Government response to the Levelling Up, Housing and Communities Select Committee report on Funding for Levelling Up

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by the Secretary of State for
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by Command of His Majesty

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CORRECTION SLIP

Title:
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<u>Correction:</u>

Text currently reads:

It is still not always clear what data sets the DLUHC is using. We suggest that transparent data collection processes letter from Dehenna Davison, Parliamentary Under Secretary of State for Levelling Up, to the Chair dated 24 April 2023 concerning DLUHC's capital spend of local government would have prevented the perverse situation of deprived areas such as Barnsley Metropolitan Borough Council missing out from the first round of funding.

Text should read:

It is still not always clear what data sets DLUHC is using. We suggest that transparent data collection processes and calling on the support of local government would have prevented the perverse situation of deprived areas such as Barnsley Metropolitan Borough Council missing out from the first round of funding.

Date of correction: 24 August 2023

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Introduction

The Government welcomes the report of the Levelling Up, Housing and Communities Committee on its inquiry on Funding for Levelling Up. We would like to thank the Committee and all of those who took the time to provide evidence.

Levelling Up is not only about a small number of funding programmes. It is a system wide approach to support places to reach their full potential. We agree with the committee that coordination across government is vital to achieving the aims of Levelling Up but an analysis that treats certain funding streams as ‘Levelling Up’ and excludes others risks limiting the ambition of the overall strategy.

The Government agrees that reliable data is essential if we are to understand progress in Levelling Up. We measure this progress against the metrics set out in the technical annex of the Levelling Up White Paper, virtually all of which are publicly available. We continue to work with the Office for National Statistics (ONS) and other government departments to strengthen that data and develop all metrics at the most appropriate level of geography.

The Levelling Up White Paper set out our ambition for a simple and streamlined funding landscape. Competitive funds are appropriate in some circumstances, but we recognise that applications can be burdensome. Our recently published funding simplification plan sets out the further steps we are taking to simplify the landscape, and we are already working with ten pathfinder local authorities to test that approach. We will build on this plan by launching a funding simplification doctrine in 2024, which will require any department launching a local growth fund to assess what type of distribution methodology is most suitable for delivering its funding objectives. Competitive funds remain valuable but where a competition does take place, there will need to be a clear rationale for why it delivers value for money.

Giving local people the power to determine their own priorities is central to Levelling Up. Replacing bureaucratic European funds, the UK Shared Prosperity Fund provides places with the autonomy and the certainty they need to decide their own priorities and agree them locally.
Additionally, as part of their Trailblazer Devolution Deals, Greater Manchester and West Midlands Combined Authorities will receive multi-year single, flexible funding settlements at the next Spending Review.

Engagement with the devolved administrations will also continue to be a priority for the Department. Our recent announcement of four Freeports – two in Scotland and two in Wales as well as the intention for four Investment Zones show what can be achieved when the Government and the devolved administrations work in collaboration. In the context of Northern Ireland, we continue to encourage the restoration of the Executive and Assembly, which is essential in order to make progress on Levelling Up initiatives.

Government response to recommendations

The Government's Approach to Levelling Up

(1) We are yet to see any evidence of sustained joint working between Departments, and the coordination of the various funding pots they control, which are intended to contribute towards the ambitions of the Levelling Up White Paper. The Department for Levelling Up, Housing and Communities is responsible for overseeing the delivery of the Levelling Up policy, but we have found that it does not appear to have a clear understanding of which funds specifically contribute towards the four main objectives in the White Paper and what the totality of funding available is.

(3) If Levelling Up is to remain the Government's flagship policy, as it has described it, its delivery must involve greater coordination and oversight across Government where applicable. The Government must get to grips with setting out which funding streams are materially contributing to the Levelling Up policy. All Government departments must identify and assess those spending allocations which are being used to achieve the objectives set out in the Levelling Up White Paper. DLUHC, as the Department primarily responsible for delivering Levelling Up must make clear what funding is being provided to achieve which objectives and outcomes so that the progress of the policy can be clearly monitored, and delivery against ambitions accurately assessed.

The Government disagrees. As the Levelling Up White Paper makes clear, our approach to Levelling Up is system wide. The mission to reduce spatial disparities goes much further than individual funds, important though they are. In different ways, spending on health, education, skills, transport, housing, R&D, inward investment, business investment, policing, local government and regeneration, to name but a few, all contribute to Levelling Up. As indeed does tax and customs policy, including in Freeports and Investment Zones. As such it would be misleading to categorise particular elements of spending, or tax for that matter, as contributing to Levelling Up or not. Levelling Up is a whole of government mission.

The Government further disagrees that there is not evidence of sustained joint working with departments. Each of the twelve missions has a lead and supporting department and DLUHC continues to drive forward and co-ordinate the Levelling Up agenda across government through various cabinet committees and a Levelling Up Inter-ministerial Group chaired by the Secretary of State. Each non exploratory mission has a number of clearly articulated metrics, all of which can be measured by the indicators set out in the technical annex.

More than ever, the department is working with local places and other government departments, meaning that co-ordination and oversight is carried out locally – which we believe is right. For example, the Trailblazer Devolution Deals signed by Greater Manchester and the West Midlands create a single economic settlement for the first time and contains significant new powers across employment support, skills and transport. We are rolling out further devolution deals in the East Midlands, the North East, York and North Yorkshire, Suffolk and Norfolk. We are undertaking twenty placed based Levelling Up Partnerships, rolling out 12 Investment Zones across the UK in partnership with government departments as well as delivering eight Freeports. All these initiatives require detailed co-ordination and joint working across a multitude of government departments and crucially with local actors as well.

