National Audit Office

Supporting local economic growth

Department for Levelling Up, Housing & Communities

REPORT

by the Comptroller and Auditor General

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Supporting local economic growth

Department for Levelling Up, Housing & Communities

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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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.

Part One

Background and policy context

1.1 This part of the report sets out:

- economic inequality in the United Kingdom;
- government's plans for supporting local economic growth;
- background to local growth policy; and
- roles and responsibilities for local growth.

Economic inequalities in the United Kingdom

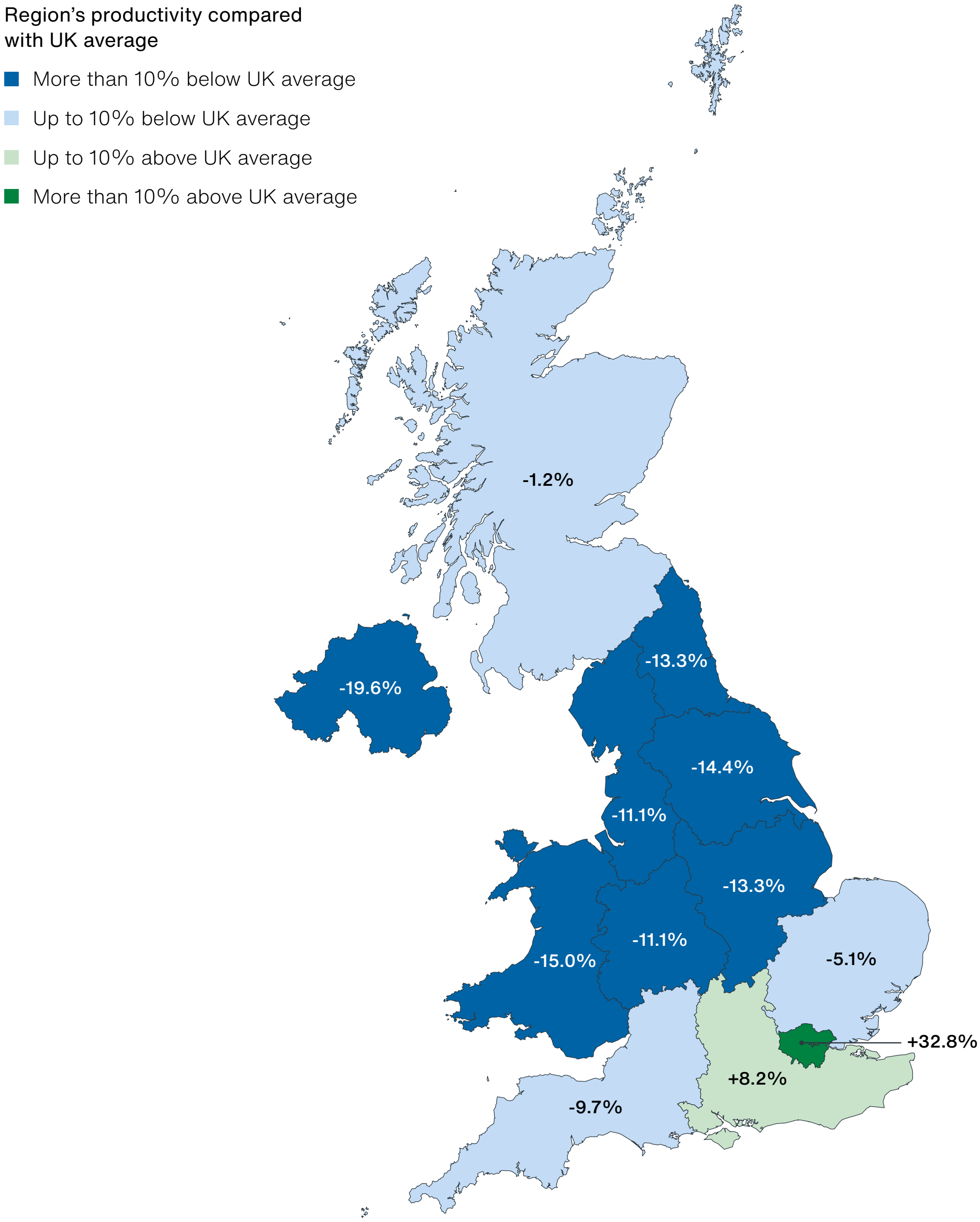
1.2 Despite the efforts of governments of different parties the UK still has one of the most unequal economies in the industrialised world. Not only is there a large gap between rich and poor, but there are large, deeply entrenched disparities in economic performance between different places. London and the South East have tended to prosper since the 1980s while the North and Midlands lag behind. In 2017, economic output per head in London was more than twice that of the North East. Academic research in 2018, which looked at 28 measures of inter-regional inequality across 30 countries, concluded that the UK showed higher levels of inequality between different regions than any other large wealthy country including the United States, France and Germany. Inequality within the UK's regions is even greater than it is between them.

1.3 Labour productivity – how much output is produced per hour worked – is a central indicator and driver of an area's economic performance. Improving productivity enables an economy to grow, wages to increase and living standards to rise. The UK's productivity growth has slowed since the financial crisis in 2008[1] and varies considerably across the UK (**Figure 1** overleaf). Regional inequalities in productivity have persisted over many years. Since 2004, London and the South East have been the only two regions with productivity above the UK average. A 2019 report by PWC found that the gap between the best and worst performing of England's 38 Local Enterprise Partnerships (LEPs) had widened over time, with the best being twice as productive as the worst. Underperformance is particularly marked in the UK's regional cities, and data from the Centre for Cities shows that, in 2016, only London had higher productivity than the European city average.

1 House of Commons Library, *Productivity: key economic indicators*, Research Briefing Number 02791, 2021.

Figure 1
Labour productivity by UK region, 2019

Productivity is above the UK average in London and the South East



Note

1 The productivity measure in this map is nominal Gross Value Added (GVA) per hour worked, indexed to the UK average (UK = 100).

Source: National Audit Office mapping of Office for National Statistics data, available at: www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/annualregionallabourproductivity. Office for National Statistics licensed under the Open Government Licence v.3.0. Contains OS data ©Crown copyright and database right 2021

1.4 The Department for Levelling Up, Housing & Communities (the Department) believes that improving the economic performance of areas with lower productivity would benefit the UK economy and improve life outcomes for millions of people. Productivity is highly correlated with other social and economic indicators, such as disposable income and education levels, and people in places with lower productivity tend to experience worse life outcomes, for example lower life expectancy and higher unemployment. The Department referenced 2019 analysis by PWC when it presented to the Prime Minister's officials on local growth and devolution in March 2020. It showed that increasing UK productivity to German levels could boost the UK's economy by £180 billion per year and that, within this, halving regional productivity gaps could boost GDP by £83 billion per year.[2] The full economic impact of the COVID-19 pandemic remains uncertain, including how it has affected longstanding regional disparities.

Government's plans for supporting local economic growth

1.5 In its March 2021 paper, *Build Back Better: our plan for growth*, published alongside the Budget, government set out its plans for improving long-term productivity, driving economic recovery and fulfilling its 2019 election pledge to "unite and level up" every part of the country. The paper details plans for £600 billion of public sector spending across infrastructure, skills and innovation, including £100 billion capital investment planned for 2021-22. The government set out a series of measures for supporting local economic growth including further details for the interventions in the scope of this report (the interventions) (**Figure 2** on pages 18 and 19).

Background to local growth policy

1.6 Government has a long history of investing in local economic growth. Over the past five decades, successive governments have introduced frequent changes in initiatives, structures and funding regimes in attempts to tackle the longstanding disparities in economic performance across the UK. There have been more than 55 separate initiatives introduced in England since 1975.[3]

2 PWC, *UK Economic Outlook*, November 2019, available at: www.pwc.co.uk/services/economics/insights/uk-economic-outlook/november-2019.html

3 Comptroller and Auditor General, *Local Enterprise Partnerships: an update on progress,* Session 2017–2019, HC 2139, National Audit Office, May 2019.

Figure 2

Local economic growth programmes covered in this report

The funds in the scope of this report, totalling £11.0 billion between 2020-21 and 2025-26, are at different stages and cover a range of investment themes

Programme	Amount	Description	Investment themes	Other information
Levelling Up Fund UK-wide	Up to £4.8 billion between 2021-22 and 2024-25, of which up to £4 billion is for England.	A competitive fund open to all local authorities (to district council level) to bid for funding to invest in local infrastructure priorities of up to £20 million (up to £50 million for some transport schemes).	Infrastructure: transport, regeneration and town centres, and culture.	First round of 105 awards across the UK, totalling £1.7 billion, announced in October 2021.
UK Community Renewal Fund UK-wide	Up to £0.22 billion to be paid out in 2021-22 and 2022-23, for local bodies to spend by 30 June 2022.	A competitive fund to help areas to pilot imaginative new approaches and prepare for the UKSPF.	Skills, investment for local business, investment in communities and place, and supporting people into employment.	477 awards across the UK, totalling £0.20 billion, announced in November 2021.
UK Shared Prosperity Fund (UKSPF) UK-wide	Up to £2.6 billion between 2022-23 and 2024-25, of which £1.5 billion is to be spent in 2024-25.	A fund to replace the £1.5 billion per year local growth elements of the European Structural and Investment Funds which end in 2023.	Employment, skills, regeneration, and innovation.	Government intends the UKSPF to help people access new opportunities in places of need. It will include a £0.56 billion adult numeracy programme, "Multiply".
Towns Fund, of which:	Up to £3.2 billion between 2020-21 and 2025-26.	See below.	See below.	See below.
Town Deals England	Up to £2.2 billion from the Towns Fund.	101 towns invited to develop Town Deals and bid for up to £25 million or up to £50 million by exception.	Broadband connectivity, transport, urban regeneration, and skills and enterprise infrastructure.	Government has announced Town Deals for 101 towns, totalling £2.35 billion. Of this it expects to pay out up to £2.2 billion.
Future High Streets Fund England	Up to £1 billion from the Towns Fund.	101 towns and high streets shortlisted to bid through a competitive process for funding to regenerate town centres and high streets.	Physical infrastructure, land and public realm, transport access and flow, change of use of buildings, and adaptation of high street in response to changing technology.	Government has announced funding to 72 places, totalling £830 million.
Freeports UK-wide	Up to £200 million between 2021-22 and 2025-26 for Freeports in England.	Competitive bidding process to create eight new Freeports in England and one in each of the devolved nations, intended as national hubs for global trade and investment.	Freeports will benefit from incentives relating to tax, planning, regeneration, infrastructure and innovation.	Eight Freeports in England announced in the March 2021 Budget.

