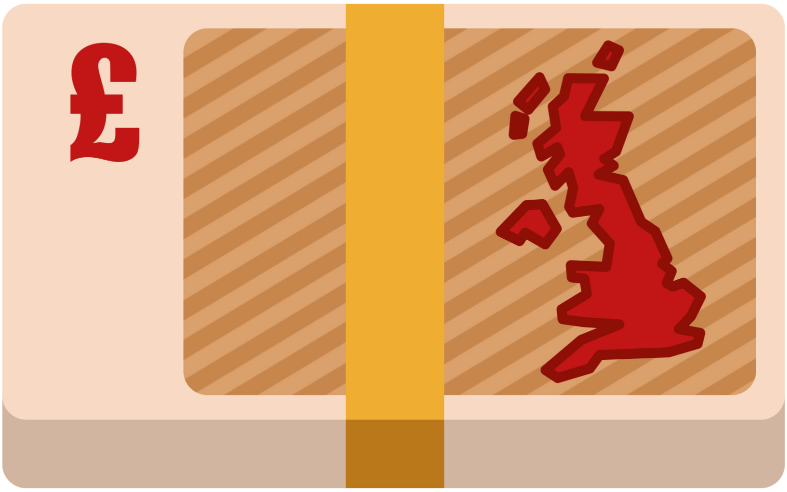
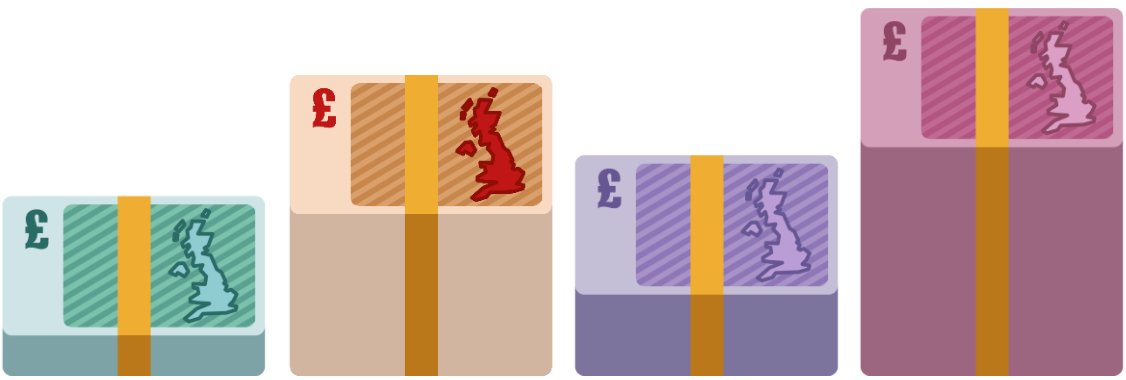
A Better Way
to fund local growth



Industrial Communities **Alliance**

A BETTER WAY TO FUND LOCAL GROWTH

- Budget lines that match the task
- A stronger focus on jobs and growth
- Fewer small areas, more local economies
- Longer timeframes
- No more damaging capital / revenue splits
- Respect the role of local authorities
- Involve the devolved governments
- Consultation before implementation



Starting point

There are big differences in prosperity and well-being across the UK. This is all too evident in a wide range of indicators at the regional, local and neighbourhood scale.

The Labour government elected in 2024 inherited a mish-mash of initiatives from its Conservative predecessor – the Levelling Up Fund, the UK Shared Prosperity Fund (UKSPF), Towns Fund, Future High Streets Fund, Long-Term Plan for Towns, and more – often overlapping in objectives and targeting. The landscape of local growth funding was ripe for reform.

Fortunately for the new government the Conservative's initiatives were time-limited, mostly running out in 2025 or 2026, which enabled Labour to seize the opportunity to deliver change:

- The number of funds has been reduced
- Competitive bidding, much hated by all involved and the cause of much wasted effort, has been ended

This is good news. But in other respects, the new funding arrangements introduced have proved a disappointment. They could have been structured and delivered a lot better.

This is certainly the perspective of the Industrial Communities Alliance – the all-party association of local authorities in the older industrial areas of England, Scotland and Wales. Our authorities cover many of the most disadvantaged parts of Britain, badly hit by job losses over the years. Not unreasonably, our areas expected to be among the principal beneficiaries of the new funding arrangements, but it hasn't worked out quite as hoped.

(continued…..)

This booklet explains what's gone wrong, and how things might be done better in future.

The booklet doesn't seek to apportion blame. In fact, given the multiplicity of programmes inherited by the Labour government and the tight financial constraints, it's hardly surprising that the first attempts at reform haven't been perfect. It has not helped either that the department that led the design of the new funding, the Ministry of Housing, Communities and Local Government (MHCLG), is rather like a supertanker and was always going to take a lot of effort to turn around.