(2) Local authorities' revenue funding has reduced significantly since 2010. Levelling Up funds generally do not replace grant funding because first they are capital not revenue and; second, because they cover specific projects rather than necessarily covering the priorities of the local authorities.

The final Local Government Finance Settlement for 2023-24 makes available up to £59.7 billion for local government in England, an increase in Core Spending Power of up to £5.1 billion or 9.4% in cash terms on 2022-23. This boost in funding demonstrates how Government stands behind councils up and down the country.

We recognise all councils are facing pressures, so we are introducing a one-off funding guarantee to ensure that every council sees at least a 3% increase in Core Spending Power next year before any local decisions on Council Tax rates. We are funding this by repurposing the Lower Tier Services Grant and a proportion of the New Homes Bonus underspend. Over the period of the last three spending reviews however (between 2019-20 and 2023-24), local government has seen a real terms increase in Core Spending Power.

Aside from the issue of core funding, it is important to note that the Levelling Up funds are not intended to duplicate core Local Government funding; and not all are capital first. For example, the £2.6bn, UKSPF, is predominantly a revenue programme and has no requirement for local authorities to deliver specific projects. Local leaders are empowered to shape the design of funding, working in partnership with local stakeholders to select the most appropriate mix of interventions and tailor them to needs and opportunities. This can shift and change through the programme as local leaders see fit. The majority of places have chosen to use a significant proportion of their UKSPF allocations for revenue projects, meaning the programme includes more revenue overall.

Competitive Funding

(4) As a starting principle, local authorities who most require prioritising within the Levelling Up policy should be allocated money through revenue to achieve objectives that are in line with their local circumstances and need, with the appropriate monitoring and expenditure in place. Local authorities must be given the flexibility to use allocated funds in the most effective way they can. Therefore, we recommend there is a change in approach across Government when it comes to funding for Levelling Up. The Department should move away from an overemphasis on bid and judgement based funding pots which may impede effective local decision-making.

(5) The Levelling Up White Paper committed the Department to simplify funding streams and reducing the requirements to access competitive bidding. Despite this, we have seen limited evidence that any progress has been made on these objectives to date. Furthermore, the evidence we received on competitive funding has indicated the challenges are far greater than those outlined in the White Paper.

(6) It was made clear by our witnesses that competitive bidding is a resource intensive and costly activity. This can create barriers for stakeholders and communities in need of funding. Whilst limited funding was provided for some local authorities in the Levelling

Up Fund round one to assist with bidding costs, challenges remain. These include, but are not limited to, additional costs associated with planning, hiring consultants and costs associated with diverting employee time away from core tasks to put together bids. This is in addition to the financial strain already felt across local authorities. We have also heard that the competitive process is better suited to larger local government bodies with more ready access to resources which can create an uneven playing field. The evidence shows that those who are successful in bidding have a greater chance of success in subsequent rounds or other competitive bidding processes.

(7) The Government must follow through on its commitment to simplify funding streams and reduce requirements to access competitive pots. The DLUHC must also seek to reduce the number of competitive funding pots. By reducing the number of such pots, by simplifying the funding landscape, and by making the process more accessible, the DLUHC can avoid unnecessary waste of both local and central Government resources. This would address some of the concerns regarding the resource intensive process surrounding competitive bidding. The Government must seek to ensure that those local authorities which need additional resources are supported through adequate essential core funding streams and supported in their applications. Competitive bids for additional funding should in no way be a replacement for the funding that local authorities have historically received and should continue to be allocated. In order to ensure competitive bidding does encourage collaboration and innovation, and is a worthwhile exercise, future competitive funds must be for unique ventures and the amount of funding available must be substantial.

The Government's plan for simplifying the funding landscape for local authorities, published on 4 July 2023, sets out a series of concrete steps Government is taking to increase the impact and lessen the administrative burden of funding, supporting local authorities to maximise their return on spending. Government recognises the contribution of competitions in driving value for money and identifying the best projects for certain programmes. We will continue to deploy competitions where they make sense, but we will also encourage use of allocative approaches where they can best achieve specific outcomes while minimising demands on local authorities.

The simplification plan commits to launching a Funding Simplification Doctrine in 2024. This new doctrine will require any department developing a local authority fund to assess what type of distribution methodology will be most suitable for delivering their funding objectives. Where a competition does take place, there will need to be a clear rationale for why it delivers value for money.

The simplification plan also covers:

- A new Simplification Pathfinder Pilot to test the streamlined delivery of capital funding in a small group of local authorities.
- DLUHC work to streamline monitoring and evaluation requirements. This includes centralising guidance into one place on gov.uk, strengthening DLUHC-led evaluations to reduce requirements on local places, and rationalising monitoring data requests.
- Reforms to be implemented at the next Spending Review, including single departmental-style funding settlements for Greater Manchester Combined Authority (GMCA) and West Midlands Combined Authority (WMCA) to give trailblazer MCAs the autonomy to deliver for their areas.

Alongside this, we are looking at how we support local authorities to take a proportionate and consistent approach to subsidy control considerations.

The UKSPF is another central pillar of the Government's ambitious Levelling Up agenda, and a significant component of its support for places across the UK. Launched in April 2022 it provides £2.6 billion of new funding for local investment by March 2025, with all areas of the UK receiving an allocation from the Fund via a funding formula rather than a competition. As set out above, Local leaders have been empowered to shape the design of UKSPF investment plans with local stakeholders.