Figure 2 *continued*

Local economic growth programmes covered in this report

Notes

1 The £11.0 billion total comprises the £4.8 billion Levelling Up Fund, the £0.2 billion UK Community Renewal Fund, the £2.6 billion UK Shared Prosperity Fund, £0.2 billion for Freeports, the £2.2 billion Town Deals and the £1 billion Future High Streets Fund. To avoid double counting, the £11.0 billion total excludes elements of the Towns Fund which government has redirected to other funds. Of the announced £3.6 billion for the Towns Fund, £0.3 billion has been redirected to the Levelling Up Fund and £0.1 billion redirected to Freeports.

2 The Department for Levelling Up, Housing & Communities (the Department) lists 100 Towns Fund awards on gov.uk; one award (Ashfield) is a joint one which covers two places (Sutton-in-Ashfield and Kirkby-in-Ashfield).

3 On 3 November 2021, the Department awarded funding and extended the deadline for spending UK Community Renewal Fund awards from 31 March 2022 to 30 June 2022.

4 For the Future High Streets Fund government has announced funding to 72 places, totalling £830 million, and revenue funding of up to £60 million (capacity funding and support through the High Streets Task Force). £107 million has been allocated to the Department for Culture, Media & Sport to support the regeneration of heritage high streets.

Source: National Audit Office analysis of the Department for Levelling Up, Housing & Communities published prospectuses; Autumn Budget and Spending Review 2021

1.7 Between 2011 and 2020, central government committed some £18.0 billion of domestic funding to policies designed to stimulate local economic growth in England. Recent interventions include the £12 billion Local Growth Fund and £3.2 billion through the Regional Growth Fund aimed at supporting businesses (**Figure 3** on pages 20 and 21). In addition to targeted local growth programmes, there is a significant broader body of spending that supports local growth. This includes EU structural funds of approximately £10.3 billion committed between 2014 and 2020, and spending by other government departments and local authorities on areas such as skills, transport and housing. We have focused our examination on the government's principal local economic recovery programmes (Figure 2) to establish how well the government has learned and applied lessons from previous local growth programmes to its current plans.

Roles and responsibilities

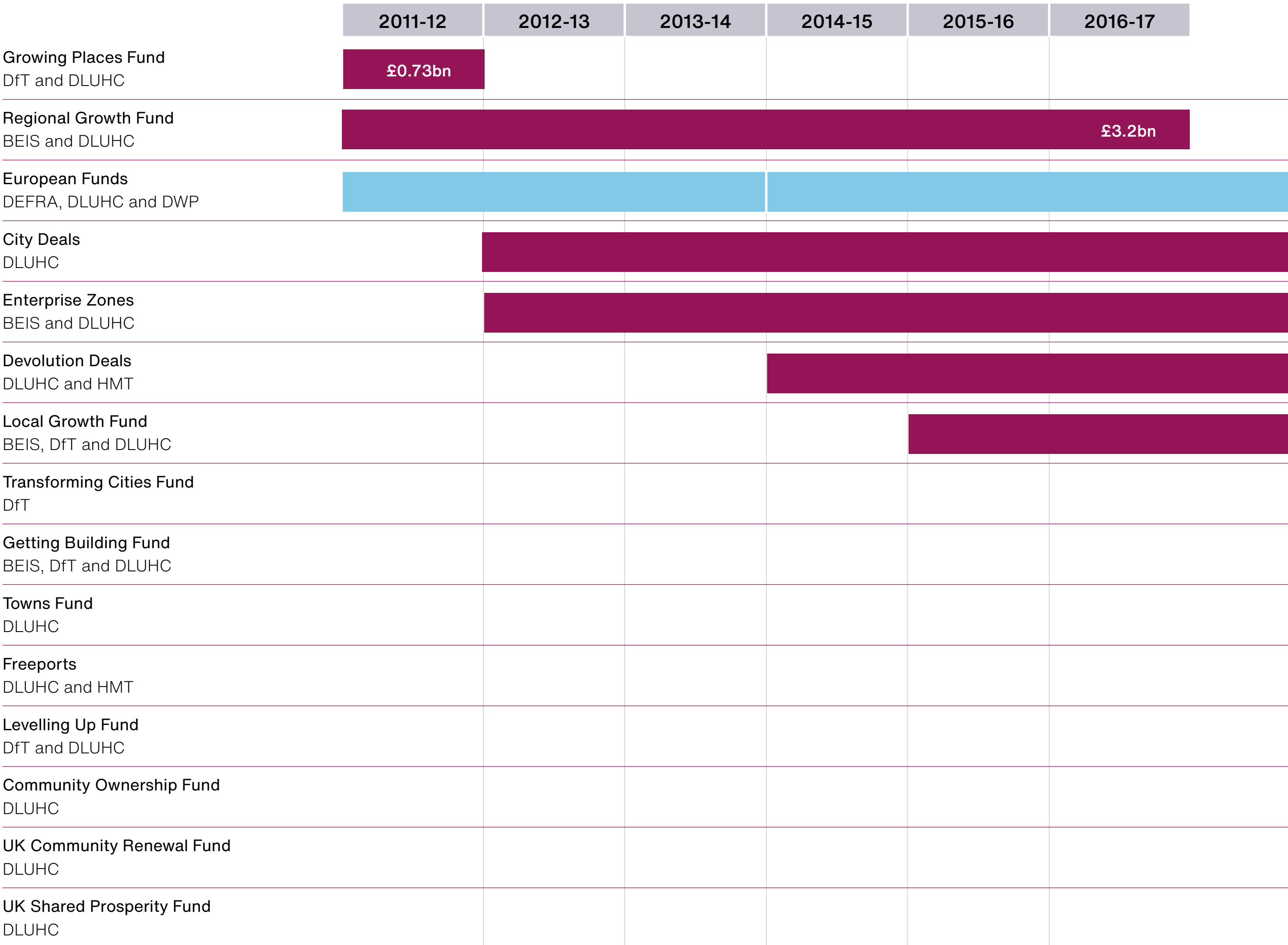
1.8 The Department, working with other government departments, was tasked at the 2020 Spending Review with "raising productivity and empowering places so that everyone across the country can benefit from levelling up". It is either solely or jointly accountable for all the funds in the scope of this report. The Cities and Local Growth Unit, a large team that the Department runs jointly with the Department for Business, Energy & Industrial Strategy, is responsible for designing and implementing central government-led local growth policies and furthering government's devolution plans. Working with other government departments, it is leading on delivery of these funds.

1.9 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.

Figure 3

Local growth funding pots covering England since 2011

There have been numerous ongoing pots of funding available for local bodies to bid for



Domestic local growth funding for infrastructure, regeneration, jobs, transport, connectivity and culture

Local growth elements of the European Structural and Investment Funds, and their replacements, for support to business, employment, skills, regeneration and agriculture

Notes

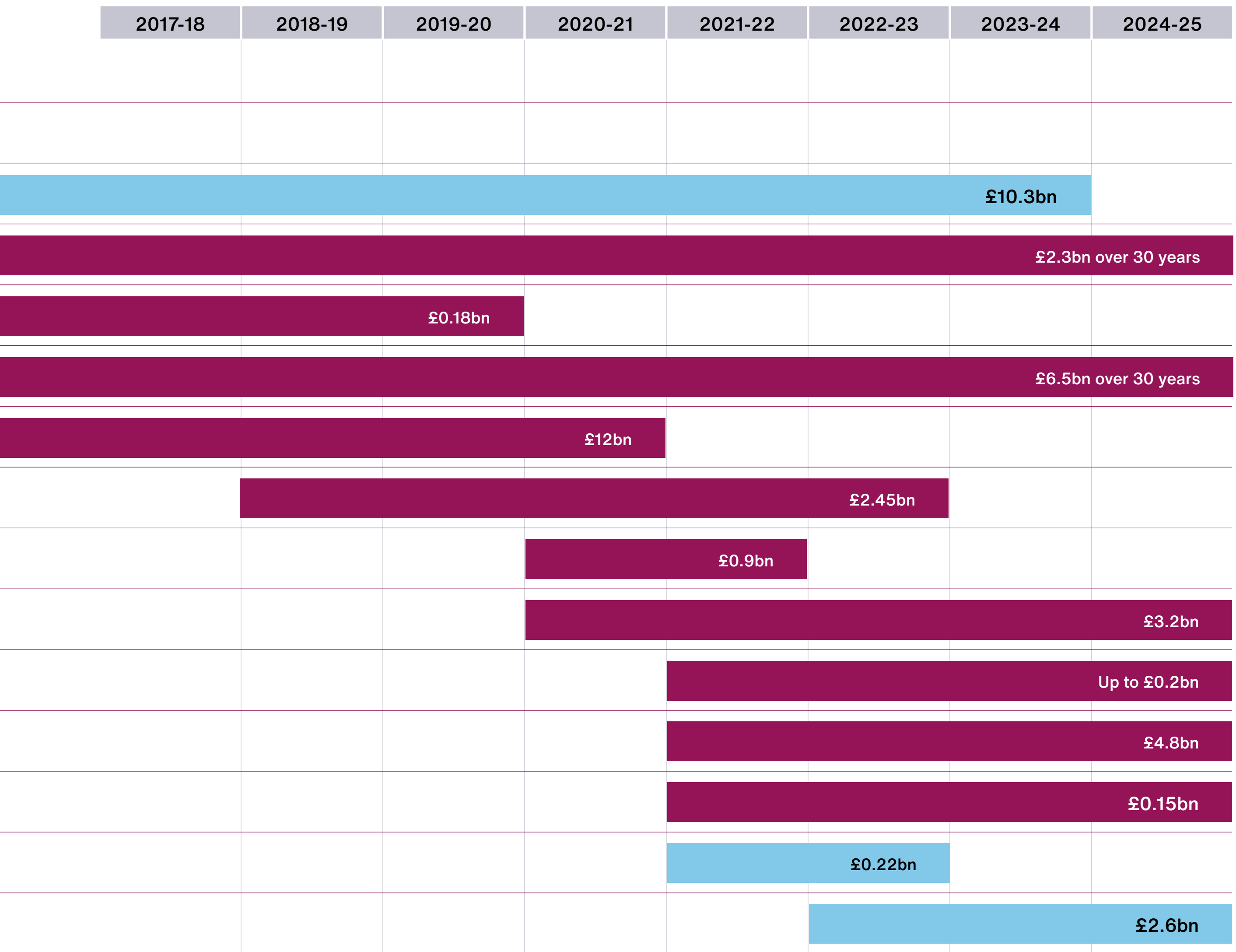
1 These funds are for England only, except for the Levelling Up Fund, European Funds, the UK Community Renewal Fund, the UK Shared Prosperity Fund and the Community Ownership Fund. Freeports is a UK-wide policy however £0.2 billion is for England only.