For the moment, then, there are two main funding streams in place:

Local Growth Fund

England	£902m over 4 years, starting 2026
Scotland	£228m over 3 years, starting 2026
Wales	£630m over 3 years, starting 2026
N Ireland	£129m over 3 years, starting 2026

Pride in Place

Phase 1	£1,500m over 10 years, starting 2026
Impact Fund	£190m over 2 years, starting 2025
Phase 2	£4,180m over 10 years, starting 2027

These sums are not negligible, though collectively they represent a substantial reduction in the equivalent annual spending under the previous government.

Ultimately, however, it's **outcomes** not the volume of spending that matters. On this front, there's a good case for arguing that the new funding would deliver more if it had been better structured.

Budget lines

What's gone wrong?

- Spending on local growth has been cut by around £2bn a year compared to the previous spending on 'levelling up'.

- Although most of the money taken from local growth has been diverted to England's Local Government Financial Settlement (and via the Barnett formula to the devolved governments) the financial pressures on statutory services mean that the additional money for local councils and the devolved governments is unlikely to be spent on local growth.

What's needed?

Looking to the future, it's important to **call a halt to cuts in local growth funding**.

The strains on the UK's finances are well understood but the hit that local growth funding has taken is proportionally greater than nearly all other areas of public expenditure. Boris Johnson's 'levelling up' funds, much criticised by Labour, have proved too easy a target.

A big cut in funding is obviously not good news. The problem is that it works against the government's aim to promote economic growth. Managed properly, local growth funding should be about investment in infrastructure, people and support for businesses, all of which helps the national economy.

If public finances improve it would be good to spend more, not less, on local growth funding. This would be an investment in the future not just for disadvantaged local areas but also for the wider national economy.

Jobs and growth

What's gone wrong?

- The UK Government's commitment to jobs and growth hasn't been followed through into the design and implementation of local growth funding.

- The cosmetic improvement of high streets and public spaces doesn't put money in people's pockets.

- *Pride in Place* phase 2 neighbourhoods are far too small to address economic and labour market problems.

What's needed?

Britain's less prosperous places need more jobs and better jobs, closer to home. That means support for businesses in these places, which in turn points to investment in sites, premises, transport links and skills in the local workforce.

Putting more money in people's pockets by delivering good jobs feeds through not only to their own well-being but also to spending on local high streets. It will also help bring down benefit numbers and save money for the Exchequer.

The levelling up programmes introduced by the Conservative government lost sight of these fundamentals. So too, it seems, has the design of *Pride in Place* phase 2. This is modelled on the *New Deal for Communities* initiative, for which the final evaluation concluded that "when assessed against what happened in comparator areas, there is no evidence for statistically significant net positive change in relation to worklessness" – a clear indication that addressing economic and labour market problems at the neighbourhood scale doesn't work.

Selecting areas

What's gone wrong?

- In England, the new *Local Growth Fund* has been allocated exclusively to mayoral combined authorities. Areas yet to elect mayors – Lancashire and Staffordshire for example – have therefore missed out entirely.

- The Middle Super Output Areas (MSOAs) used to define *Pride in Place* phase 2 neighbourhoods don't match communities on the ground and are excessively small – around 10,000 people.

- The limit of 'one *Pride in Place* per constituency' arbitrarily denies support to other disadvantaged communities in the same locality.

What's needed?

Funding should be made available to whole towns or local economies rather than to small neighbourhoods within them. The best way to help residents in deprived neighbourhoods will often be to support jobs a couple of miles down the road. That may also be where the best opportunities for growth are located.

It's also a lot easier to run employability and training schemes if the catchment area is larger. In small communities, such as the *Pride in Place* phase 2 neighbourhoods, the number of target individuals can be small and the number of willing participants even smaller. This can render specialist courses simply impossible.

Arbitrary institutional constraints should also be dropped. It's reasonable to target places on the basis of need, but surely not on whether an area happens to have an elected mayor or a parliamentary constituency that is already receiving funding.

Timeframes

What's gone wrong?

- The 2025 Spending Review promised "a new local growth fund, including 10-year capital settlements from 2026-27 to 2035-36". This commitment hasn't been honoured.

- Prior to the general election, the Treasury officials accepted that short-term funding is often unworkable and leads to poor outcomes, but this lesson seems to have been forgotten.

- The new *Local Growth Funds* run for just three years in Scotland, Wales and Northern Ireland, four in England.

What's needed?

Longer-term funding is the way forward – a position adopted not just by the Industrial Communities Alliance but also by England's Local Government Association. Short-term funding:

- Presents an **obstacle to longer-term projects**, including those of a transformative nature.