The UKSPF forms part of a suite of complementary Levelling Up funding. Government has made over £10 billion available through the Levelling Up Fund, UKSPF, Towns Fund, Community Renewal Fund and Freeports to support local authorities and places with Levelling Up local areas. The UKSPF's mix of revenue and capital funding can be used locally to support a wide range of interventions to build pride in place and improve life chances. These can complement larger-scale Levelling Up Fund capital projects, strategic Freeport investments as well as existing employment and skills provision.

(8) We heard evidence which brought into question the extent of support provided to applicants or unsuccessful applicants by DLUHC. There is a wide gap in perception between the quality of feedback the DLUHC said it had provided and the quality of feedback applicants said they had received. DLUHC does not appear to have a department-wide process which allows for a consistent approach to delivering feedback.

In both rounds of the Levelling Up Fund, we have provided feedback to all unsuccessful applicants whose bids passed the initial gateway stage. In round one, this took the form of verbal feedback sessions, with officials involved in the assessment. We have strengthened our approach to feedback in round two, building on lessons learned from round one. Officials have prepared detailed written feedback on the strengths and weaknesses of each bid drawing out the reasons why the bid was unsuccessful. The department has received positive feedback on the round two feedback process.

(9) We recommend that the DLUHC provides better guidance on how it will provide feedback on bids. The guidance must set out that feedback is timely, detailed, and consistent. This is especially important for Levelling Up funds as the quality of DLUHC's feedback can hinder future applications which can be to the detriment of local communities. Feedback must also be made publicly available, where possible, so that communities can understand why bids are accepted or rejected. This new guidance should be widely disseminated and embedded in departmental practice so that in future those who have been unsuccessful in bidding are able to derive satisfactory material from what has otherwise been a dispiriting process.

The department is reflecting on lessons it has learnt from Levelling Up Fund rounds one and two including on feedback and will apply those lessons in any future approach to feedback.

(10) We acknowledge that in certain circumstances competitive bidding can also foster

collaboration across local government. However, it can also encourage local authorities to develop plans or projects it perceives Whitehall will value to secure funding, rather than to deliver what their local communities may have prioritised.

(11) The nature of competitive bidding can result in resentment between communities and similar neighbouring authorities across the country. Communities and local authorities should be encouraged to work together, and the Government should be mindful of any adverse effects caused by competitive bidding. It is important that competitive bidding does not pit communities or local authorities against one another for finite resources.

Funding competitions can be an important tool for driving value for money and identifying the best projects for delivering local outcomes. We recognise in the simplification plan which was published on 4 July 2023 that bidding into multiple parallel competitions can place an administrative burden on local authorities. The funding simplification doctrine will balance our approach to distributing discretionary funding to local government. Where a competition takes place, there will be a clear rationale for why it delivers value for money. DLUHC will work with local authorities to ensure that any competitive funding is distributed in a fair and transparent way, with resource and support given where appropriate to encourage collaboration across local government.

As part of the Levelling Up Fund, we also issued a £125,000 capacity grant to all local authorities most in need in England (category one local authorities), and to all local authorities in Scotland, Wales and Northern Ireland. This was to support local authorities to develop high quality bids to the Levelling Up Fund. We agree that it is important that Government funding is focussed on local priorities – this is something we tested as part of our strategic fit assessment of Levelling Up Fund bids.

We agree with the committee that collaboration between neighbouring communities and local authorities can be beneficial. That is why in both the first and second round of the Levelling Up Fund, local authorities have been able to submit joint bids in collaboration with neighbouring authorities, for projects which will provide benefits to communities across administrative boundaries. Examples of successful joint bids can be seen in the £40m 'Multiversity' project between Blackpool and Wyre councils, or the £20m 'Living Lab' project between Peterborough City Council and the Cambridgeshire and Peterborough Combined Authority.

(12) A further concern regarding the distribution of competitive funding was the additional metrics for success applied to once applications had closed in round two of the Levelling Up Fund. This was signally unhelpful for perceptions of trust and transparency and leaves the Government open to criticisms that it has not clearly explained how funding decisions have been made on the basis of need or merit.

(13) Throughout all future competitive bidding processes, the Government must avoid introducing additional metrics for success once an application process has closed. If, for any reason, this becomes unavoidable, the DLUHC must communicate this change via official and public channels of communication before successful applicants are announced. Throughout any funding programme the Government must also ensure that they are able to adapt and respond to the possible impact of inflation through adequate financial support for successful projects.

We followed a robust process for the assessment, shortlisting and decision-making stages of round two of the Levelling Up Fund, all of which has been set out in our published guidance and Explanatory Note. The published Prospectus and Technical Note outlined the decision-making framework at the outset, prior to the applications being submitted. It is clear from those documents that the Government did not introduce any new criteria into decision making. In deciding which bids to fund from the shortlist, ministers had the option of taking into account some or all of five published wider considerations. This included other investment in a local area, including investment made from the first round of the Fund to encourage a spread of levelling Up funds from across places.

Regarding the Committee's recommendation around adapting and responding to the impact of inflation during the lifetime of programmes, we have provided additional funding to support local authorities with developing projects, including on the Levelling Up Fund where a £65 million local authority support package is supporting places' capacity and capability to deliver projects.