2 European Funds: £10.3 billion refers to the 2014–2020 EU programming period but payments can continue until the end of 2023. £10.3 billion is taken from the DLUHC Outline Business Case for the UK Shared Prosperity Fund and includes the European Regional Development Fund, European Social Fund, and the LEADER and Growth Programme component of the European Agricultural Fund for Rural Development.

3 City Deals: £2.3 billion is for Wave 1 funding which is allocated over 30 years. This equates approximately to £0.61 billion (£2.3 billion/30 x 8) over the period 2012-13 to 2019-20.

4 Enterprise Zones: £0.18 billion refers to funding initiatives from the Capital Grant Fund, the Local Infrastructure Fund, University Enterprise Zones and Food Enterprise Zones.

5 Devolution Deals: £6.5 billion over 30 years represents the additional annual investment funding element of Devolution Deals, correct as of April 2016. It excludes money from Greater Manchester's Devolution Deal, which was previously announced as 'earn back' in its City Deal, because it is included in the total for City Deals in this figure. This equates approximately to £1.3 billon (£6.5 billion/30 x 6) over the period 2014-15 to 2019-20.



6 Towns Fund: £3.2 billion includes £2.2 billion for Town Deals and £1 billion for the Future High Streets Fund. The Towns Fund replaced the Stronger Towns Fund.

7 On 3 November 2021, the Department awarded funding and extended the deadline for spending UK Community Renewal Fund awards from 31 March 2022 to 30 June 2022.

8 UK Shared Prosperity Fund: of which £1.5 billion is for 2024-25.

9 Towns Fund and Freeports continue beyond 2024-25.

10 The totals stated for funds which run into the future represent committed amounts and are subject to change.

11 Abbreviations used: BEIS (the Department for Business, Energy & Industrial Strategy), DEFRA (the Department for Environment, Food & Rural Affairs), DfT (the Department for Transport), DLUHC (the Department for Levelling Up, Housing & Communities), DWP (the Department for Work & Pensions), HMT (HM Treasury).

Source: National Audit Office analysis of place-based local growth funding programmes

1.10 The Department is accountable to Parliament for spending on the Towns Fund, Freeports and the UK Shared Prosperity Fund. It shares accountability with the Department for Transport on delivery of the Levelling Up Fund. HM Treasury co-designed and manages the Levelling Up Fund jointly with both departments and co-designed the Freeports policy with the Department. 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 made final decisions for grant allocations for the Levelling Up Fund. The Department will submit business cases for each successful Freeport to HM Treasury for approval (**Figure 4**).

1.11 Local authorities bid for funding and will deliver and monitor initiatives at local level. The role for LEPs, which had key roles in previous initiatives, has been curtailed. 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.[4] They will not administer the UK-wide funding covered in the scope of this report. Local authorities and the Department will assume a greater role.

4 The UK Internal Market Act 2020 is subject to ongoing legal challenge.

Figure 4

Accountability arrangements for the local growth interventions announced or confirmed at the November 2020 Spending Review

For some of the funds below, HM Treasury (HMT) has co-designed and managed bidding criteria and its ministers have helped to make final decisions on how funding is awarded but it is not formally accountable for expenditure

Programme	Decision-making about grant allocation (which local bodies win bids)	Accounting officer responsibility for spending	HMT policy role
Levelling Up Fund	The Department for Levelling Up, Housing & Communities (DLUHC) and the Department for Transport (DfT) officials assessed and scored bids. Ministers from DLUHC, DfT and HMT decided on a shortlisting approach, prior to seeing bids, based on officials' recommendation. Ministers from DLUHC, DfT and HMT met to agree on the approach to deciding successful bids following the process set out in the prospectus.	DLUHC and DfT	Co-designed policy, bidding criteria and selection process, and has oversight over delivery (led by DLUHC and DfT). Fund level business case approval.
UK Community Renewal Fund	In Great Britain, DLUHC officials assessed and scored bids. Ministers applied published considerations to decide successful bids.	DLUHC	Fund level business case approval.
UK Shared Prosperity Fund	To be confirmed.	DLUHC	HMT requested that the Ministry of Housing, Communities & Local Government (MHCLG) (as DLUHC was then) develop and put forward options to replace EU funds to support local economic growth, originally intended to inform the 2019 Spending Review. Fund level business case approval.
Towns Fund, of which:			
Town Deals	DLUHC officials provided an initial assessment of priority towns; DLUHC ministers then selected towns to bid.	DLUHC	Fund level business case approval.
Future High Streets Fund	DLUHC officials scrutinised places' bids and DLUHC Secretary of State agreed places.	DLUHC	Fund level business case approval.
Freeports	Officials assessed bids to create an "appointable list". The Secretary of State for DLUHC made final decisions about which bids should be successful, with approval from the Chancellor.	DLUHC	Initial policy design, tax site approval, individual Freeport and fund level business case approvals.

Source: National Audit Office analysis of documents supplied by the Department for Levelling Up, Housing & Communities

Part Two

Understanding what works for local growth

2.1 This part of the report examines:

- the Department for Levelling Up, Housing & Communities' (the Department's) track record on evaluating past local growth interventions; and
- lessons from wider research on local growth.

In the first section we highlight findings on evaluation from National Audit Office (NAO) and Committee of Public Accounts (the Committee) reports on past local growth interventions, some of the challenges of developing an evidence base and the Department's recent approach to evaluation. In the second, we highlight some key lessons from the Department's research as well as findings from past NAO and Committee reports on what works for local growth.

The Department's track record on evaluating past local growth interventions

Findings from past reports

2.2 Despite the long history of central government-led local growth interventions, the Department has a poor understanding of what has worked well in its previous policies. Contrary to HM Treasury guidance for evaluations (the Magenta Book[5]), the Department has not systematically evaluated its local growth policies to assess whether they have delivered, or are on track to deliver, their intended impact. Therefore, it cannot say which of its interventions have been most successful in addressing problems or whether they have achieved value for money. By failing to conduct robust evaluation or even write up lessons learned from previous policies, the Department has wasted opportunities to learn and apply lessons to subsequent policies to ensure continuous improvement. The Department is not unusual in this regard and, in December 2021, we highlighted that much government activity is either not evaluated robustly or not evaluated at all.[6] This is in spite of government's commitment to evidence-based decision-making.

5 HM Treasury, *Magenta Book: central government guidance on evaluation*, March 2020.
6 Comptroller and Auditor General, *Evaluating government spending*, Session 2021-22, HC 860, National Audit Office, December 2021.

2.3 Over the past decade, our reports have raised numerous concerns about the Department's approach to monitoring and evaluation and made recommendations for improvement across its local growth portfolio. For example:

- in our 2013 report *Funding and structures for local economic growth,* we said the Department lacked a clear plan for measuring outcomes and evaluating performance across its entire programme of local economic growth initiatives;[7]
- in 2015, we explained that without a robust evaluation approach for City Deals, government was finding it difficult to know what works best in boosting local growth;[8]
- our 2016 report on Local Enterprise Partnerships (LEPs) outlined the risks to value for money of not thinking through measurement criteria. The Department did consequently take steps to standardise definitions and align metrics with other local growth initiatives;[9] and
- our 2019 follow-up report on LEPs reported that the Department had no plans to undertake a formal evaluation of the £12 billion Local Growth Fund. We said that the absence of robust evaluation meant that the Department was less able to ensure that lessons were reflected in the design of the UK Shared Prosperity Fund.[10]

2.4 The Committee has echoed these concerns and in 2019 it criticised the Department's decision not to evaluate the Local Growth Fund, saying it had no understanding of what impact spending through LEPs had on local economic growth. The Department accepted the Committee's recommendation to build up a national picture of what is working most effectively in boosting growth and to use it to inform the evaluation of the UK Shared Prosperity Fund. The Department is now taking positive action to improve the evidence base from its own policies (see Part Four).

7 Comptroller and Auditor General, *Funding and structures for local economic growth*, Session 2013-14, HC 542, National Audit Office, December 2013.
8 Comptroller and Auditor General, *Devolving responsibilities to cities in England: Wave 1 City Deals*, Session 2015-16, HC 266, National Audit Office, July 2015.
9 Comptroller and Auditor General, *Local Enterprise Partnerships*, Session 2015-16, HC 887, National Audit Office, March 2016.
10 Comptroller and Auditor General, *Local Enterprise Partnerships: an update on progress*, Session 2017–2019, HC 2139, National Audit Office, May 2019.

