THE REDUCTION IN LOCAL GROWTH FUNDING
Where's the money gone?

The cut in funding

As best it's possible to tell, in the Spending Review there's been a big reduction in funding for local growth.

In essence, what the government is doing is allowing the 'levelling up' funds inherited from the previous administration to expire and is proposing replacements for the UK Shared Prosperity Fund that are worth less in real terms than in 2025-26 and substantially less than the EU funds that the UKSPF replaced[1].

There's uncertainty over the exact scale of the reduction because the Spending Review does not provide a figure for the new local growth fund available to mayoral city regions in the North and Midlands. However, if we assume that in England the annual funding for the new fund and for deprived communities is the same as UKSPF funding in 2025-26 – the arrangement that applies in the devolved nations – the total funding for local growth across the UK for the three financial years from April 2026 is likely to be:

Local growth fund and deprived communities	£2,700m
Growth Mission Fund	£ 180m
Recyclable mayoral growth fund	£ 500m

All local growth funding	***£3,380m***
per annum	*£1,130m*

By comparison, in the four financial years up to March 2026 the total funding for the six main 'levelling up' programmes[2] plus EU funding to the regions running on to 2023 was £13.8bn[3], or just over £3.4bn a year.

In other words, it appears there has been a two-thirds reduction in local growth funding – from £3.4bn a year to £1.1bn a year.

So where has more than £2bn a year gone? Is it coming back to the same places under other budget lines, or are they losing this money?

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[1] The UKSPF budget of £1.5bn in 2024-25 was roughly the same in real terms to the EU funding it replaced. For 2025-26, the Autumn Budget reduced the UKSPF budget to £900m.
[2] Levelling Up Fund, UK Shared Prosperity Fund, Towns Fund, Future High Streets Fund, Levelling Up Partnerships, Community Renewal Fund.
[3] HM Government data plus ICA estimate (£1.9bn) of EU run-on funding. The figure excludes Barnett consequentials of England-only funding and also excludes funding committed to the Long-Term Plan for Towns (now Plan for Neighbourhoods) to be spent after March 2026.

Where's the money gone?

Spending Reviews don't explain exactly how money is being moved around, not least because multiple budget lines are being set simultaneously. So it's a question of making a judgement on the available evidence. **The most likely possibility is that the money has stayed within MHCLG.**

Over the Spending Review period, MHCLG's own spending is expected to increase from £12.9bn in 2025-26 to £13.5bn in 2028-29, so there's no evidence here of a £2bn a year cut. Indeed, there are commitments to invest more in social and affordable housing.

The big increase in MHCLG spending, accounted for separately, is in funding for local government. The Spending Review says "the Local Government settlement provides an additional £3.3bn of grant funding in real terms for local authorities in 2028-29 compared to 2023-24". Along with the £600m already shaved off the UKSPF budget for 2025-26, the £2bn a year further reduction in local growth funding could well be the source of most of this additional funding. If this is the case, **local authorities are in effect receiving a more generous grant settlement at the expense of the local growth funding they previously received**.

That local growth funding has been diverted to spending by other departments looks less likely. For example:

- The Department for Transport's spending is up by £2.9bn a year by 2028-29 but a big part of this comes from lower annual spending on HS2 (a separate item in the Spending Review accounts) and most of the named projects in the North were earmarked for funding in 2023 when HS2's northern leg was cancelled.

- The Department for Business and Trade receives an increase of only £0.5bn a year over the Spending Review period, so it seems unlikely that much local growth funding has been shifted there.

Does the diversion matter?

If the analysis above is correct and local growth funds are indeed being diverted into the funding settlement for local authorities, councils in England will no doubt welcome the increase in mainstream funding. They will also have discretion over how this money is spent, which wasn't the case with 'levelling up' funding, so that will be welcome as well.

Councils in Scotland and Wales, however, may not see any of this money because the Barnett consequentials of English local authority funding go to the devolved administrations, who will determine their own priorities.

In England there are downsides to the diversion too:

- **It probably represents a net shift in funding away from less prosperous parts of the country.** The various 'levelling up' funds that are being phased out were skewed to less prosperous places – London and the South East received relatively little on a per capita basis whereas the North and Midlands fared well. If this money is in future allocated via the Local Government settlement it's likely to be spread more evenly across the country (unless, that is, the local government funding formula itself is sufficiently re-worked in favour of less prosperous areas).

- **The 'winners' and 'losers' will not be the same authorities.** There's a lot of emphasis on 'mayoral city regions' in the Spending Review. Expect them to do well out of the new arrangements, including the promised 'integrated settlements', but some places that previously received useful 'levelling up' sums will receive little to offset this funding coming to an end.

- **It will almost certainly result in a shift in funding away from regeneration and economic development.** 'Levelling up' funding was tied to specific activities, geared mostly to improving the local economy and wider living environment. With so much pressure on mainstream local authority services such as adult social care it's likely that there will now be other claims on this funding. This will work against the government's priority to deliver growth.

- **The political credit for spending will shift away from Westminster.** Under the 'levelling up' funds the source of funding and thereby the labelling of projects was clearly seen to be the UK government. Once the money has been incorporated into the Local Government settlement this will no longer be the case.

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