(14) We heard that an Investment Zone expression of interest costs in the region of £50,000 for one application. Since the Government's Growth Plan 2022, little to no updates have been provided on the future of Investment Zones until the Budget in March 2023. Although we welcome the Government's decision to re-open the application process, the DLUHC has limited who can apply. The regions eligible are all Mayoral Combined Authorities (MCA). This raises concerns about the opportunities to Level Up for areas that do not have an MCA. The Government has also significantly reduced the number of Investment Zones to 12 after receiving nearly 100 applications for the first iteration of the Investment Zone policy. The Government has also not provided any update or compensation for those who wasted resources applying for the original Investment Zones policy.

The Chancellor announced at Autumn Statement last year that the Government intended to take forward a refocussed Investment Zones programme, concentrated on developing a limited number of the highest potential growth clusters around key knowledge assets in order to boost innovation, productivity and jobs. He also confirmed that the previous Investment Zone EOI would therefore not be taken forward.

We recognise the work that went into the previous EOI and are grateful to councils for their efforts. The information gathered from councils during the first round of Investment Zones has been invaluable in informing the policy development of the new programme, strengthening our understanding of what measures will support places to attract increased investment in high-value sectors and ensure the benefits are felt by local communities through inclusive and sustainable growth. The previous work of councils, therefore, has not been wasted.

In March 2023 at Spring Budget, we published details of the new policy offer, offering Investment Zone areas a total funding envelope of £80m over five years, which can be used flexibly between spending and a single five-year tax offer, scalable based on number of sites. Local partners, within eight geographies named in the prospectus, have been invited to host an Investment Zone, with a view to agreeing co-developed proposals by the end of the year. In June two new Scottish Investment Zones were also announced in Glasgow City Region and the North East of Scotland, each of which will benefit from an overall funding envelope of £80m over a five-year period.

Our engagement with local government has taught us that competitions, whilst useful in the right circumstances, should not be the default. A national competition, run for a second time, could have placed undue pressure on local authorities. Instead, places were selected based on a transparent and rational methodology, published on gov.uk. The criteria selected were chosen to identify the functional economic areas (FEAs) in England best suited to supporting the overall objectives of the IZ programme – boosting productivity where its lagging, increasing innovation capacity and growing clusters around key sectors, and Levelling Up in places with the necessary research, sector and governance strengths to be successful.

The evidence is clear that successful cluster growth must be founded in long-term partnership and collaboration between central and local government, research institutions and the private sector, and so we will only be announcing 12 Investment Zones at this time. This will also avoid spreading the overall fiscal envelope too thinly. We will keep the list of areas under review with the possibility of considering other places in future, subject to the overall fiscal envelope of the programme. Our wider Levelling Up agenda is ambitious in its scale and Investment Zones is just one of many opportunities available to local authorities. Indeed, complementary initiatives including Freeports, the UK Shared Prosperity Fund, Levelling Up Partnerships and the Levelling Up Fund are not limited to MCAs.

However, it is also the Government's policy to support the creation of new MCAs, which is why six new devolution deals have been agreed since the publication of the Levelling Up White Paper in 2022. It is therefore right that we invest in a more devolved structure of governance, which includes the multi-year, single, flexible funding settlements announced for the Greater Manchester and West Midlands Combined Authorities.

(15) The Investment Zone policy geared local government up to the prospect of additional funding before the goalposts were moved. Whilst we appreciate that policies sometimes necessarily evolve over time, every effort must be made to ensure that a similar situation does not occur in the future, resulting in a waste of time, effort and money for many local authorities which are already hard pressed and likewise for civil servants within DLUHC.

The committee will appreciate that investment zones were refocussed following the establishment of a new administration under a new Prime Minister. In the refocussed investment zone policy, the department has tried to ensure that, wherever possible, that the time money and efforts of local authorities did not go to waste.

Data and Metrics

(16) The Index for Multiple Deprivation (IMD) has for a long time been widely considered to be the most efficient way of determining 'need'. As such, we do not agree with the DLUHC's decision to move away from the use of the long established IMD to determine priority areas one to three. We acknowledge that the DLUHC changed its use of metrics in the second round of the Levelling Up Fund. Nevertheless, it is still not clear what data sets were used for the amended process in round two or why they sought such a complicated process for round one, when local authorities have ample access to data and arguably understand their areas best.

(17) The DLUHC should not seek to fix something which is not broken. Rather than outsourcing the collection of new data sets, the Department should have called on the expertise of bodies such as the Local Government Association and offices within local government which have ample access to data on deprivation and measuring need and understand their local areas and communities best. This would have ensured that time and money was not spent on reframing and accessing data which has, most likely, already been collated elsewhere. Furthermore, the data and data sources the DLUHC chooses to use to determine the parameters for funds, such as the Levelling Up Fund, should always be clear and accessible. It is still not always clear what data sets the DLUHC is using. We suggest that transparent data collection processes and calling on the support of local government would have prevented the perverse situation of deprived areas such as Barnsley Metropolitan Borough Council missing out from the first round of funding.

The IMD does not represent a 'one size fits all' solution to measuring need - not all of the variables it considers are relevant to the particular interventions we want to support through the Levelling Up Fund.

As set out in the methodology note published on gov.uk, the indicators used in the Index of Priority Places were chosen to closely align with the type of interventions the Levelling Up Fund is designed to support.