Developing an evidence base

2.5 In earlier work we identified some key barriers in government to producing and using evaluations. They included difficulties in evaluating some government interventions, and repeated failures to design or pilot in such a way that enables rigorous evaluation; insufficient analytical skills and capacity; the absence of consistent demand for evaluation from ministers and senior civil servants; and concerns about 'unhelpful' conclusions on policies' effectiveness.[11] Government guidance is clear that "there must be no opportunity – or perception of opportunity – for the release of research information (unfavourable or not) to be altered, withheld or delayed for political reasons".[12] In December 2021 we reported that officials in the Department need ministerial approval to publish outputs from evaluations.[13] This requirement may create an additional barrier to the timely production and publication of local growth evaluation outputs.

2.6 The What Works Centre for Local Economic Growth (the What Works Centre) considers the evidence base on local growth to be generally weak compared with other policy areas such as education. Between 2014 and 2016, it conducted a series of evidence reviews of evaluations of local economic growth interventions (**Figure 5**), the most recent set of systematic reviews of which we are aware. Its findings show that few published impact evaluations met the Centre's minimum quality standards.

2.7 In recent years, the Department has left most evaluation of centrally-led policies to local authorities and LEPs to conduct on individual projects. These bodies can lack the analytical skills and capacity to undertake robust evaluation. The What Works Centre has said that evaluations conducted by local authorities are often not published because they are intended for internal audiences, or because the findings are negative or unclear. Between December 2019 and March 2020, in an exercise to identify unpublished evaluation reports by local institutions, it identified 46 evaluations from 31 different organisations. It found that none of them met the standards of evidence required for its evidence base.

11 National Audit Office, *Evaluation in government*, December 2013.
12 Government Economic & Social Research Team, *Publishing research and analysis in government, GSR Publication Protocol*, May 2015.
13 Comptroller and Auditor General, *Evaluating government spending*, Session 2021-22, HC 860, National Audit Office, December 2021.

Figure 5

Findings from reviews of evaluations between 2014 and 2016 by the What Works Centre for Local Economic Growth

Few published impact evaluations met the Centre's minimum quality standard

Type of scheme	Number of evaluations found	Number of evaluations meeting minimum standards	Number of evaluations looking at employment	Number of evaluations showing positive effect on employment	Number of evaluations showing mixed effect on employment	Number of evaluations showing no effect on employment
Apprenticeships	1,250	27	11	8	0	3
Area-based initiatives (eg Enterprise Zones)	2,200	58	38	19	8	11
Business advice	700	23	17	6	3	8
Employment training	1,000	71	63	29	19	15
Innovation	1,700	63	10	7	2	1
Public realm	"Unlike the other policy areas we look at, we found no evidence to show that these interventions have any impact on local economic growth"					
Sport and culture	550	36	16	2	5	9
Transport	2,300	29	6	2	1	3

Notes

1 This figure includes the most recent set of evidence reviews from the What Works Centre, drawing on published evaluations from the UK and other Organisation for Economic Cooperation and Development countries.

2 The minimum quality standard for published impact evaluations is defined by the What Works Centre as scoring a minimum of 3 using the Maryland Scientific Methods Scale.

3 We have used the rounded numbers of evaluations found, as published by the What Works Centre.

Source: National Audit Office analysis of data from the What Works Centre for Local Economic Growth

Lessons learned

2.8 The Department acknowledges that there is little robust evidence on the impact and effectiveness of many of its previous local growth programmes. It has therefore looked to external sources to form its evidence base. The Department has drawn on UK and international academic studies, impact evaluations of European Union funding and insights from experts such as the What Works Centre to increase its understanding of what works. It has also consulted stakeholders to gather views about what it should change based on experiences of the EU structural funds. The Department identified some lessons and key policy principles for designing local growth programmes and presented these to the Prime Minister's officials in March 2020. In June 2021, it presented a series of lessons on what works for regeneration and levelling up to the Cabinet Office. We set these out below, together with findings from previous NAO and Committee reports.

Lessons on objective-setting

2.9 Setting specific and measurable objectives helps a department to establish whether a policy has delivered its aims and therefore whether it has achieved value for money. As well as growth, policies aimed at addressing regional disparities can seek to impact a broad range of outcomes including productivity, employment levels, and standards of living. The What Works Centre has concluded that regeneration projects designed to deliver wider improvements in a place, such as improved housing quality or new community assets will not necessarily deliver growth. By clearly specifying outcomes, government can ensure transparency to bidders on what they are bidding for and about how projects will be prioritised through bidding processes.[14]

2.10 We have previously reported that by not setting quantifiable objectives for Growth Deals it would be difficult for the Department to assess their contribution to economic growth.[15] In 2016, the Committee raised concerns that there had been a deliberate policy not to set clear objectives for devolution deals.[16] Instead, it said that they were "broadly rooted in localism with the professed aims of supporting economic growth, encouraging public service reform and improving accountability".

2.11 The Department has concluded from its consultation with stakeholders that EU structural funds had an excessive focus on outputs (such as the quantity of infrastructure built) rather than outcomes (such as economic growth). This can be burdensome for local authorities to collect and provides them with limited learning about what works.

14 Written evidence from the National Audit Office to the Communities and Local Government select committee, available at: www.publications.parliament.uk/pa/cm201012/cmselect/cmcomloc/1014/1014vw21.htm
15 Comptroller and Auditor General, *Local Enterprise Partnerships*, Session 2015-16, HC 887, National Audit Office, March 2016.
16 House of Commons Committee of Public Accounts, *Cities and local growth*, Sixth Report of Session 2016-17, HC 296, June 2016.

Lessons on investment priorities for local growth

2.12 The Department has said that addressing the UK's deeply entrenched geographical disparities will require a sustained approach across all drivers of productivity. The traditional factors that drive productivity relate broadly to people (skills and labour markets), infrastructure, innovation and the business environment. The relative importance of these factors varies from place to place and the Department believes that local leaders should have the flexibility to choose how to spend budgets according to local priorities. It has said that single funding pots can increase flexibility over choice and are generally welcomed by local authorities. The Department referenced Organisation for Economic Co-operation and Development (OECD) research from 2011 and 2012 when it presented to the Prime Minister's officials on local growth and devolution in March 2020. It said that infrastructure investments alone have little impact on regional growth without adequate levels of investment in people and innovation.

2.13 The size and longevity of individual awards is also important in policy design. The What Works Centre 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 improvements for residents.

Lessons on collaboration, coordination and programme management

2.14 The Department recognises that local growth requires cross-government effort and close coordination with local stakeholders. In a paper presented to the Prime Minister's officials in March 2020, it concluded that better coordination between related policies minimises the risk that interventions work at cross-purposes. The paper also said that integrating interventions into a single programme could increase the impact of funding.

2.15 We have previously reported that running a series of initiatives, each with its own governance arrangements and involving different government departments over different timescales, was difficult for local bodies to coordinate. We recommended that the Department manage its local growth initiatives as an overall programme. Grouping related projects into a programme can allow better coordination across related initiatives between different levels of government and different central government departments. A programme approach can also enable better management of interdependencies, reduce duplication, and encourage a focus on outcomes and benefits rather than outputs.

Lessons on landscape and funding regimes

2.16 The Department believes that longer-term funding horizons and institutional stability are important for supporting local growth. Certainty over funding allocations in the longer term is particularly important for infrastructure projects and those that take several years to implement. In 2016 we reported that pressure on LEPs to spend their Local Growth Fund allocation in-year created a risk to value for money because 'shovel ready' projects would not necessarily be most suited to long-term economic development.[17]

2.17 As well as frequent changes in local growth initiatives, successive governments have completely replaced the institutions and funding regimes in England that surround them. Regional Development Agencies followed Urban Development Corporations in the 1990s and were, in turn, followed by LEPs in 2011. The Department recognises that these changes have created uncertainty for local government and for businesses and believes that policies need consistency regardless of changes in local and national politics. We have previously reported that reorganisations can be poor value for money and that even positive changes disrupt stability and take time to bed in.[18]

2.18 The Department considers that the evidence points to cities and combined authorities being the right functional economic area to have control over economic powers and levers. Similarly, the Department considers greater devolution may help to address geographical disparities by driving productivity growth.

Lessons on local capacity and capability

2.19 The Department considers local government quality to be an increasingly important driver of growth. It has concluded that strong local capability and a clear local strategy will help to safeguard value for money by ensuring that projects are effectively planned, executed and evaluated.

2.20 The NAO has raised numerous concerns about local capacity and capability to deliver centrally-driven local growth initiatives. Local authorities have reduced their spending in many non-statutory service areas such as planning and development in favour of protecting statutory services, such as adult social care. Between 2010-11 and 2019-20, local authorities in England reduced their spending on planning and development services by 35.7%.[19]

17 See footnote 9.
18 Comptroller and Auditor General, *Reorganising central government*, Session 2009-10, HC 452, National Audit Office, March 2010.
19 Comptroller and Auditor General, *The local government finance system in England: overview and challenges,* Session 2021-22, HC 858, National Audit Office, November 2021.

2.21 Despite additional funding from central government, local authority finances remain under pressure during the COVID-19 pandemic and there is a risk that some lack the resources necessary to bid for, deliver and monitor new growth funding. While awarding funding on a competitive basis could help to ensure value for money, it can inadvertently favour better-resourced local authorities with more capacity to bid, more 'shovel ready' projects to choose from, or more resource to afford consultancy support. There is a risk that new funds do not reach areas most in need or that local authorities choose not to bid or bid for less than they need.

