

Fifth Report of Session 2022-23

Department for Levelling Up, Housing and Communities

Local Economic Growth

Introduction from the Committee

In the decade to 2020, government committed £18 billion in domestic funding to local economic growth policies in England. Since 2014, a further £10.3 billion or so has been directed to the UK through EU structural funding. Despite efforts by successive governments to tackle longstanding spatial disparities, the UK remains less productive than its main competitors, shows regional disparities that are among the largest in the OECD and inequality within the UK's regions is even greater than it is between them. The COVID-19 pandemic has hit some of the country's most deprived areas hardest. Government has pledged to level up the country and published its Levelling Up White Paper in February 2022.

The Department for Levelling Up, Housing & Communities (DLUHC), has a coordinating role for Levelling Up and leads on the design and delivery of central government's place-based local growth interventions. At the November 2020 Spending Review, government announced or furthered a series of interventions to support the regeneration of towns and communities across the country. These included the £3.2 billion Towns Fund in England and three UK-wide schemes: the £4.8 billion Levelling Up Fund, the one-year £220 million Community Renewal Fund to replace European Funding in advance of the UK Shared Prosperity Fund, and the creation of Freeports. As at November 2021, and including the £2.6 billion for the UK Shared Prosperity Fund announced at the 2021 Spending review, central government had committed £11 billion through these schemes over the period 2020–21 to 2025–26.

Based on a report by the National Audit Office, the Committee took evidence on 2 March 2022 from the Department for Levelling Up, Housing and Communities, HM Treasury, the Department for Transport and the Department for Business, Energy and Industrial Strategy. The Committee published its report on 8 June 2022. This is the government's response to the Committee's report.

Relevant reports

- NAO report: [Supporting local economic growth](#) – Session 2021-22 (HC 957)
- PAC report: [Local economic growth](#) – Session 2021-22 (HC 252)

Government response to the Committee

1: PAC conclusion: It is unsatisfactory that Ministers finalised principles for awarding the first round of the Levelling Up Fund only once they knew the identities and scores of shortlisted bidders.

1a: PAC recommendation: The Department should:

- **Determine principles for awarding funding before the identities of shortlisted bidders are disclosed to ministers.**

1.1 The government disagrees with the Committee's recommendation.

1.2 The Department for Levelling Up, Housing & Communities (the department) followed a robust decision-making process for the first round of the Levelling Up Fund (LUF). This process was set out in the Levelling Up Fund [Prospectus](#) and [Technical Note](#), both of which were published prior to the shortlisting of bids, and in a published [explanatory note](#) once

decisions were taken. As set out in that explanatory note, it was also recorded that all ministers had notified their respective private offices that they had no constituency, personal or pecuniary interests in relation to the Fund.

1.3 At decision making, ministers have discretion to make choices about how to prioritise and apply the 5 wider considerations alongside the outcome of assessment. Those wider considerations include geographic spread within and between regions/ nations and past investments to ensure a fair spread of levelling up funding in places. To weigh these considerations up, ministers need access to information about where the bids are located together with historic investments that have been directed there. When reviewing the location of bids, the identity of the local authority applicants will be clear even if their names are hidden. For this reason, the department does not consider it sensible to hold back the names of local authority applicants whilst ministers agree how to apply the wider considerations.

1b: PAC recommendation: The Department should:

- ***Provide thematic and geographic transparency of successful and unsuccessful bidders in line with other targeted local growth funding.***

1.4 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2022

1.5 Building on the full and transparent account of assessment and decision making set out in the Explanatory Note for round one, the department is happy to provide information on the balance of successful and unsuccessful bids by theme and geography.

2: PAC conclusion: The Department does not yet have a strong understanding of what works for local growth, but we welcome its belated commitment to evaluating local growth interventions.

2: PAC recommendation: The Department should update us on progress with its local growth evaluation commitments (including for the Local Growth Fund) and set out how it intends to feed evaluation findings back into its ongoing local growth activity and to the wider levelling up agenda.

2.1 The department agrees with the Committee's recommendation.

Target implementation date: September 2023

2.2 The department has a strong understanding of what works for local growth, as demonstrated by the literature review within the [Levelling Up White Paper](#).

2.3 What works in local growth is a complex research area and unsurprisingly there remain some evidence gaps. The department is proactively filling these through [engagement with academics](#) and learning from forthcoming evaluations of the UK Shared Prosperity Fund (UKSPF), [Levelling Up Fund](#), [Towns Fund](#), [Freeports](#), and Local Growth Fund (LGF). With the exception of UKSPF and LGF, evaluation strategies have already been published. The LGF evaluation is currently being scoped with view to publishing an evaluation next year. The UKSPF strategy will be published later this year.

