LOCAL GROWTH FUNDING

Why it matters, and how it can help deliver growth

- **Local growth funding has the potential to reinforce the government's Industrial Strategy and make a big contribution to delivering faster national economic growth.**

- **It also targets the less prosperous parts of England, Scotland and Wales where growth has been lagging behind the South East.**

- **It creates opportunities and visible tangible impacts, showing how cities, towns and communities are better off than they were five years ago.**

- **The forthcoming Spending Review will determine how much funding is available, for what purposes and in which places.**

- **Over the four years up to March 2026, the existing local growth funds are worth around £16bn in total. Matching this, adjusting for inflation, would require around £5bn a year.**

Supporting economic growth

Promoting economic growth is one of the key missions of the Labour government. Delivering on this objective requires action across multiple government departments.

Local growth funding enhances the **supply side of the economy**. It helps raise the number, quality and range of local businesses and the capability of the local workforce. What's more, it strengthens the economy in the **less prosperous parts of the country** that feel like they have been left behind and where economic growth is needed most. It offers the opportunity to deliver long-term economic and productivity growth.

Local growth funding has a key role alongside the other components of the government's plan for growth:

- Industrial Strategy, supporting specific sectors and firms
- Regulatory reform, to encouraging investment
- Labour market policies, to raise skills and engagement
- Fiscal stability, to provide the foundations needed for growth

All these are essentially national policies. **Local growth funding adds an additional layer of intervention and activity at the local and regional scale.**

The sorts of activities supported by local growth funding include:

- **Transport and infrastructure investment**, such as improvements to public transport and local roads that enhance connectivity for local businesses and their employees.

- **Business support**, including advice to start-ups and help for existing businesses in developing products and markets.

- **Training and education**, including help for those furthest from the labour market to gain new skills and re-engage with employment, creating new opportunities in job markets where there is a local skills deficit.

- **Regeneration and property development** for local businesses, for example by gap funding, including the re-purposing of brownfield land, redundant buildings, high streets and town centres.

- **R&D, innovation and technology** to support new products and processes – a big specialism of EU funding that has been only partially replaced – including investment in digitalisation, connectivity, digital skills and infrastructure.

- **Environmental improvements** to help deliver green growth and protect communities from the impact of climate change.

- **Culture, tourism and sport**, cultivating thriving places and an offer to make them more attractive to residents, workers and visitors.

- **Breaking down barriers** to opportunity to address local inequalities and improve outcomes for those living in poverty.

Under the previous government the list of activities supported was far from perfect. There was too much emphasis on the woolly objective of 'pride in place', which led to too much cosmetic investment in shopping centres and high streets. Conversely, there was not enough spending on the harder-edged goals of more jobs, better jobs and faster growth.

Get the local economy right and much else good normally follows, including town centre regeneration as more local residents have more money to spend.

Under the previous government there was also difficulty in getting funding through to the right places. Competitive bidding didn't help. Nor did a flawed list of 'priority areas' drawn up by central government without any consultation or scrutiny. The devolved administrations in Scotland and Wales were also almost entirely by-passed.

The sums at stake

Over the four years to March 2026, including the announcements in the 2024 Autumn Budget, the sums allocated to local growth funding have been substantial:

Levelling Up Fund (three rounds)	£4,756m
UK Shared Prosperity Fund	£3,412m
Towns Fund	£2,350m
Town endowments	£1,500m
Future High Streets Fund	£ 831m
Levelling Up Partnerships	£ 400m
Community Renewal Fund	£ 203m

Sub-total	*£13,452m*
plus EU funding rolled forward	c. £ 1,900m
plus Barnett consequentials	c. £ 600m

All local growth funding	***c. £16bn***

Source: HM Government

The total – around £16bn – includes EU funding from 2014-20 (UK taxpayers' money routed via Brussels) that continued to be spent up to the end of 2023 and money allocated via the Barnett formula to compensate for the programmes such as the Towns Fund that didn't operate in Scotland, Wales and Northern Ireland.