Lessons on departmental capacity and capability

2.22 The Department has carried significant resourcing gaps over an extended period, which has contributed to higher levels of consultancy spend than planned. These gaps are due to delays in recruitment arising from high staff turnover and an increase in demand for resource to support the Department's COVID-19 response activity. In an annual review of its governance and assurance arrangements in February 2021, the Department concluded that it should factor in more realistic assumptions about the timescales for recruitment. The Department also acknowledged the risk that poor coordination and limited resources in the Cities and Local Growth Unit could undermine its ability to manage rapidly emerging ministerial priorities. To mitigate this risk, it planned to improve its monthly reporting and to make use of short-term 'surge' resourcing arrangements.

Part Three

Applying lessons and ensuring value for money

3.1 This part of the report examines how the Department for Levelling Up, Housing & Communities (the Department) is applying the lessons we set out in Part Two to the interventions examined in the scope of this report and identifies risks to value for money. We consider:

- what is new about the Department's approach to local growth;
- how the Department has applied learning to its new interventions;
- the Department's capacity and capability to deliver its new interventions; and
- the Department's assurance over value for money.

What is new about the Department's approach

3.2 The Local Growth Fund promoted growth through growth deals with local areas, primarily working through Local Enterprise Partnerships (LEPs). The interventions in the scope of this report are grants which fund local priorities that meet central government's levelling-up priorities. Some aspects of the Department's approach to the interventions in the scope of this report (the interventions) are new.

- The Department has curtailed the role for LEPs (in England) in allocating local growth funding and will carry out all bid assessment in-house at a national level.
- It has opened the interventions to all local authorities meeting its criteria, including district councils, and will look to these authorities to prioritise their needs. The Department expects bidders for the Levelling Up Fund to consult local MPs but this is not a necessary condition for success.
- Except for the Towns Fund, which is for England only, the Department will administer the interventions on a UK-wide basis. This means it is working directly with local authorities in the devolved administrations for the first time in more than two decades.

- It is using the revised 'Green Book' HM Treasury guidance, with its enhanced focus on supporting local places, for the first time.
- The Department has also made provision in these interventions to encourage local authorities to invest in projects that support government's 2019 commitment to achieving 'net zero' greenhouse gas emissions by 2050.

The Department tells us that it has set up dedicated area teams with local knowledge to manage relationships with local authorities in the devolved administrations. It says it is also working closely with officials in the territorial offices, who have established relationships with local authorities, to apply institutional learning.

How the Department has applied learning to its new interventions

Objective-setting

3.3 In setting broad objectives for the interventions (**Figure 6** on pages 34 and 35), the Department intends to allow local bodies greater flexibility to bid for projects that will meet local priorities. It has not been prescriptive about outputs but has, instead, defined baskets of acceptable outcomes for local bodies to pursue in their projects, and through which it intends to measure the policy's impact. In bidding for funding, local bodies must set out the activities and outputs they will deliver and how they will contribute to one or more of these outcomes. For example, the Levelling Up Fund prospectus states government's intention that the fund should "have a visible, tangible impact on people and places, and support economic recovery". While the Levelling Up Fund's overall objective is not measurable, the departments responsible for the Levelling Up Fund have outlined acceptable local-level outcomes and outcome indicators for each of the Levelling Up Fund's investment themes (which broadly span transport, regeneration and culture). The departments have said that these will be used to set targets and measure progress.

3.4 These broad objectives have implications for how the interventions are evaluated. For example, it is important that evaluations can separate out economic recovery and quality-of-life benefits, in line with advice from the What Works Centre that smaller-scale investments in the built environment or cultural assets do not usually drive significant growth (see paragraph 2.13). The Departments 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.

Figure 6

Objectives, investment themes and activities of funds covered in this report

The Department for Levelling Up, Housing & Communities has set a broad range of objectives and underpinning outcomes for the interventions

Fund	Stated objectives	Investment themes and activities	Outcomes or success factors stated by government
Levelling Up Fund	Have a visible, tangible impact on people and places, making a difference to everyday life. Support economic recovery.	Local transport.	Impact of scheme on travel demand, for example traffic flows. Reduced journey times and improved journey reliability. Local economic benefits. Reduced transport carbon emissions. Improved air quality.
		Regeneration and town centre investment.	Enhanced townscape that is more attractive and more accessible to residents, businesses and visitors
		Cultural assets.	Improved arts, cultural and heritage offer that is more visible and easier for residents/visitors to access.
UK Shared Prosperity Fund (UKSPF)	To reduce inequalities between communities across our four nations. Bind together the whole of the UK, tackling inequality and deprivation in each of our four nations.	People and skills, communities and place, local business and supporting people into employment.	Not yet specified.
UK Community Renewal Fund	Support a smooth transition away from the EU structural fund programme and prepare for the UKSPF. Enable innovation through pilots. Establish a new way of working between UK government and places. Level up and create opportunity. Build capacity.	Skills, local business, communities and place, and supporting people into employment.	Outcome indicators include: the number of people moving into employment; the number of people engaging better with the benefits system; new businesses created; premises with improved digital connectivity; investment attracted; innovation plans developed; and decarbonisation plans developed – all as a result of scheme support.

Figure 6 *continued*

Objectives, investment themes and activities of funds covered in this report

Fund	Stated objectives	Investment themes and activities	Outcomes or success factors stated by government
Towns Fund, of which:			
Town Deals	Drive economic regeneration of towns to deliver long term economic and productivity growth through urban regeneration, planning and land use, skills and enterprise infrastructure, and connectivity.	Local transport; digital connectivity; arts culture and heritage; urban regeneration; planning and land use; skills infrastructure; and enterprise infrastructure.	Outcomes intended to align with investment themes. For example: • employment; • business growth; • investment; and • visitors and footfall.
Future High Streets Fund	Renew and reshape town centres and high streets in a way that improves experience, drives growth and ensures future sustainability.	Physical infrastructure. Acquisition and assembly of land including to support new housing, workspaces and public realm. Improvements to transport access, traffic flow and circulation in the area. Supporting change of use including (where appropriate) housing delivery and densification. Supporting adaptation of the high street in response to changing technology.	
Freeports	Create eight Freeports in England and at least one in each of the devolved nations. Establish Freeports as national hubs for global trade and investment across the UK. Promote regeneration and job creation. Create hotbeds for innovation.	Custom benefits, business support through tax reliefs and allowances, infrastructure (digital and physical), investment in innovation, land remediation with simplified planning, and education and skills training.	Increase in total trade. Increased investment within Freeport boundary, surrounding area and nationally. Increased employment and wages in deprived areas near Freeport. Increased economic activity. Increased innovation investment. Increased productivity.

Source: National Audit Office analysis of published fund prospectuses and guidance documents

Investment priorities

3.5 The interventions examined in this report prioritise spending on infrastructure, followed by skills, over other traditional drivers of productivity, such as innovation and business. Awarding funding on a competitive basis could help to protect some aspects of value for money. However, awarding funding through several competitive pots and overlapping timescales, each with a capital or revenue focus, can create uncertainty and make it difficult for local bodies to plan long-term, joined-up investment strategies. We heard from local bodies that certainty over skills funding was a particular challenge. HM Treasury considers that additional funding for skills, businesses, and children and young people, announced at the 2021 Spending Review addresses these concerns. The Department is seeking to increase the flexibility of individual funds. For example, for the Levelling Up Fund (solely an infrastructure fund), the Department has invited bids across transport, regeneration and culture projects of up to £20 million to start in the 2021-22 financial year and complete by 31 March 2024.[20] However, these values, timescales and investment priorities may not allow local bodies to choose projects that make the greatest impact locally. Local authorities wishing to tackle multiple drivers of productivity must submit winning bids across several funds or find alternative sources of funding.

3.6 The Industrial Strategy Council has criticised government's recovery plans for being over-reliant on infrastructure spending and the use of centrally controlled funding pots thinly spread across a range of activities. It supported the focus on transport but believes that 'left behind' places needed more investment in skills and support for communities, businesses and workers. In September 2021, the National Infrastructure Commission argued that government needs to move away from centrally controlled pots of money for which councils must compete.

3.7 The Department has said that it is seeking to reduce fragmentation and consolidate local growth funding into the Levelling Up Fund (for infrastructure) and the UK Shared Prosperity Fund (to include employment and skills). This can only happen once current schemes close. The Department had indicated that the UK Shared Prosperity Fund, announced in 2017 as a replacement for local growth elements of European Union funding, was to include funding for employment and skills programmes. In October 2021, government confirmed a budget of £2.6 billion and a three-year spending profile to 2024-25. It said the UK Shared Prosperity Fund would support a range of skills and employment-focused programmes "to help people access new opportunities in places of need" and announced £560 million for a UK-wide adult numeracy programme. Separately, government announced a series of interventions relating to skills, communities and businesses, but these are outside the scope of our report.

20 Or up to £50 million by exception for transport projects.

Collaboration, coordination and programme management

3.8 The design of local growth initiatives is a cross-government process. The Department has worked with other government departments, particularly HM Treasury and the Department for Transport, on planning, and now delivering, these interventions. For example, on the Levelling Up Fund the Department for Transport manages bids that have a majority transport focus, and the Department manages the remainder. The Department told us that its decision to share accountability for the Levelling Up Fund with the Department for Transport is responding to previous criticism from the National Audit Office (NAO) about a failure to work effectively across government. It has also taken some steps to ensure ongoing collaboration at a fund level across the interventions. For example, it is liaising with single points of contact in other government departments on matters relating to their respective interests in the Towns Fund. It is also establishing a cross-government programme board for the Levelling Up Fund. However, there is currently no mechanism for facilitating cross-departmental working on the delivery of related local growth initiatives at a programme level.