2.4 In addition, the department has established the Spatial Data Unit, which is improving the subnational data that is needed for effective evaluation. Also, as noted in the Levelling Up White Paper, the government is committed to working with academics and industry experts to test and trial how best to design evaluation of local interventions and introduce more experimentation at the policy design stage.

2.5 Processes to feed evaluation findings into local growth activity and wider levelling up agenda is at the design stage. The government will be pleased to share progress on this and developments on evaluation commitments in a year's time.

3: PAC conclusion: We are concerned that optimism bias has meant realistic bids to the Levelling Up Fund have missed out at the expense of 'shovel-ready' projects that have since been beset with delays.

3: PAC recommendation: The Department should set out:

- **Spending profiles for the first round of funding, confirming how much have spent in 2021–22 against the £600 million it anticipated paying; and**
- **Its assessment of optimism bias in authorities' deliverability plans.**

3.1 The government agrees with the Committee's recommendation.

Recommendation implemented

3.2 The Levelling Up Fund is a new funding programme, and the accountable departments – the Department for Levelling Up, Housing and Communities and Department for Transport (DfT) – understand it is important to have robust process in place. The £600 million referred to came from an early planning assumption on what the department expected to spend and was updated at Spending Review 2021 which saw £0.2 billion of spend agreed for 2021-22.

3.3 The Prospectus for the first round was clear that projects which are able to demonstrate investment or begin delivery on the ground in 2021-22 financial year would be prioritised. As such, bids were required to be able to defray some funding in 2021-22. To safeguard value for money and ensure deliverability, a robust assessment (as per the published framework) was carried out over the summer following the receipt of applications in June 2021. Deliverability formed 25% of the assessment framework, and each bid was reviewed by trained assessors to identify the best quality and most deliverable projects.

3.4 Following the autumn 2021 Spending Review announcement, the accountable departments have worked with successful applicants to ensure that the necessary baselining was conducted and that places were prepared for delivery. Following this assessment and careful due diligence, funding agreements were issued in February with payments made after.

3.5 This robust process gives the government confidence in the overall deliverability of funded proposals. Nevertheless, the accountable departments did pay out less funding in 2021-22 (£128 million including RDEL) relative to the updated SR figure of £200 million). This reflects the economic climate which continues to shift, with many factors constraining speed of delivery, including contracting issues due to cost inflation, supply chain disruption and fear of recession.

Table 1: Table showing spend for 2021-22 and the current profile of expected spend for LUF Round 1

	2021-22 (£m)	2022-23 (£m)	2023-24 (£m)	2024-25 (£m)	2025-26 (£m)
CDEL	108	449	889	220	27
RDEL	20				
Total	128	449	889	220	27

4: PAC conclusion: There remains considerable uncertainty for Local Authorities around funding, structures and responsibilities for local economic growth.

4: PAC recommendation: In its Treasury Minute response, the Department and HM Treasury should set out how they intend to provide greater certainty to Local Authorities to enable them to plan the integrated capital, skills and community investment needed to drive growth in their areas.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: To be confirmed

4.2 The government has recognised that the local growth funding landscape has previously been complex and fragmented. That is why local growth funding has largely been consolidated into two funds – LUF and UKSPF. The Levelling Up Fund consolidated several others, including the Local Growth Fund and Towns Fund, whilst the UKSPF is the successor to EU structural funds. Each of these funds has set out clear rules, supporting planning for local authorities.

4.3 As announced in the Levelling Up White Paper, the government will set out a plan for streamlining the funding landscape this year which will include a commitment to help local stakeholders navigate funding opportunities. This review, will be guided by the principles of reducing the unnecessary proliferation of funding pots with varied delivery approaches, streamlining bidding, supporting greater alignment between revenue and capital sources, and tailoring investment and delivery to the local institutional landscapes of each place across the UK.

4.4 A new Levelling Up Cabinet Committee has also been established, which will bring in direct input from places to help the government to better understand local challenges and how these are impacted by national policy, including how funding is disbursed.

4.5 More broadly, across all local growth funds, the department maintains close working relationships with local stakeholders to ensure funding is aligned with the broader local economic strategy. One example is the Towns Fund, where the model of Towns Deal Boards offers an open and transparent way of developing and agreeing plans for growth funding in a local area.

