National Audit Office

Supporting local economic growth

Department for Levelling Up, Housing & Communities

REPORT

by the Comptroller and Auditor General

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Key facts

£18.0 billion

amount committed by central government between 2011 and 2020 to support local economic growth in England through dedicated domestic funds

£11.0 billion

total amount committed by central government, as at November 2021, through spending announced at the 2020 Spending Review to support the regeneration of towns and communities, a mix of England only and UK-wide funds, between 2020-21 and 2025-26

1,399

number of bids the Department for Levelling Up, Housing & Communities (the Department) has received from local authorities across the United Kingdom for the Levelling Up Fund, UK Community Renewal Fund and Freeports as at January 2022

£10.3 billion approximate amount committed to the UK through EU structural funding for local economic growth between 2014 and 2020

£4.8 billion amount to be made available through the Levelling Up Fund between 2021-22 and 2024-25

£1.7 billion awards announced at the 2021 Spending Review under the Levelling Up Fund

105 number of Levelling Up Fund bids selected by ministers in November 2021 to receive an award out of 305 bids

£2.6 billion amount to be made available to local authorities through the UK Shared Prosperity Fund over 2022-23 to 2024-25

£3.2 billion total amount for towns in England through the Towns Fund between 2020-21 and 2025-26

£10 million amount committed to central government's evaluation activity for the Towns Fund, some 0.3% of the total budget for the Fund. Amount to be spent on evaluation by local areas is unknown

750 target headcount for the Cities and Local Growth Unit (jointly run by the Department and the Department for Business, Energy & Industrial Strategy) to meet the expected increase in workload

Summary

1 Between 2011 and 2020, government committed some £18 billion of domestic funding to policies designed to stimulate local economic growth in England. This includes £12 billion through the Local Growth Fund, and £3.2 billion through the Regional Growth Fund. A further £10.3 billion was directed to the UK through EU structural funding committed between 2014 and 2020. Spending by other government departments and local government, for example on skills, transport and housing, also contributes to total expenditure on local growth. However, the UK remains less productive than its main competitors and it shows regional disparities in economic performance that are among the largest in the Organisation for Economic Co-operation and Development. Inequality within the UK's regions is even greater than it is between them. While the full economic impact of the COVID-19 pandemic remains uncertain, emerging evidence suggests that it has compounded longstanding regional disparities.

2 The Department for Levelling Up, Housing & Communities (the Department) has stated that increasing UK productivity to German levels could boost the UK's economy by £180 billion per year and that, within this, halving productivity gaps in areas performing below the UK average could boost gross domestic product (GDP) by £83 billion per year. The March 2021 paper *Build Back Better: our plan for growth* sets out government's plans for improving long-term productivity, driving economic recovery and fulfilling its election pledge to 'level up' every part of the country. Productivity is highly correlated with other social and economic indicators such as disposable income and education levels, and people in 'left behind' places tend to experience worse life outcomes, for example lower life expectancy and higher unemployment. The Department believes that improving the economic performance of under-developed areas would benefit the economy and improve life outcomes for millions of people.

3 The Department, working with other government departments, is responsible for "raising productivity and empowering places so that everyone across the country can benefit from levelling up". The Cities and Local Growth Unit (CLGU), a large team that the Department runs jointly with the Department for Business, Energy & Industrial Strategy, is responsible for designing and implementing centrally led local growth policies and furthering government's devolution plans. CLGU is leading on a series of UK-wide place-based interventions for which spending was announced at the November 2020 Spending Review to support the regeneration of towns and communities:

- The £4.8 billion Levelling Up Fund (of which the Department allocated £1.7 billion through 105 awards at the 2021 Spending Review).
- The UK Shared Prosperity Fund – £2.6 billion for the three years to 2024-25, increasing to replace the £1.5 billion per year (on average) local growth elements of the European Structural and Investment Funds which will end in 2023 following the UK's exit from the European Union.
- Government has additionally made £220 million available during 2021-22 through a one-year UK Community Renewal Fund to help areas prepare for the UK Shared Prosperity Fund.
- The Towns Fund, which includes £2.2 billion for Town Deals and £1 billion for the Future High Streets Fund.
- Freeports – £200 million to help create eight new Freeports in England, with at least one additional Freeport promised for each of the devolved nations.
- Government's commitments through these interventions total £11.0 billion.

4 Local authorities will bid for funding and deliver these initiatives at a local level. Government has curtailed the role for Local Enterprise Partnerships (LEPs – private sector-led partnerships between businesses and local public sector bodies), which had key responsibilities in previous local growth initiatives in England. Economic development is a devolved power and, since the late 1990s, funding for local growth has been administered by the Scottish and Welsh Governments and the Northern Ireland Executive in their respective nations. They will not administer the UK-wide funding covered in this report. Local authorities and the Department will assume a greater role.