The methodology note for the second round explains the changes to the Index from the first round. The published model on gov.uk provides links to the data sets used to construct the index and notes on how to access them. Most of the data sets used to construct the index are obtained from Government statistical releases or statistical releases from the devolved administrations, which allows for a consistent assessment of need of local authorities within each nation. Data sets made available by the Local Government Association are compiled from these statistical releases. The Department therefore elected to gather the data from the original sources. Commercial Vacancy Rates were obtained from a propriety data source, however the department paid for these to be made publicly available.

(18) We are concerned about the DLUHC's lack of sufficient data on all aspects relating to Levelling Up. The Department has acknowledged that it lacks data of sufficient quality about Government department's expenditure on the full range of Levelling Up funds. It also lacks data on combined authority income and expenditure. This raises the question about how the DLUHC measures success or failure in the Levelling Up policy, its initiatives and objectives. Taking the publication of the White Paper as a starting point, the Levelling Up policy has been live for over a year, and the ongoing absence of adequate data raises significant concerns about how the DLUHC can realistically take credible data-driven decisions within this policy. It further raises questions about the DLUHC'S future ability to determine whether its policy is a success.

(19) One of our core tasks is to monitor the policy of the DLUHC and without sufficient data we are limited in our ability to do so. We are concerned that the lack of accessible data was not foreseen or resolved in a timely manner. As the DLUHC noted themselves

that there is not “sufficient data” we recommend DLUHC remedy this problem as quickly as possible. Therefore, the Department must produce and make publicly available the data on departmental expenditure and data on combined authority income and expenditure so that our committee, local government, and communities are able to access and monitor the policy’s progress.

Whilst there is always more that could be done on data, and improvements are continuously sought, good progress has been made against measuring the metrics in the technical annex of the Levelling Up White Paper. The vast majority of these metrics are now publicly available, including on the Subnational Indicators Explorer. And indeed, many of them are recent innovations that give interested parties a level of granular detail and specificity that we have never had before. For instance, it is only in the last six months that we have been able to measure Gross Value Added (GVA) at small area geographies (e.g. LSOA level). The Levelling Up and Regeneration Bill will require the Government to provide an annual report on progress against the missions. In addition, through the subnational expenditure project, the Department is working to provide access to quality-assured expenditure data from government departments at local authority level, and in some cases at neighbourhood level. We are making progress on publishing this subnational expenditure data for the Department (including selected Arm’s Length Bodies).

The Department produces an Annual Report on Devolution setting out the key central funding streams paid to Mayoral Combined Authorities over the previous year. The 2022-23 report is currently in development and will be published before 31 March 2024. Separately, each MCA is also required to publish its own annual accounts, publicly available online. The committee will also appreciate that grants and funding streams delivered by MCAs on behalf of other government departments will each be subject to monitoring by those departments, as they see fit.

(20) DLUHC’s solution to its lack of data appears to have been the creation of the ‘Spatial Data Unit’ (SDU). The SDU was set up over a year ago and since then we have sought to understand the work of this unit and their forward plan. However, it remains unclear what data will be produced and by when.

(21) The delay and lack of information regarding what the SDU is working on, what the Unit intends to produce and when these data sets will be available, is unsatisfactory. The DLUHC, via the SDU, must make clear at the start of every year what data it is planning to produce and when this information will be made available. At present, in the absence of clear information about the intended outputs, we cannot see how the SDU is a good use of public resources. Levelling Up requires a long-term strategy, with a long term funding plan, backed by data. This is currently not being demonstrated.

The Spatial Data Unit (SDU) was established under the Levelling Up White Paper to transform data use to inform place-based decision-making across central and local government, and support Levelling Up delivery.

The SDU is making more data available at a granular level to support Levelling Up policy and delivery by national and local partners. This includes leading the subnational expenditure project and data publication (outlined in question 1 above) and working in partnership with the Office for National Statistics (ONS) to strengthen local statistics through the transformation of economic and social indicators.

Published outputs from the SDU-ONS partnership include neighbourhood ('Lower Super Output Area', or LSOA) time series estimates of Gross Value Added (GVA) published in January 2023, providing the most detailed data available to date on local economies. The SDU-ONS collaboration has also improved regional estimates of government expenditure on R&D published in April 2023, and work in progress includes improvements to the granularity of Gross Disposable Household Income (GDHI) and Household final consumption expenditure (HFCE) statistics. SDU is also working with ONS to expand the use and availability of new data sources and data science methodology, including publishing 'isochrone' data on the accessibility of local areas by public transport.

The SDU will continue to make available information on its planned publications, and those through its partnership with the ONS, as these are confirmed. These outputs will take the form of quality assured statistics and management information data and reports. New statistical outputs will initially be labelled as 'Experimental Official Statistics', with assessment under the Code of Practice for Statistics carried out before the unqualified 'Official Statistics' label is applied.

The remit of the SDU extends beyond the external publication of data, working closely with teams to address data gaps, generate spatial insights, and produce innovative data visualisations and modelling. More recently, this includes collaborative work on Levelling Up partnerships and wider support for ministers. The SDU role also includes supporting department and MCA data capability – the skills, infrastructure & tools – needed for a deep focus on placed-based working. The SDU also plays an important role in collaborating and ensuring join up with partners inside and outside government at local to national level, including the ONS, Treasury, No.10 Data Science, other government departments and local authorities.

The SDU is also supporting interactive tools to inform place-based decisions, including the ONS' development of the Explore Subnational Statistics service, as set out in the Government Statistical Service Subnational Data Strategy. The first iteration of this is the Subnational Indicators Explorer, a publicly available tool that enables users to find out more about local areas across the UK. It provides transparent access to a range of subnational indicators available at local authority level in one place and supports local decision and policy making and is updated on a quarterly basis.