- Renders **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 they need to prioritise looking for alternative work or funds in the final year of a project.

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

Capital / revenue split

What's gone wrong?

- A 70/30 capital revenue split has been imposed on the new *Local Growth Funds* in Scotland, Wales and Northern Ireland.

- Combined with a reduction in funding, this is taking a sledgehammer to the revenue-funded services previously supported by the UKSPF, such as business support, training and employability.

- A 70/30 capital/revenue split is also being imposed on *Pride in Place*.

What's needed?

In the context of local growth funding, **the distinction between capital and revenue spending really ought to be abolished.**

Training, for example, creates an asset for the labour market that might deliver benefits for forty years or more, longer than the lifespan of some bricks-and-mortar. Likewise, business support can be as invaluable as machinery. It's all an investment in local economies and in growth and jobs.

The present 70/30 capital/revenue split is a bureaucratic clanger. In the 2021 Spending Review the UKSPF was included as a separate budget line with its own distinctive capital/revenue split of 12/88. In the 2025 Spending Review these monies were absorbed into MHCLG's budget, which was given a 70/30 capital/revenue split for its overall spending. This was then mechanically applied.

A much better approach would be to allow local partners, working within national guidelines that define each fund's objectives, to determine the appropriate balance of spending in their area.

Local authorities

What's gone wrong?

- English local authorities were entirely by-passed in the selection of *Pride in Place* neighbourhoods.
- Implementation of *Pride in Place* relies on local authorities but decision-making is hived off to neighbourhood boards.
- MHCLG's language – that local people should "take back control" – treated local authorities as the enemy.

What's needed?

Local authorities should be centrally involved in delivering local growth. They are the experts on their area. At elected member and at officer level, local authorities understand the problems and opportunities in their locality. Civil servants in Whitehall or Manchester, armed principally with official statistics, simply can't match this knowledge.

Local authorities understand the boundaries of **communities**, which don't match the MSOAs used to identify *Pride in Place* phase 2 neighbourhoods. They also understand the scope of **local economies and labour markets** and where involvement will promote jobs and growth.

The elected Mayors of combined authorities, charged by ministers with delivering England's new *Local Growth Funds*, are closer than government departments to the issues on the ground. But they also work within structures that draw on the expertise and priorities of their local authorities.

It's reasonable for central government to issue guidance on how money should be spent, but it shouldn't attempt to micromanage. And Mayors shouldn't pursue 'pet projects' if they don't command local authority support.

Devolved governments

What's gone wrong?

- The Welsh Government has been given an important role in managing the new *Local Growth Fund* but its entirely reasonable request to modify the capital/revenue split was rebuffed.

- A similar request from the Northern Ireland Executive was also declined.

- In Scotland, the *Local Growth Fund* is managed by the Scotland Office – an arm of the UK Government – not the Scottish Government.

What's needed?

The devolved governments have a legitimate contribution to make in the management of local growth funding.

Under the devolution settlement, the Scottish and Welsh Governments and the Northern Ireland Executive have extensive powers over local and regional development. They have used these powers to implement their own programmes that sometimes overlap with the aims of the initiatives introduced from Whitehall. It should be self-evident that coordination is important.

And if in future the devolved governments issue pleas to UK ministers and officials to modify an important aspect of funding, as was the case with the capital/revenue split in the new *Local Growth Funds*, **the default approach by the UK Government should be to respond positively and alter its approach.**

Consultation

What's gone wrong?

- There was no consultation on the new architecture of local growth funding – and it wasn't in Labour's manifesto either.
- Selection of *Pride in Place* neighbourhoods was imposed from on high in Whitehall.
- Local knowledge and local experience hasn't been brought to bear.

What's needed?

Management of local growth funding has been transferred to No.10 North. But it's still the case that civil servants, even in Manchester, can have a poor grasp of the problems and priorities in the more disadvantaged parts of England, let alone in Scotland, Wales and Northern Ireland. They mostly have little first-hand understanding, too, of the skills and capabilities of local authorities.

Yet the aspirations of ministers and their advisers are usually shared by players in the regions and nations of the UK. The challenge is therefore to bring to bear the knowledge and experience in the places the government is trying to support in order to design interventions that will make a bigger difference.

Consultation ought to be the norm, not just on details but also on the strategic direction of new programmes and initiatives. There are plenty of local partners and national bodies that could help knock off the 'rough edges' of government plans and ultimately help deliver better value for money.

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.

National Secretariat, 1 Regent Street, Barnsley, S Yorkshire S70 2EG
Tel: 01226 200768
Email: natsec@ccc-alliance.org.uk
www.industrialcommunitiesalliance.org.uk