South West	37
North West	36
West Midlands	36
Yorkshire & Humber	34
East Midlands	28
London	21
East	16
South East	12



[4] Source: UK Government

This mirrors the previous allocation of EU funds. Within each region and nation, it is also the poorest areas that receive the largest funding (e.g. Cornwall within the South West).

More than any of the other funds, the UKSPF focusses on local and regional economic development. In contrast to just about all the other funds, it has also been allocated by formula rather than competitive bidding.

Promoting jobs, productivity and growth in less prosperous local economies needs to be the key objective of a further tranche of the UKSPF. There also need to be sensible improvements:

- The financial allocations need to be based on up-to-date statistics. Several areas with deteriorating economic data lost out in Tranche 1.

- Funding should not be pre-emptively allocated to specific initiatives, as has been the case with the Multiply adult numeracy programme within Tranche 1.

- The devolved administrations should be fully involved in setting the strategic priorities and in the allocation and management of funding.

UKSPF funding in the 2024-25 financial year, when legacy EU spending finally dropped out of the picture, is £1.5bn. When this figure was set it roughly matched the EU funds being replaced. Uprating the UKSPF budget for inflation would require around £1.8bn a year.

PROPOSAL 7

Merge and simplify other funding streams

The streamlining of funding for local and regional development would be 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.

The burden arising from the multiplicity of funds affects all local authorities but can often be greatest for smaller authorities, who are least well placed to draw on specialist staff. The Conservative government said it intended to proceed incrementally, beginning with Mayoral Combined Authorities that in the next Spending Round would receive single financial settlements from each government department. This incremental approach would be a mistake, not least because it would leave so many other authorities still facing the present-day complexity of funding.

Streamlining should 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.

PROPOSAL 8

Devolve delivery

Central government should stop trying to micro-manage local economic development. It should set the strategic direction and the parameters for spending but then let local authorities and their partners get on with the job.

All too often, central government behaves as if local authorities cannot be trusted to take sensible decisions about what is right for their local area. Too much detail has to be signed-off by government, even after tight guidelines have been issued. There needs to be a cultural shift. Down at the local level it's generally the local players who know best.

In Scotland, Wales and Northern Ireland 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 but 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 funding programmes.

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

Industrial Communities **Alliance**

The Industrial Communities Alliance is the all-party association representing local authorities in the industrial areas of England, Scotland and Wales.

The aim of the Alliance is to promote the economic, social and environmental renewal of the areas covered by its member authorities.

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