(22) According to the Financial Times, concerns about the DLUHC's ability to deliver 'value for money' have been raised by the Treasury. Despite DLUHC's efforts to reassure us, the Treasury's decision to remove DLUHC's ability to sign off on capital expenditure is a significant concern. The DHLUC needs to make clear what impact this will have on the delivery of future DLUHC funded projects and in particular future funding under the Levelling Up policy.

The recent change only relates to new projects. There have been no changes to the Department for Levelling Up, Housing and Communities' budgets – either capital or revenue, no change to our policy objectives, no dilution of our ambition to Level Up all parts of the UK, and there are no implications for the Government's policy agenda. Indeed, at Spring Budget the Department announced a further £211 million in grants for 16 Capital Regeneration Projects across England, with around £58 million also allocated to three Capital Levelling Up Bids in the North West of England.

UKSPF

(23) We have heard from representatives from the Welsh and Scottish Governments, officials from Northern Ireland, and from English local authorities, all of which have said that the UK Shared Prosperity Fund (UKSPF) was not a sufficient replacement for previous European funding. However, the DLUHC has assured us that the UKSPF is indeed a sufficient replacement. We have endeavoured to reconcile these differing views and to better understand what the reality of the funding situation is. The House of Commons Welsh Affairs Select Committee and the Scottish Affairs Select Committee have also spent time trying to get to the root of the disagreement between recipients and the Government on the sufficiency of these funds. However, all the evidence we have received has said that the UKSPF is not a sufficient replacement.

(24) We do not have sufficient data regarding how calculations have been made, the information we do have from central and the Devolved Governments are also not comparable in their current form. However, the number of stakeholders and local government bodies which have told us UKSPF is not a sufficient replacement is significant. This view indicates that there has been a serious deficit of collaboration and communication between the DLUHC and recipients on this issue, resulting in the lack of a shared understanding of the methodology the Government has used to calculate UKSPF.

At Spending Review 2020, we announced that funding for the UKSPF will ramp up so that total domestic UK-wide funding will at least match receipts from EU structural funds – the European Regional Development Fund (ERDF) and European Social Fund (ESF)- on average reaching around £1.5 billion per year. The Government's methodology for calculating UKSPF allocations was published alongside the UKSPF prospectus in April 2022 and it explains how we estimated the average annual size of EU Structural Funds in England, Scotland, Wales, and Northern Ireland in real terms. This can be accessed here.

The Government is clear that the quantum of funding that has been made available for UKSPF in 2024-25 (when the European funds have completed paying out), is sufficient to replace European funds. Prior to 2024-25 the UK Government has taken account of ongoing ERDF and ESF investment across the UK, which the UK is paying towards as part of the Withdrawal Agreement.

In addition, it is worth noting that the Department engaged with the devolved administrations and local government associations immediately prior to the fund's launch to design bespoke allocation methodologies for places in Scotland and Wales. The bespoke allocation methodologies for Scotland and Wales are explained in this allocation methodology here.

The Department will continue to engage with the devolved administrations to support the delivery of the Fund and will seek to improve engagement and collaboration on any future funding.

(25) One criticism of the UKSPF, which has been reiterated is that funding is only allocated for 3 years. In comparison, previous EU funding was allocated over 7 years. The shorter time frame for this replacement fund has caused difficulties for many organisations who require a longer term in which to achieve the interventions for which they are seeking funding.

(26) The Government needs to find a way to provide certainty of funding for a period of time which is more than the three years under the UKSPF. We have seen in the local government sector what a detrimental effect short-term financial funding settlements have had, and we receive repeated calls to press the Government for multi-year settlements. If the Government does not find a way to provide funding over a longer period, many organisations will find their programmes to be unviable, and a lot of important work will go undone. Therefore, we call on the Government to commit to a longer-term funding programme.

UKSPF is aligned with the Government's three-year Spending Review cycle. As we work to prepare for the next Spending Review, we will continue to consider the feedback we have received that a longer-term allocation of funds would provide more certainty for delivery organisations and better outcomes for local places.

Consultation with Devolved Governments

(27) The DLUHC has told us that it consulted with the Devolved Governments on the creation, compatibility, and implementation of the Levelling Up funds. However, we have heard from the Scottish and Welsh Governments, and officials from the Northern Ireland Executive, that they have not been satisfied with the level of consultation they have had with the Department. Based on the concerns and challenges that have been presented to us in relation to funding for Levelling Up by the Devolved Governments, we can only conclude that the consultation has for all involved. If the Department had taken a more detailed and comprehensive approach before and during their consultation, while taking on board concerns raised by the Devolved Governments, we believe it would have been able to avoid some of the challenges and criticisms it has encountered.

(28) We have also heard from the Scottish and Welsh Governments, and officials from the Northern Ireland Executive, that Levelling Up funding was not always compatible with devolved policy and that the method of distribution was not appropriate. The Multiply fund is an example of the UK Government not providing value for money when it comes to matters under the UKIMA and devolved policy. Although the UK Internal Market Act 2020 provides the Government with powers to support economic and education development across the UK, we have heard that the method for distributing Multiply funding was wasteful and not done in the most efficient way.