3.9 In a paper presented to the Prime Minister's officials in March 2020, the Department concluded that the most effective way to deliver intended outcomes was by joining related interventions through a single programme. Despite this, it has not yet established a cross-government local growth programme to manage interdependencies or reduce duplication in the delivery of related local growth initiatives. Instead, the Department has been running the funds in the scope of this report as individual projects. The Department's governance arrangements, which include monthly meetings on the wider 'decentralisation and growth' agenda, may go some way to overseeing local growth initiatives. But this does not bring the disciplines of a formal programme, such as integrated risk assessments, joined-up operations and complementary funding streams. The Department 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 related local growth policies. The Department recognises that it will need to establish new relationships and understanding of local circumstances and policies in the devolved nations to ensure it does not award funding that duplicates or clashes with other national policies.

Institutional landscape and funding regime

3.10 The Department recognises that local authorities often need at least 18 months to initiate capital projects. It is therefore providing capital funding over a timescale that allows local authorities to complete the necessary planning stages. The first round of the Levelling Up Fund (£1.7 billion) is available for local authorities to spend between 2021-22 and 2024-25 and the Towns Fund runs between 2020-21 and 2025-26. However, the first round prioritises bids "that can demonstrate investment or begin delivery on the ground in the coming financial year". This reflects a continuing tendency to prioritise shovel ready projects and perpetuates the risk that projects of greater strategic value are sidelined in favour of short-term wins.[21] The Department sought to mitigate this risk by including 'strategic fit' in the assessment criteria for the Levelling Up Fund. Details of priorities for the second round have yet to be announced.

3.11 The Department originally intended the UK Community Renewal Fund to be spent within the 2021-22 financial year. The Fund was intended to provide an opportunity to pilot new ways of working in advance of the UK Shared Prosperity Fund. However, the Department received more applications than anticipated and the programme fell behind schedule on bid assessment. It announced awards in November 2021, more than three months later than planned, but extended the deadline for spending funds to 30 June 2022. This relieves some pressure on successful bidders but still leaves them with less than eight months to spend their allocations. At a time when European funding streams were tailing off and few details of the UK Shared Prosperity Fund had been published, the delay created further uncertainty for bidders around funding streams. It also limits the amount of learning that can realistically be understood and applied to the UK Shared Prosperity Fund.

3.12 Curtailing the role for LEPs 10 years after government introduced them represents another change in the institutional landscape. While the future role for LEPs remains uncertain, the changes put additional pressure on local authorities and the Department (paragraphs 2.19 and 2.20) and there is a risk that institutional learning is lost. Despite having concluded that cities and combined authorities were the right functional economic area for driving growth, the Department has invited bids for the Levelling Up Fund from all local authorities, including district councils. Government's levelling up agenda is still evolving and may give rise to further changes. It has still to publish its levelling up white paper.

21 Comptroller and Auditor General, *Local Enterprise Partnerships,* Session 2015-16, HC 887, National Audit Office, March 2016.

Local capacity and capability

3.13 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 (**Figure 7** overleaf). For example, in August 2021, for the Levelling Up Fund, it provided £125,000 to local authorities most in need, as defined by the Fund prospectus. The Department did not pay this in time to support the first round of allocations from the Fund (£1.7 billion), which closed for bidding in June 2021, but local authorities can use this to support bids for the second round. The disparity between the best-resourced local authorities and the least-resourced is significant. Twenty local planning authorities in England (6%) reported that they had spent less than £0.1 million on local economic development and economic research in 2019-20, and of these, nine reported spending nothing. By contrast, the 20 highest-spending local authorities spent more than £8 million each (**Figure 8** on page 41).

3.14 The fragmented nature of funding, where local authorities must bid for multiple funding pots if they are to invest across different drivers of productivity, places additional pressure on already stretched resources. The Department set the deadlines for submitting bids for the Levelling Up Fund and UK Community Renewal Fund on the same day. It told us that it did this to offer greater certainty to bidding authorities in planning their local growth activities, but we heard during fieldwork that this had exacerbated local resourcing pressures.

The Department's capacity and capability to deliver

3.15 The Department expects its workload to increase significantly because of a significant growth in domestic funding arising from the replacement of European funding; the decision to administer funding on a UK-wide basis; and planned improvements to its monitoring and evaluation (Part Four). It has established an internal change programme to cope with the increased workload and is recruiting across all functions in the Cities and Local Growth Unit. It plans to increase headcount from around 420 in June 2021 to a target of 750 but faces ongoing challenges with staff turnover across the Department and in January 2022, the Funding Delivery Team had a vacancy rate of 24%.

Figure 7

The Department for Levelling Up, Housing & Communities' (the Department's) capacity support to local authorities

The Department is providing capacity funding to support local bodies through the bidding process for funds

	Spending on capacity support	Purpose of support	When support occurred, or is planned
Towns Fund	£74 million (2.8% of total).	Support priority places to develop plans.	2019-20 to 2025-26
Levelling Up Fund	£20 million (1.2% of first-round total).	Support priority places to prepare bids.	2021-22
UK Community Renewal Fund	Up to £14 million in Great Britain (6% of total) with additional capacity funding to partners in Northern Ireland still to be confirmed.	Support local partners to prepare for UK Shared Prosperity Fund.	2021-22
	Up to £2 million.	Help lead authorities in priority places to coordinate and appraise bids.	
Freeports	£7 million (3.8% of total).	Support initially selected freeport locations with local governance set-up costs or coordination in their first year.	2021-22 to 2023-24

Notes

1 The Towns Fund capacity support funding is up to £34 million for 2021-22 to 2025-26. An additional £40 million of RDEL capacity funding for 2019-20 and 2020-21 has already been approved by the Investment Sub Committee and HM Treasury.

2 Any capacity funding for the UK Shared Prosperity Fund has not yet been announced.

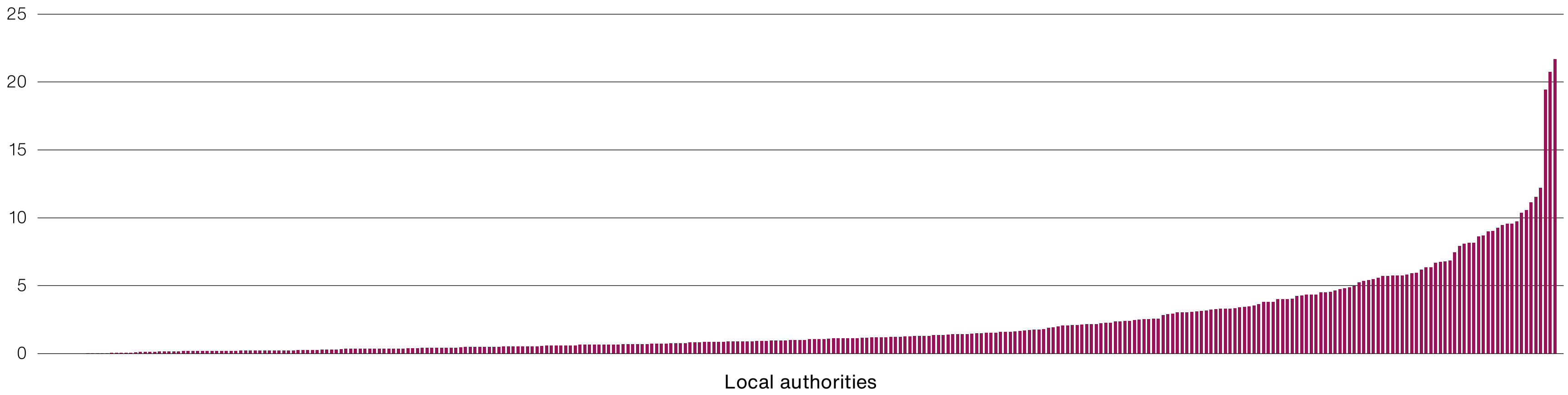
3 Funding beyond 21/22 financial years will be subject to the outcome of future financial settlements with HM Treasury.

Source: National Audit Office analysis of the Department for Levelling Up, Housing & Communities' business cases of funds in scope

Figure 8

Revenue spending on economic development and economic research by local planning authorities in England, 2019-20

Local authorities differ significantly in their spending on economic development and economic research



Notes

1 This chart shows gross total spending on economic development and economic research by local planning authorities in England: district councils, London boroughs, metropolitan district councils and unitary authorities.

2 We are using this as a proxy for local authorities' economic development capacity.

3 Each bar on the chart shows spending by one local planning authority. There were 317 local planning authorities in England in 2019-20 and their spending on economic development and economic research ranged from £0 to £21.7 million.

4 Economic development includes "understanding, promoting and supporting the economic well-being of the area"; economic research includes, for example, collation of information on economic analysis, as outlined in the Department's guidance to local authorities.

Source: National Audit Office analysis of revenue outturn data published by the Department for Levelling Up, Housing & Communities (Revenue Outturn 5 data table)

3.16 The Department has had to substantially increase its bid assessment capability as part of the increase in workload. It has assessed 1,399 bids so far for the interventions in this report: 1,076 bids for the UK Community Renewal Fund; 305 bids for the first round of the Levelling Up Fund; and 18 for Freeports.[22] It received a further 161 bids for the Community Ownership Fund, which is outside the scope of this report but which fell to the same team to assess. The Department told us that in November 2021, it had 44 full-time equivalents (FTE) in its bid assessment team: 24 permanent staff, and another 20 on fixed-term contracts or loans. Of these, 19 had joined the team since August 2021. The Department told us that it took on supplementary staff to assess and score bids during the busiest period, reaching a peak of 63 individuals at the end of July and the start of August.

3.17 The change programme includes plans for a new digital platform to automate some of the bid assessment work. We have previously reported that attempts to deliver digital business change projects have shown a consistent pattern of underperformance.[23] The Department told us that it is actively managing risks and is establishing a team with digital delivery skills and funding expertise to deliver and assure the programme.

Assurance on value for money

3.18 Without a strong evidence base the Department relies heavily on internal and external assurance processes to ensure value for money.