5 The design of local growth initiatives is often a cross-government process which, in the case of these funds, involves officials from the Department, HM Treasury, the Department for Transport, and the Department for Business, Energy & Industrial Strategy. While ministers set policy, individual accounting officers, advised by their officials and by departmental investment committees through consideration of business cases, are personally accountable to Parliament for the value for money of spending by their department.

6 The Department is solely or jointly accountable to Parliament for all the funds examined in this report. The Department for Transport shares accountability for the Levelling Up Fund with the Department. HM Treasury co-designed and manages the Levelling Up Fund jointly with both departments. It also undertook initial design work on the Freeports policy. HM Treasury is not accountable for spending on either Freeports or the Levelling Up Fund as expenditure will flow directly from departments rather than HM Treasury. The Chancellor of the Exchequer and the Secretaries of State for the accountable departments have either made or will make final decisions on Freeport locations and on allocations for the Levelling Up Fund.

Focus of our report

7 This report considers the lessons the Department has learned from a long history of implementing local growth policies. It examines how it has applied these lessons to the principal place-based interventions (the interventions) outlined above and the one-year UK Community Renewal Fund. The interventions do not constitute the complete range of the Department's local growth activity. This report does not examine the broader levelling-up agenda, the emergency funding during the pandemic, or measures to support local businesses. We have not audited the spread, across theme or geography, of the awards announced at or since the 2021 Spending Review.

8 This report has four parts:

- Part One – Background and policy context.
- Part Two – Understanding what works for local growth.
- Part Three – Applying lessons and ensuring value for money.
- Part Four – Monitoring, evaluation and oversight.

9 The Committee of Public Accounts and the National Audit Office (NAO) have regularly examined local growth policies. Recent reports have covered the Town Deals selection process and Local Enterprise Partnerships. We have drawn on this material and departmental responses in our examination. We set out our audit approach in Appendix One and our evidence base in Appendix Two.

Key findings

Understanding what works for local growth

10 **The Department has a poor understanding of what has worked well in its previous local growth programmes because it has not consistently evaluated them**. Despite frequent changes in structures, funding regimes and local growth initiatives, external scrutiny has continued to identify common weaknesses, including unclear objectives, and poor monitoring and evaluation. Contrary to HM Treasury guidance for evaluations (the Magenta Book), the Department has not systematically assessed whether individual policies have had their intended impact and cannot say which have been most effective. While evaluating local growth interventions is challenging, and the Department is making plans to improve its approach (Part Four), by failing to conduct evaluations of past policies the Department has wasted opportunities to learn lessons to inform future interventions (paragraphs 1.6, 2.2 to 2.5, and 4.2 to 4.4).

11 **The Department has built its evidence base for what works for local growth by drawing largely on external sources.** The Department relies on evidence from national and international academic studies and from evaluations conducted on place-based funding from the European Union to build its understanding for what works for local growth. From this, it has identified some lessons and key policy principles for designing local growth programmes. For example, in a paper presented to the Prime Minister's officials in March 2020 it said that joining interventions through a single programme could increase the impact of funding (paragraphs 2.8 to 2.14).

Applying lessons

12 **Some aspects of the Department's approach to supporting local growth are new including the scale of direct involvement with local authorities.** The Local Growth Fund promoted growth through growth deals with local areas, primarily working through LEPs. The new interventions are grants which fund local priorities that meet central government's levelling-up priorities. The Department has curtailed the role for LEPs in allocating local growth funding in England and will undertake all bid assessment activity in-house. Except for the Towns Fund, which is for England only, the Department is administering all of the interventions on a UK-wide basis, working directly with local authorities in the devolved administrations for the first time in more than two decades. The Department tells us that it has set up dedicated teams to manage these relationships and is working closely with officials in the territorial offices to apply institutional learning. It is using the revised 'Green Book' HM Treasury guidance, with its enhanced focus on supporting local places, for the first time (paragraph 3.2).

13 **The Department has not consistently applied the lessons and key policy principles from its own research or from external scrutiny to the design of new local growth interventions.** The Department provided limited evidence, for example in the business cases, that it had designed the current interventions using robust evidence of what works best to stimulate local economies, but from the evidence it did provide, we observed the following:

An example of where the Department appears to have applied lessons:

- **The Department has designed the Levelling Up Fund to allow local leaders greater choice in identifying local priorities than it has in the past.** The Department is allowing local leaders to prioritise local views within the framework for interventions designed by central government. They can bid for funding for infrastructure projects that fall into investment themes (transport, regeneration, and cultural assets) (paragraphs 2.12, 3.3 and 3.5).