(29) Where the DLUHC is seeking to provide funding in [policy] areas that are generally understood to be devolved, it is critical that the Department works hand in glove with the Devolved Governments. As such, through good communication and close collaboration, the Department should ensure the distribution of funding reflects the knowledge, expertise, and preferences of the Devolved Governments so far as it compatible with the purpose and objectives of the funding, whilst acknowledging the provisions under the UK Internal Markets Act. We recommend that in future the DLUHC ensures there is ongoing and more detailed engagement with the Devolved Governments at a level deemed sufficient by Wales, Northern Ireland, and Scotland to allow for emerging challenges to be addressed in a timely and efficient manner.

The Levelling Up White Paper set out our ambition to deliver effective investment and maximise benefits for citizens, businesses and communities in all parts of the UK. This is a goal we know we share with devolved administrations. We noted in the White Paper that we want to work closely with the devolved administrations on their use of devolved levers, as well as local authorities and wider partners to deliver on Levelling Up missions. People across the UK rightly want and expect all levels of governments to work together, dedicating their attention and resources on the issues that matter to them, their families and communities.

We are working closely with the devolved administrations on Levelling Up in a number of areas. In January of this year, DLUHC announced two Green Freeports in Scotland (Firth of Forth and Cromarty & Inverness) jointly with the Scottish Government. This has been followed with the announcement in March 2023 of two Freeports in Wales (Celtic and Anglesey) jointly with the Welsh Government. We are committed to extending the benefits of our Freeports programme to Northern Ireland and continue to work with stakeholders from sectors and places across Northern Ireland on how best to do so.

The Chancellor has agreed to four Investment Zones across Scotland, Wales, and Northern Ireland with at least one in each. We are committed to delivering the investment zone policy in Scotland and Wales in partnership with the Scottish and Welsh Governments respectively. On 30 June, we identified, jointly with the Scottish Government, Glasgow City and North East of Scotland as the two Regional Economic Partnerships with the most potential to host investment zones in Scotland. We continue to work with the Welsh Government to identify jointly investment zones in Wales. The Scottish and Welsh Government will continue to play an equal role in co-design and overseeing the delivery of Investment Zones in their respective nations. The lack of a functioning Northern Ireland Executive has, of course, limited the scope and nature of engagement in Northern Ireland on Investment Zones. Officials from Government and the Northern Ireland Civil Service continue to work closely together to explore developing the IZ policy in Northern Ireland. In the event of a restoration of the Executive, we anticipate that an Investment Zone could be taken forward rapidly.

Specific Levelling Up funds, including the UKSPF, Community Ownership Fund and Levelling Fund, are being delivered by Government using the Financial Assistance Power outlined in s.50 of the UK Internal Market Act 2020. Over the first and second round of Levelling Up Fund, we have provided £349 million of total allocations to Scotland, £330 million to Wales, and £120 million to Northern Ireland, which exceed the public commitments of 9% in Scotland, 5% in Wales and 3% in Northern Ireland. This funding has been delivered to and through local authorities in Scotland and Wales and working closely with the Northern Ireland Executive, in line with our Levelling Up vision of empowering local leaders and communities.

The accountability of the Financial Assistance Power enables Government to deliver UK-wide investment to respond to shared opportunities and challenges, while working with devolved administrations and other stakeholders to ensure that funding complements support given by the devolved administrations and delivers the greatest impact for citizens. Many of the initiatives funded through this mechanism are aligned with the policy priorities of the devolved administrations. For example, we have used the Financial Assistance Power to fund aspects of the Homes for Ukraine Scheme in Scotland and Wales, delivered jointly with the Scottish and Welsh Governments.

While delivering funds through local authorities in Scotland and Wales we have engaged with the devolved administrations at various points of designing and delivering the Levelling Up Fund, the UK Shared Prosperity Fund and the Community Ownership Fund. On the Levelling Up Fund specifically, the Department sought advice from the Scottish Government, Welsh Government and Northern Ireland Executive. They were also each invited to input into our assessments of projects in their areas and input views on the shortlist of bids to inform decision making. On the UKSPF, alongside engagement as set out in response to recommendations 23 and 24, DLUHC engaged with the devolved administrations to agree bespoke interventions for Scotland, Wales and Northern Ireland.

DLUHC has also worked with officials in the Northern Ireland Civil Service to maximise alignment and impact of the fund with Northern Ireland priorities. Alongside this, we have worked with business organisations, higher education, and the voluntary and community sector, through the UKSPF Northern Ireland Partnership Group, to ensure the Investment Plan for Northern Ireland reflects Northern Ireland's specific needs and opportunities. We are working closely with the Northern Ireland Executive to commission different strands of activity; and we are also contracting with Arms-Length Bodies via the Northern Ireland economic inactivity competition.

However, clearly restoration of the Northern Ireland Executive and Assembly is essential in order to provide the Ministerial engagement and oversight necessary for proper cooperation and coordination between DLUHC and the Northern Ireland Executive.

DLUHC has engaged with each devolved administration, on the distribution and the delivery of Multiply. in response to advice from the devolved administrations and requests from local authorities. In March 2023 DLUHC confirmed additional flexibilities regarding the delivery of the Multiply component of UKSPF, enabling local authorities in Scotland and Wales to reallocate any underspends and unallocated funding from their year one Multiply allocation to support activity under the people and skills priority in year two, where it was not possible to spend on Multiply. This flexibility also applied to Northern Ireland.

Finally, on the Community Ownership Fund, the Department consulted with the devolved administrations during the development of the fund and continues to request their input and comments relating to bids in their respective nations during the appropriate assessment periods.