Assessment of fund-level business cases

3.19 To help assess value for money and support good decision-making, HM Treasury requires that all spending proposals are supported by a business case proportionate to the costs, benefits and risks involved to society and to the public sector as a result of the proposals. Under Green Book guidance, departments must identify and evaluate different alternatives to deliver the stated policy objectives. A department's investment committee will normally scrutinise the business case at key decision-making points before approving a spending proposal (the Green Book expects large scale programmes to go through three stages: a Strategic Outline Case; an Outline Business Case; and a Full Business Case). Spending proposals that exceed a department's spending limit, or are considered novel or contentious, must also be scrutinised and approved by HM Treasury.[24] The Department and HM Treasury did not follow all these processes for the funds we examined. Where business cases were produced, we found some cases contained less detail than we would expect. We examine this for the Levelling Up Fund below.

22 Department for Levelling Up, Housing & Communities, *Levelling Up Fund: explanatory note on the assessment and decision-making process*, October 2021. Available at: www.gov.uk/guidance/levelling-up-fund-explanatory-note-on-the-assessment-and-decision-making-process

23 Comptroller and Auditor General, *The challenges in implementing digital change*, Session 2021-22, HC 575, National Audit Office, July 2021.

24 HM Treasury, November 2016, Treasury approvals process for programmes and projects, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/567908/Treasury_approvals_process_guidance_final.pdf

Fund-level assurance for the Levelling Up Fund

3.20 The Department, with HM Treasury's approval, did not produce all three stages of business cases for the Levelling Up Fund for formal appraisal by HM Treasury. They considered this a proportionate approach to the Green Book guidance because, they said: HM Treasury officials had been heavily involved in the development of the proposals; the Levelling Up Fund was an evolution of existing funds (including the Local Growth Fund); there had been extensive consideration of options and value for money at earlier stages of policy development; and individual bids for the Fund would each be assessed on value for money. The Department produced a Full Business Case before launching the prospectus and announcing the £4.8 billion funding envelope at the Budget in March 2021. However, that business case did not document, as it should, the substantive comparison, evaluation, costing and deliverability of alternative options considered for achieving ministerial aims.

3.21 While there may have been good reasons to move quickly, bypassing the earlier stages of business case review limits the amount of scrutiny and independent challenge. The Department told us it would apply additional scrutiny by appraising each project's detailed bid to the Fund (paragraph 3.24).

3.22 In February 2021, the Department's investment committee said it was unable to sign off the Full Business Case for the Levelling Up Fund. It raised several concerns including whether the bid assessment criteria reflected all the aims of the scheme and how maintenance costs would be covered to ensure the scheme's benefits would be sustained over time. After considering the committee's concerns and receiving further advice, the accounting officer approved the Full Business Case. However, the question about assurance over maintenance costs to protect the benefits of investment in assets, was not resolved.

3.23 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. To provide the assurances to Parliament required of the accounting officer over the value for money for the Levelling Up Fund, and to avoid a gap in accountability, the Department's accounting officer requested further assurances from HM Treasury. In March 2021, the accounting officer sought and received confirmation that:

- in designing the bidding criteria, overall eligibility and geographical scope, HM Treasury officials had given careful consideration to feasibility, fairness and value for money of the scheme; and
- HM Treasury was content that the design of the selection criteria would allow the Department and the Department for Transport to take into account HM Treasury's views on the overall geographical scope of the Levelling Up Fund and levelling up needs.[25]

Assessments of local proposals

3.24 The Department will get most of its assurance over value for money from assessing the proposals submitted by local authorities in their bids for funding. It awarded Town Deals, the non-competed part of the Towns Fund, by inviting 101 towns to bid for funding of up to £25 million, or up to £50 million in exceptional circumstances. Officials initially assessed all of England's 1,082 towns against a range of criteria. Ministers then made the decision on which towns to invite to bid for Town Deals using the officials' assessment and a decision-making framework to support them. We examined this in our 2020 report *Review of the Town Deals selection process*.[26] Towns then submitted Town Investment Plans which the Department assessed for overall vision and strategy for the town as well as proposed projects. Government has now announced Town Deals totalling £2.35 billion but expects ultimately to pay out £2.2 billion. Local areas are developing business cases, which should be signed off by local authority chief financial officers. In line with government guidance on grants, which advises that grants should be competed by default, the Department has chosen to award the remainder of the Towns Fund and the other interventions through competitions.

3.25 The selection of successful bids for both the Levelling Up Fund and Freeports included an initial pass/fail gateway, followed by an assessment by officials, in which they scored and ranked bids against published criteria. Officials then presented a shortlist of the highest-scoring bids to ministers. The Chancellor of the Exchequer, together with the Secretaries of State for the accountable departments, then made final decisions on awards, taking into account the assessment scores. The process allowed them to exercise some discretion in meeting a pre-defined list of other considerations.

25 The Department and HM Treasury told us that by geographical scope they mean regions and nations.
26 Comptroller and Auditor General, *Review of the Town Deals selection process*, HC 576, Session 2019-21, National Audit Office, July 2020.

3.26 Bidding closed for the first round of funding for the Levelling Up Fund in June 2021. Officials scored and ranked 293 qualifying bids from a total of 305 received. They shortlisted 170 that passed the minimum threshold set by ministers for each criterion and exceeded an overall baseline score. Decision-making ministers met with officials from their departments and the Number 10 Policy Unit to discuss shortlists for Great Britain and Northern Ireland. The Chancellor set the target allocation for this round at approximately £1.7 billion, an increase from the expected award level of £720 million set out in the business case. As the prospectus stated that at least 3% of total UK allocations from round one would be set aside for Northern Ireland, ministers agreed to fund every shortlisted bid that did not have deliverability concerns. For Great Britain, ministers agreed a series of principles that meant all transport and culture bids above a benchmark score were funded, alongside the highest-scoring regeneration bids from each region and nation. In October 2021, government announced 105 successful bids totalling £1.7 billion and published an explanation of the assessment and decision-making process.[27] We have not examined or evaluated the process of bid assessment and award for the Levelling Up Fund.

3.27 The Department told us that it will gain additional assurance over value for money through written confirmation from local authority chief financial officers (Section 151 officers) that value for money has been achieved. It said it will also maintain oversight of value for money through the six-monthly reports on project-level outputs and outcomes that it requires from local bodies. In January 2021, the Government Internal Audit Agency finalised its report on the Department's arrangements for grant management. It concluded that the Department was not yet in a position to effectively manage a significant increase in directly managed grants, citing weaknesses in overall governance, control and risk management. Local auditors must be satisfied that the local authority has proper arrangements in place to secure value for money. While a large award may become relevant to the local auditor's overall responsibilities, their focus will be on the arrangements themselves rather than assessing value for money. For most awards, however, auditors are only likely to consider the adequacy of the authority's arrangements if there have been significant failures.

27 Department for Levelling Up, Housing & Communities, *Levelling Up Fund: explanatory note on the assessment and decision-making process*, October 2021.

Part Four

Monitoring, evaluation and oversight

4.1 This part of the report considers the Department for Levelling Up, Housing & Communities' (the Department's) plans for improving the monitoring, evaluation and oversight of its local growth interventions.

Challenges in evaluating local economic growth policies

4.2 Evaluating the impact and value for money of local economic growth policies is technically challenging. For example, outcomes such as productivity can be affected by many policies and circumstances, which makes it difficult to isolate how much an individual policy has contributed to a particular outcome or what might have happened had the policy not been implemented. A policy may also achieve a positive impact in a targeted area but may also have negative impacts in other, mostly neighbouring, areas.

4.3 There are also practical challenges. For example, the Department relies on local bodies to provide data and information to support evaluations and this can be onerous to gather. Local authorities told us that reporting requirements for European Union funding had been a significant overhead, and the Department received similar feedback from its consultation to inform the UK Community Renewal Fund. The What Works Centre for Local Economic Growth (the What Works Centre) has indicated several reasons why high-quality impact evaluations by local bodies are rare. It has suggested that when resources are scarce, local bodies may prioritise delivery over evaluation; that local projects are often too small to deliver enough data for robust evaluation; and that delivery bodies can sometimes be cautious about criticism if a project is found not to have been effective. Given these challenges, departments need to plan effectively.

The Department's progress with monitoring and evaluation

4.4 The Department recognises that its monitoring and evaluation has not been as robust as it could have been (Part Two). In an annual review of its governance and assurance arrangements in February 2021, it pledged to make improvements. In its July 2021 *Outcome Delivery Plan*, the Department committed to undertaking process and impact evaluations for its most important policies and programmes to inform future policy choices.[28] It has recently set up a monitoring and evaluation strategy group which aims to drive high standards of policy and programme evaluation across all its policy areas.

4.5 The Department had been considering an overarching monitoring and evaluation framework for local growth to include common objectives and outcomes, within which individual programme-level frameworks would sit. This would enable it to compare the relative effectiveness of similar initiatives and minimise the data collection burden on local authorities. The Department has not yet started to develop this framework but is now developing detailed monitoring and evaluation plans for each of its local growth funds. These are at different stages of implementation (**Figure 9** overleaf). The Department has previously committed to defining a common set of metrics to aid comparison across places, but without significant progress.

4.6 The Department and the What Works Centre are working with local authorities and local growth experts to provide help and improve the design and implementation of evaluations of local economic interventions. This includes workshops for local authorities on evaluation, commissioned by the Department, and an evaluation panel to offer advice to local authorities on evaluation.

Evaluating the Towns Fund

4.7 The Department's monitoring and evaluation plans for the Towns Fund are the most advanced of the interventions reviewed in this report. In December 2021, it published a monitoring and evaluation strategy[29] which sets out, at a high level, how it would expect the Fund's spending to lead to short-term and long-term changes in local economies. The Department intends to use this strategy as the basis for developing frameworks for its other local growth interventions. These frameworks will set out requirements for monitoring and for impact, process and value for money evaluations. The Department has ringfenced £10 million of the Fund's budget (0.3%) for central government's monitoring and evaluation activity. Local authorities have agreed to a minimum level of monitoring and evaluation as a condition of award. The amount to be spent on evaluation by local areas is unknown.