Examples of where the Department did not appear to have applied lessons:

- **The way the interventions work currently makes it hard for local authorities to plan the joined-up investment strategies the Department's research suggests are needed to promote local growth**. Awarding funding mainly on a competitive basis is in line with government guidance on grants and could help to protect some aspects of value for money. However, multiple funding pots and overlapping timescales, combined with competitive funding, create uncertainty for local leaders. Local authorities wishing to make broad-based investments across skills, infrastructure, business and innovation must submit winning bids across several funds or find alternative sources of funding. The Department has indicated that it aims to consolidate targeted local growth funding into two main pots: the Levelling Up Fund and the UK Shared Prosperity Fund (paragraphs 2.12, 2.21, 3.5 to 3.7, 3.24 and Figure 6).
- **The interventions allow limited scope for the major physical regeneration that expert advice to the Department has said can significantly improve local economic outcomes**. The What Works Centre for Local Economic Growth has advised the Department that major physical regeneration can significantly improve local economic outcomes by fundamentally changing the nature and composition of firms and residents in an area. It said that smaller-scale investments in the built environment or cultural assets do not usually drive significant growth, although they may have other desirable outcomes such as quality-of-life impacts for residents. The Department says it has intentionally designed the Levelling Up Fund to allow investment in small-scale infrastructure that improves everyday life as well as to support recovery and that major physical regeneration is largely funded through other routes (paragraphs 2.13 and 3.4, and Figure 6).

- **The Department considers collaboration and coordination to be critical but has not yet established a cross-government programme to manage local growth initiatives.** The Department has stated that better coordination between stakeholders will reduce the risk that interventions work at cross-purposes and has taken some steps to collaborate with other government departments at an individual fund level. It told us it is establishing a portfolio office to provide formal programme management and a funding delivery portfolio board to track progress across its local growth interventions. However, these are at an early stage and are for the Department only and so do not facilitate coordination and oversight between departments and between local growth policies (paragraphs 2.14, 2.15, 3.8 and 3.9).

14 **The Department is providing additional support to some local bodies that lack the capacity to bid for growth funding but it did not provide this in time to support bids for the first round of the Levelling Up Fund.** To mitigate the risk that competition favours better-resourced local authorities, the Department is providing capacity funding to support local authorities through the bidding process. For example, in August 2021 it provided £125,000 to eligible local authorities for the Levelling Up Fund. While the Department did not pay this in time for the first round of funding (£1.7 billion), it can be used to support bids for the second round (paragraph 3.13 and Figure 7).

15 **The delay in announcing awards for the UK Community Renewal Fund has added to uncertainty for bidders.** The Department intended the £220 million UK Community Renewal Fund as a pilot in advance of the UK Shared Prosperity Fund. It was to be announced in July 2021 and spent within the 2021-22 financial year. However, the Department received more applications than anticipated and fell behind schedule on bid assessment. It announced its awards in November 2021, more than three months later than planned, but extended the deadline for spending the money to 30 June 2022. At a time when European funding streams were tailing off and few details of the UK Shared Prosperity Fund had been published, the delay in awarding the UK Community Renewal Fund added to the uncertainty for local authorities over funding streams. It also limits the amount of learning that can realistically be understood and applied to the UK Shared Prosperity Fund (paragraph 3.11).

16 The Department has had to increase its headcount significantly and does not yet have the capacity or capability it needs. The Department expects its workload to increase significantly because of an increase in domestic funding arising from the replacement of European funding, and because it is administering funding on a UK-wide basis where previously it operated in England only. The Department is increasing headcount in the Cities and Local Growth Unit from around 420 (as at June 2021) to around 750, but faces longstanding challenges with staff turnover. The vacancy rate in the funding delivery team at January 2022 was 24%. The Department has had to substantially increase its bid assessment capability to cope and at January 2022 had received a total of 1,399 bids for the UK Community Renewal Fund, the Levelling Up Fund and Freeports (paragraphs 3.15 and 3.16).

Ensuring value for money

17 The Department, with HM Treasury's approval, did not produce all three stages of the business case process for the Levelling Up Fund, instead consolidating the stages into a single business case. To help protect value for money and support good decision-making, HM Treasury requires all spending proposals to be tested through business cases that follow its Green Book guidance. This normally involves three key stages, but departments should apply the Green Book requirements in a way that is proportionate to the costs and risks to the public sector and general public. HM Treasury told us that, for the Levelling Up Fund, it had not considered it necessary to develop and formally appraise business cases at the first two stages. This was, it said, because: its officials had been heavily involved in the development of the proposals; it was an evolution of existing funds and there had been extensive consideration of options and value for money at earlier stages of policy development; and because individual bids to the Fund would be assessed for value for money. The Department produced, and HM Treasury approved, a Full Business Case prior to the 2021 Budget announcement. This business case did not document, as it should, the substantive comparison, evaluation, costing and deliverability of alternative options for achieving ministerial aims. While there may have been good reason to move quickly, bypassing the earlier stages of business case review limits the amount of scrutiny and independent challenge (paragraphs 3.19 to 3.22).