DLUHC will continue to engage with the devolved administrations on the delivery of existing funding in their respective nations and to improve engagement and collaboration on any future funding.

(30) The lack of consideration for the circumstances in which the Executive and its Officials in Northern Ireland operate is of even greater concern to us and speaks to an ongoing theme we found throughout this inquiry regarding the extent of consultation carried out by the DLUHC with Devolved Governments and stakeholders. We heard that the parameters for engagement set out by the Department in their initial phase of consultation were not compatible with section 75 of the 1998 Northern Ireland Act. Officials from Northern Ireland told us that the Department did not use existing structures for engagement in Northern Ireland and, because their engagement was not in line with the 1998 Act, officials were at risk of legal proceedings if they did engage. We have not had a satisfactory explanation from the Department on this matter and this issue remains unresolved.

(31) In the future, the DLUHC must make sure that its engagement with officials in Northern Ireland is compatible with section 75 of the 1998 Northern Ireland Act, that in the absence of an Executive, officials in Northern Ireland are able to engage with the DLUHC. For this reason, the DLUHC must avoid needlessly reinventing the parameters for engaging with stakeholders in Northern Ireland and instead engage with them through existing structures to avoid these challenges in the future.

DLUHC recognises the importance of giving due regard to the equalities considerations that apply in Northern Ireland. In designing funds and in making selection decisions, DLUHC have considered our public sector equality duties including relevant section 75 factors specific to Northern Ireland.

For UKSPF, where DLUHC is leading delivery, all applicant organisations are required to describe how their project will impact on people with protected characteristics as part of project design and implementation. This is a specific legal requirement for public sector applicants.

All project deliverers will also be asked, as part of the conditions of the award of funding, to collect information on the nine categories set out in section 75 of the Northern Ireland Act 1998. We will review this at plan level, which will help build a fuller evidence base as to the impact that UKSPF can have on all protected groups, especially those where evidence is currently more limited.

Moreover, we anticipate that the majority of funding will be administered through a commissioning approach with arms-length bodies of the Northern Ireland Executive, and Northern Ireland councils. This will achieve greater alignment with existing structures, maximise efficiencies, as well as further embed section 75 considerations into UKSPF delivery.

For the Levelling Up Fund, in both rounds of the Fund we have utilised a Memorandum of Understanding between DLUHC and the Northern Ireland Executive. These MoU's accounted for the fact that, whilst DLUHC has not been designated under section 75, in relation to the Levelling Up Fund, DLUHC intended to comply with the principles set out in s.75, without prejudice to the fact that s.75 does not apply. This allowed Northern Ireland Executive officials to engage with the assessment process without risk of legal proceedings.

Clearly there is a very significant challenge in seeking to deliver any further Levelling Up initiatives in Northern Ireland given the lack of a functioning Executive and Assembly. This clearly limits the scope for DLUHC to pursue our work in Northern Ireland – we continue to encourage the restoration of the institutions so that we can proceed with funding and other initiatives in cooperation with the Executive.

Local Growth

(32) The Government's flagship Levelling Up policy is one in a long line of local growth initiatives. The National Audit Office reported that since 2010 there has been the repeated introduction of 'new' local growth policies. The stop-start character of local growth initiatives has arguably slowed or even in some case prevented the development and provision in local areas of infrastructure to support individuals and

communities through long and sustained interventions. International comparisons have been drawn with the longevity of funding associated with Germany's reunification project which spanned several years. This policy has been referred to by some as a model of best practice when comparing the benefits of longer-term, substantive, growth initiatives and funding. We also note that the Levelling Up missions, as set out in the White Paper, are intended to be achieved or to have seen some progress by 2030, which only allows for under 10 years for the policy's aims to be achieved.

(33) Based on the evidence we have received and given the historic frequent churn of local economic growth initiatives, it can be argued that Levelling Up is unlikely to be successful in achieving the objectives it seeks to address. The challenges Levelling Up seeks to resolve are complex and cannot be remedied by one-off short-term initiatives. To change this, the policy requires a long-term and substantive strategy and funding approach, things this policy currently lacks. Without such, Levelling Up risks joining the short-term Government growth initiatives which came before it.

(34) We note the significant cross-party consensus there appears to be for the challenges that the Levelling Up policy is seeking to solve. We recommend that future Governments take a more sustained and long-term approach to Levelling Up matched by ongoing and secure funding. This must avoid unnecessary duplication and not lead simply to the creation of more local growth initiatives. Only in this way can the policy begin to address the challenges outlined in the White Paper and ultimately find success in 'Levelling Up' the UK.

The Levelling Up White Paper acknowledged the historic stop-start approach to addressing the UK's geographic disparities which does not foster community-led regeneration. Previous local economic growth initiatives have lacked long-term thinking, included a huge array of different schemes and have not given local leaders the tools to design and deliver policies for their own places. They have also lacked an understanding on which policies work best in different places due to poor data collection.

Levelling Up is a long-term programme with the mechanisms to address each of these failures. The Levelling Up missions, by setting 2030 as their goal, provide clarity about the policy objectives and anchor the policy change necessary to meet them. The Levelling Up and Regeneration Bill enables missions to continue post 2030.

DLUHC also recognises the challenges that the creation of multiple pots of local growth initiatives creates for local authorities. The recently published simplification plan sets out our ambition for increasing the effectiveness and efficiency of the current funding system. This will be achieved by reducing administrative burdens through streamlining existing processes and simplifying funds into larger pots that local leaders can invest across local strategic priorities.