5: PAC conclusion: It is unclear how the Department is reconciling tensions between devolved responsibilities and administering local growth funding on a UK-wide basis.

5: PAC recommendation: The Department should set out:

- **How it will ensure that the processes are awarding funding for the future rounds of Levelling Up Fund and UKSPF will address the prioritisation of devolved nations.**
- **How it plans to ensure ongoing engagement with the devolved administrations.**

5.1 The department agrees with the Committee's recommendation.

Target implementation date: To be confirmed

5.2 Although the government agrees with the Committee's recommendation, it disagrees with the conclusion it is based on.

5.3 The department's priority is delivering effective investment in all parts of the UK. For LUF, the round two prospectus confirms across both rounds at least 9% of the total allocation will be set aside for Scotland, 5% for Wales, and 3% for Northern Ireland, subject to a suitable number of high-quality bids coming forward. The Prospectus and Technical Note set out how applicants in Scotland, Wales and Northern Ireland should set out how bids align with, or complement, wider public service investments made available by the devolved administrations. Where appropriate, the department will seek input from devolved administrations on projects to be delivered in their geographical areas, including on deliverability and alignment with existing provision.

5.4 UKSPF funding has been fully allocated for 2022-23 to 2024-25. Recognising individual differences between England, Scotland, Wales and Northern Ireland, the allocation method was adapted for each part of the UK. The department set out a [methodology note](#) explaining how it ensured funding going to Scotland, Wales, and Northern Ireland meets funding received under European Structural Funds. Future UKSPF funding is a matter for Spending Review 2024.

5.5 The department delegated delivery of UKSPF in Scotland and Wales to local authorities; and working closely with local partners in Northern Ireland. This means local people will play a leading role in prioritising and tailoring UKSPF to local needs.

5.6 To ensure there is a platform to discuss issues of mutual interest within the department's portfolio, officials worked with devolved governments to establish an Interministerial Group, which first met on 24 May. In addition, the inaugural meeting of the Interministerial Standing Committee in late March was chaired by the department's Secretary of State and attended by the First Ministers of Scotland and Wales and intergovernmental relations ministers, to discuss strategic and cross-cutting elements of levelling up.

6: PAC conclusion: Accountability for levelling up outcomes remains unsatisfactory.

6: PAC Recommendation: HM Treasury and the Department should write to the committee alongside the Treasury Minute response to clarify departmental accountabilities for levelling up outcomes and in particular for cross-cutting missions.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2022

6.2 The [Levelling Up White Paper sets out twelve missions that support levelling up outcomes](#). Missions are a tool to break down silos and encourage collaboration across the public, private and voluntary sectors. To ensure missions deliver these benefits the department have implemented a new architecture across central government to support delivery. The 'mission architecture' provides clear accountability through named individuals taking responsibility for progress and puts in place structures designed to smooth interdepartmental cooperation on a mission-by-mission basis. This includes the Levelling Up Cabinet Sub-Committee, which has been established to embed levelling up across central government policy design and delivery. Once these arrangements have been confirmed with new ministers, the department and HM Treasury will write to the Committee separately with further details.

7: PAC conclusion: The Department does not yet know how it will measure performance on a consistent basis across different geographical areas and timescales.

7: PAC recommendation: The Department should clarify how it intends to provide performance information on a consistent basis (both year on year and across different geographical areas) and how, in the absence of good quality local data, it intends to establish a baseline against which to measure progress.

7.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2023

7.2 Although the government agrees with the Committee's recommendation it disagrees with the conclusion on which it is based.

7.3 As mentioned in the Levelling Up White Paper's technical annex, we have a good understanding of how we will be measuring progress for most missions on a consistent basis across geographical areas and time scales. For missions that are exploratory, such as pride in place and well-being, or where more granular and timely subnational data is needed, further work is being undertaken to develop these.

7.4 The department has established a Spatial Data Unit to drive forward the data transformation required in central government. The Unit, working together with the Office of National Statistics (ONS) and other government departments, will produce indicators, looking at alternative data sources in absence of good quality local data, address current data gaps and measure progress against the levelling up missions at local level.

7.5 The ONS have published a summary outlining their work plan over the next few years to develop a solid information base with production and dissemination of more timely, granular, and harmonised subnational statistics for regional and local decision-making.

7.6 The department also benefits from a refreshed [concordat on statistics](#) (October 2021) between the UK government and the devolved administrations. The concordat sets out how the administrations will work together to deliver an agreed suite of coherent, reliable, consistent and timely statistics about and across the UK.