18 **The Department's accounting officer successfully sought additional assurances from HM Treasury to avoid a gap in accountability on the Levelling Up Fund.** While HM Treasury co-designed the detailed bidding and assessment criteria for the Levelling Up Fund with the Department and the Department for Transport, it is not accountable for spending decisions on the Fund. In March 2021 the Department's accounting officer, who, together with the Department for Transport's accounting officer, is accountable for the Fund, requested additional assurances from HM Treasury to enable them to provide the necessary assurances to Parliament over value for money. These included confirmation from HM Treasury that, in designing the bidding criteria, overall eligibility and geographical scope, its officials had considered feasibility, fairness and value for money. HM Treasury provided these assurances (paragraphs 1.10, 3.23 and Figure 4).

Monitoring, evaluation and oversight

19 **The Department is committed to improving its monitoring and evaluation for local growth but is at an early stage.** The Department has made a public commitment to undertake process and impact evaluations for its most important policies. This includes an intention to evaluate the Local Growth Fund, having previously said it had no plans to do so. However, its plans for evaluating the interventions are at an early stage and it will need to carry out significant further work to translate its good intentions into practical changes. The Department has not yet made any progress on an overarching local growth monitoring and evaluation framework. It has previously committed to establishing common core metrics but without significant progress (paragraphs 2.4, 4.2 to 4.5, 4.9 to 4.10 and Figure 9).

20 **The Department has made a promising start on monitoring and evaluating the Towns Fund.** The Department's monitoring and evaluation plans for the Towns Fund are the furthest advanced of its new interventions. It published a monitoring and evaluation strategy in December 2021 and has ringfenced £10 million (0.3%) of the Fund budget to support central government evaluation activity. The amount to be spent on evaluation by local areas is unknown. The Department intends to use the Towns Fund strategy as a basis for evaluating and monitoring its other local growth interventions (paragraphs 4.7, 4.8 and Figure 9).

Conclusion on value for money

21 The Department recognises that its spending decisions should be based on robust evidence about what works for stimulating local economies. However, it has not consistently undertaken formal evaluations of the impacts of its past interventions. As a result, although it has now committed both effort and money to evaluate new interventions from the start, its evidence base for effective interventions is limited. The Department therefore lacks evidence on whether the billions of pounds of public funding it has awarded to local bodies in the past for supporting local growth have had the impact intended. And it has wasted opportunities to learn which initiatives and interventions are most effective.

22 The Department decided to consolidate local growth funding, and the largest of its new interventions is the £4.8 billion Levelling Up Fund on which it has worked closely with HM Treasury. Given the limited evidence base, we would have expected even greater scrutiny and independent challenge in the development of the Fund. However, government considered it proportionate to consolidate the three standard stages for business case assessment into one. Also, we have not seen the evidence we would expect, on the options that had been considered for achieving ministerial aims when government is spending such a large amount of money. This reduces our confidence that the interventions will have the best possible chance of delivering value for money. In view of this, it is even more important that the Department should follow through rapidly on its recent commitments to improve measurement and evaluation in local growth.

Recommendations

a Departments should ensure that they follow HM Treasury guidance on developing and appraising business cases at key decision points. This should include ensuring they document how they have evaluated alternative ways to deliver a desired outcome and providing an audit trail on the decision-making process. In the event that departments and HM Treasury elect to skip or consolidate business case stages, they should document the reasons for doing so.

b The Department should undertake an urgent assessment of the capacity and capability of both the Department and local authorities to prepare, assess and monitor bids for improvement funds.

c The Department should evaluate the effectiveness of its capacity-building funding.

d The Department should review the current arrangements for coordination of its local growth programmes to:

- coordinate related local growth interventions better and reduce the risk that they work at cross-purposes; and
- manage interdependencies with other government departments deploying related or potentially conflicting initiatives.

e The Department should set out and publish its plans to formally evaluate the Levelling Up Fund and the UK Shared Prosperity Fund in line with the Magenta Book's emphasis on the importance of planning an evaluation early. It should ensure it will be in a position to conclude on whether the interventions have achieved their objectives at a national as well as local level.

f Given the challenges of carrying out high-quality evaluation, the Department should also:

- carry out a prioritisation exercise to identify and fill the most important gaps in its evidence; and
- capture and apply lessons learned at key points in the design and delivery of new local growth funds.