Just about all this funding has either been spent already or has to be spent by the end of March 2026. The main exception are the town endowments, spread over 10 years.

The largest contributions to local growth funding come from the Ministry of Housing, Communities and Local Government (MHCLG). The Department for Transport contributes to the Levelling Up Fund and the Department for Education to the UK Shared Prosperity Fund.

A focus on less prosperous places

Local growth funding has mostly targeted the less prosperous parts of the country. This is particularly true of the UK Shared Prosperity Fund and its predecessor, EU funding to the regions.

Within each region and nation, it has been the less prosperous sub-regions and local authorities that have generally received the largest per capita funding – for example West Wales & the Valleys within Wales, and Cornwall within South West England. These are the places where bringing to bear underutilised resources – particularly labour – can make a big contribution to national economic growth and the prospects of local communities.

	'Levelling up' funding[1] *£ per head*	*GVA per head 2021 (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

Sources: HM Government, ONS

How much funding is needed?

The government intends to reform local growth funding in the Spending Review to be completed in June. Reform is necessary and welcome. Under the previous administration the multiplicity of overlapping 'levelling up' programmes, the use of competitive bidding and short project turnaround times undermined impact and value for money.

In the four years up to March 2026, total spending on local growth (c.£16bn) averaged around £4bn a year. Matching the existing level of spend and uprating this for inflation (approximately 25 per cent over this period) points to **an annual budget of £5bn** in the forthcoming Spending Review.

The figure would have been nearer £6bn a year if there had not already been a cut of £600m to the UK Shared Prosperity Fund budget for 2025-26. **Anything less than £5bn a year would represent a cut in current spending in real terms, and one that would fall principally on the less prosperous parts of the country.**

The Autumn Budget announced that the government would in future move to Spending Reviews every two years, with capital spending totals set five years ahead and topped up at each subsequent Review. What the new arrangements indicate is that to match existing levels of spending the budget for local growth funding would therefore need to be:

- £10bn over a single two-year Spending Round
- £20bn over four years and two Rounds
- £25bn over five years (taking capital spending into account)

[1] The figures here exclude roll-on EU funding, monies allocated via the Barnett formula and the £900m top-up to the UKSPF for 2025-26.

Of these options, a longer time horizon is much preferable for both capital and revenue funded activities. Short-term funding:

- 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.

- 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.

- 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.

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

Reform to the present funding arrangements

The Labour MPs Group on Local Growth Funding accepts that the arrangements inherited from the previous administration need to be improved. Assuming that a substantial budget is maintained, in an *Ambition Statement* adopted in December 2024 the Group argues that:

- The primary purpose of local growth funding needs to be economic development and regeneration. This points to a mix of investment in people, place, infrastructure and business support.

- Funding should be fairly allocated on the basis of need not competitive bidding. Whilst most areas should expect a share of the funding, the less prosperous parts of the country with high levels of deprivation should be prioritised.

- Especially in the case of Wales, which presently receives high per capita funding because of its high levels of disadvantage, use of the Barnett formula should be avoided.

- There should be full and timely consultation on the allocation formula.

- Funding needs to be allocated over a longer term than was the case under the previous administration and projects must be given good time to proceed and be completed, with an end to arbitrary deadlines that result in rushed or inefficient use of public money.

- The government's intention to rationalise the number of local growth funds is welcome.

- It makes sense to allocate funding at the sub-regional scale at which most local economies operate.

- Within each sub-region, at the discretion of local players there might still be schemes and initiatives that focus on specific districts or neighbourhoods.

- Collaboration and partnership across organisations should be encouraged, and additional funding levered in wherever possible.

- Central government should exercise a lighter touch in managing local growth funding. The expertise, knowledge and experience of local authorities, elected Mayors and other local players should be respected.

- Where capability needs strengthening, central government should offer support.

- The devolved administrations need to be better integrated into the management of local growth funding.

Labour MPs Group on Local Growth Funding
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