4.8 The Department has not yet set out whether or how it will assess the Fund's impact on the broader economy. For example, whether areas which did not receive funding are negatively affected by neighbouring areas' successes (displacement).

28 Outcome delivery plans set out each government department's priority outcomes, the department's strategy for achieving them, and the metrics it will use to track performance.

29 Department for Levelling Up, Housing & Communities, *Towns Fund monitoring and evaluation strategy*, December 2021, available at: www.gov.uk/government/publications/towns-fund-monitoring-and-evaluation-strategy

Figure 9
Status of monitoring and evaluation plans for UK local growth policies as at early January 2022

Monitoring and evaluation plans for each of the local growth interventions are at different stages of implementation

	Towns Fund	Levelling Up Fund	UK Community Renewal Fund	Freeports
Monitoring and evaluation plan	Published December 2021.	No. The Department has shared guidance with local authorities and intends to release further details in spring 2022.	Yes – within prospectus.	To be published spring 2022.
Detail of monitoring	Six monthly data returns covering inputs and activity key performance indicators. Annual review by Towns Hub.	To include six-monthly reporting on outputs and outcome indicators. Quarterly reporting on spend, delivery and risk.	Project-level monitoring by progress against agreed targets and milestones Additional monitoring for projects in Northern Ireland.	Data collection on activities, inputs and outputs including the effectiveness of tax relief.
Type of evaluation	Process, impact and value-for-money evaluation.	Process, impact and value-for-money evaluation.	Process evaluation to inform delivery of UK Shared Prosperity Fund (UKSPF).	Process, impact and value-for-money evaluation.
Detail of evaluation	Stakeholder engagement; lessons learned; assessing effects of Towns Fund investment on key outcomes; and assessing economy, efficiency, effectiveness, and equity.	National-level and project-level evaluation.	Project-level evaluation of processes, impact and economic evaluation. National-level process evaluation.	To be confirmed.
Departmental responsibilities	Collect monitoring information; process and interim evaluation reports; complete post-delivery impact evaluation report; and value for money evaluation report.	Monitoring and evaluation activity in 2021-22 will focus on the development of a monitoring framework, a monitoring and evaluation strategy and guidance for successful applicants. Further detail to be released with details on multi-year allocations from 2022-23.	Mid-point and end-point monitoring event for each project. Mid-point corrective action to be taken if necessary and good practice to be shared in real time for development of UKSPF.	Design and carry out monitoring and evaluation.
Local responsibilities	Lead authorities to provide evidence against monitoring metrics. Contribute to case study activities and evaluation reports.	Local areas will be required to report regularly on process, delivery and potentially some outcomes.	Local project teams will be required to submit evidence to the lead authority (for Great Britain) or to UK government (for Northern Ireland).	Bi-annual reporting on primary level data.

Source: National Audit Office analysis of Department for Levelling Up, Housing & Communities published prospectuses and evaluation plans, and information supplied by the Department

Evaluating other local growth policies

4.9 The Department's plans for evaluating the remaining interventions are at an early stage. For Freeports, it has made a public commitment to conduct an evaluation, publish a monitoring and evaluation strategy, and provide an annual update on progress to the International Trade Committee.[30] It expected to use the findings from the UK Community Renewal Fund and the interim impact evaluation for the England European Regional Development Fund (ERDF) to inform the design of the UK Shared Prosperity Fund. The Department advised UK Community Renewal Fund applicants to allow 1%–2% of their award, or a minimum of £10,000, to cover costs of monitoring and evaluation. However, with successful bids for the UK Community Renewal Fund announced in November 2021, and the UK Shared Prosperity Fund to be introduced in 2022, it will be too late for impact evaluation findings to inform the Shared Prosperity Fund's design. The Department has committed to conducting a national level evaluation for the Levelling Up Fund but has yet to publish a framework. In November 2021, it issued monitoring and evaluation guidance to local bodies setting out the mandatory reporting requirements. These included six-monthly reporting on outputs and outcomes and quarterly reporting on spending, delivery and risk.

4.10 In its *Outcome Delivery Plan* from July 2021, the Department announced that it was starting work on design of the evaluation for the Local Growth Fund, having previously had no plans to evaluate it. While a welcome development, designing an evaluation as a scheme draws to a close is not good practice and may impact quality, for example, it is extremely difficult to establish a baseline against which to measure progress.

30 House of Commons International Trade Committee *UK Freeports: Government Response to the Committee's Fourth Report of Session 2019-21,* Second Special Report of Session 2021-22, HC453, available at: https://committees.parliament.uk/publications/6439/documents/70313/default/

Appendix One

Our audit approach

1 This report examines how well government has learned lessons from previous local growth programmes in its current plans for local economic recovery.

- We consider whether government understands what has been effective in supporting local economic growth.
- We assess whether current plans for local economic recovery apply lessons learned from previous programmes.
- We examine whether the Department is putting in place effective plans for monitoring, overseeing and evaluating its new local growth interventions.

2 Our audit approach is summarised in **Figure 10**. Our evidence base is summarised in Appendix Two.

Figure 10
Our audit approach

The objective of government

To raise productivity and empower places so that everyone across the country can benefit from levelling up.

How this will be achieved

Through a number of local growth funding streams for places and local communities. These include the Levelling Up Fund, the Towns Fund, Freeports, the UK Shared Prosperity Fund (from 2022-23) and its precursor, the UK Community Renewal Fund (for 2021-22).

Our study

This study examines how well the Department for Levelling Up, Housing & Communities (the Department) has learned lessons from previous local growth programmes and applied them to the Levelling Up Fund, Towns Fund, Freeports and the UK Community Renewal Fund, as precursor to the UK Shared Prosperity Fund.

Our evaluative criteria

Understanding what has been effective

Government has a clear understanding, based on evidence from robust evaluations, of what has been effective in past and current interventions in supporting local economic growth.

Learning and applying lessons

Government's planned interventions to support local economic growth take into account lessons learned from previous funding streams and programmes.

Government's chosen interventions are based on robust evidence of what works well.

Plans for monitoring, oversight and evaluation

The Department has effective and robust plans for monitoring, measuring and evaluating the success of its local growth interventions.

Accountabilities for measuring, monitoring and evaluating the performance of interventions are clear and proportionate.

Our evidence

(see Appendix Two for details)

As part of our fieldwork we:

- Analysed key documents from the Department, including business cases and supporting evidence for local growth interventions, lessons learned documents, and reviews of past interventions.
- Interviewed central government representatives and other key stakeholders, including representatives from four case study local authorities.
- Analysed data on productivity levels and spending on local economic growth.

Our conclusions

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.

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.

Appendix Two

Our evidence base

1 We reached our conclusion on how well the Department for Levelling Up, Housing and Communities (the Department) has learned and applied lessons from previous local growth programmes in its current plans for local economic recovery by analysing evidence collected between April and October 2021. In examining the Department's current plans, we focused on the local growth interventions which government plans to deliver in the early to mid 2020s with the most significant amount of funding attached. Interventions designed chiefly to respond to COVID-19 were out of scope for this report. As a result, we focused mainly on the local growth funds announced or confirmed in the November 2020 Spending Review:

- the Levelling Up Fund;
- the UK Shared Prosperity Fund and the one-year UK Community Renewal Fund which government intends to help areas prepare for the UK Shared Prosperity Fund;
- the Towns Fund; and
- Freeports.

2 Our evaluative criteria drew on government guidance and NAO frameworks. Our audit approach is set out in Appendix One.

Interviews

3 We interviewed key individuals from the Department with responsibilities relating to local growth and the funds within the scope of our report, and to analysis and evaluation. We also spoke to staff at the Department for Transport and HM Treasury, about the funds they have been involved in.

4 We interviewed a range of other stakeholder organisations, including representatives from bodies representing local government, and bodies involved in delivering local economic growth funds. These organisations included the Local Government Association, the Local Enterprise Partnership Network, the District Councils Network and London Councils. We spoke with representatives from the audit offices in Scotland, Wales and Northern Ireland regarding the funds which are UK-wide. In addition, we spoke with experts on local economic growth including the National Infrastructure Council, What Works Centre for Local Economic Growth, Professor Andy Pike from Newcastle University, and Professor Michael Parkinson CBE from the University of Liverpool.

Case studies

5 We interviewed representatives from four local authorities in England between July and September 2021. Our selection of authorities was based on geographical spread, local authority structure and indicators of regional economic growth. We spoke with the following local authorities - Norfolk County Council, West Northamptonshire Council, Tees Valley Combined Authority and Sheffield City Region. The work was designed to understand the local authority perspective and the challenges they face, particularly in bidding for funds and in monitoring and evaluating local growth interventions.

Data analysis and document review

6 We analysed data on national, regional and local productivity levels, on local authorities' spending on local economic growth, and on allocations from the Future High Streets Fund and Towns Fund. We reviewed data on broader central and local government spending on economic growth.

7 We reviewed departmental documents on each of the funds in scope including business cases and other spending approval documentation; published prospectuses; guidance for bidders; and monitoring and evaluation strategies, where available. We reviewed documentation detailing the Department's understanding of what works for economic growth, devolution and regeneration. This included its research prepared for the purposes of briefing other government departments and evaluations of its past initiatives where these existed.

8 We carried out a review of our own work and reports from the Committee of Public Accounts as well as external literature. We focused on our work from the past ten years covering individual local economic growth policies and the government's overall approach to local growth. We reviewed NAO reports on accountability, climate change, local audit, financial sustainability of local authorities and evaluation. Our review of external literature included published work by the What Works Centre for Local Economic Growth, the National Infrastructure Commission, Industrial Strategy Council, the OECD, the Local Government Association, Cabinet Office and HM Treasury reports. We reviewed government guidance including the Green Book, the Magenta Book, Managing Public Money and Guidance for General Grants.

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