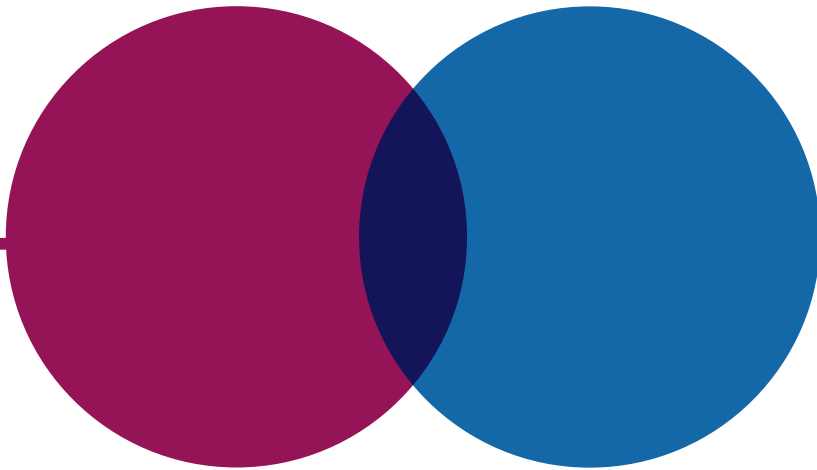




National Audit Office



REPORT

Levelling up funding to local government

Department for Levelling Up, Housing
& Communities (DLUHC)

SESSION 2023-24
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Key facts

£10.6bn

total amount announced through the Towns Fund, Levelling Up Fund and UK Shared Prosperity Fund, to support the government's levelling-up agenda across the United Kingdom between 2020-21 and 2025-26

£9.5bn

the amount the Department for Levelling Up, Housing & Communities (DLUHC) has allocated to local places to be spent by 31 March 2026

£2bn

the amount DLUHC has given to local places so far across the three funds at 31 March 2023

£0.9bn

the amount spent by local places at 31 March 2023

Fund	Extent	Announced value (£bn)	Start year	To be spent by
Towns Fund – Future High Streets Fund	England only	1.0	2020-21	30 September 2024
Towns Fund – Town Deals	England only	2.2	2021-22	31 March 2026
Levelling Up Fund	United Kingdom	4.8	Round 1: 2021-22 Round 2: 2022-23 Round 3: To be confirmed	Round 1: 31 March 2024 Round 2: 31 March 2025 Round 3: To be confirmed
UK Shared Prosperity Fund	United Kingdom	2.6	2022-23	31 March 2025

December 2021 DLUHC published its strategy for evaluation of the Towns Fund. It published an overarching evaluation strategy in November 2022 and individual strategies for the Levelling Up Fund in March 2022 and the UK Shared Prosperity Fund in March 2023

July 2023 DLUHC published its *Simplifying the funding landscape for local authorities* which included several immediate actions to improve the delivery of existing local growth funds

834 bids submitted across Rounds 1 and 2 of the Levelling Up Fund; 216 bids were successful and 618 were rejected

64 the number of completed projects out of more than 1,300 across the Towns Fund and Levelling Up Fund by 31 March 2023

Summary

Introduction

1 ‘Levelling up’ is a government-wide approach to reduce geographical inequality in a broad range of economic and social measures across the UK. The Department for Levelling Up, Housing & Communities (DLUHC) leads on three significant funds, which government’s 2022 *Levelling Up* white paper identified as supporting the levelling-up agenda by providing investment into local places:

- The Towns Fund, consisting of the Town Deals and Future High Streets Fund programmes, which aims to “unleash the economic potential of towns and high streets in England”.
- The Levelling Up Fund, which focuses on “delivering local priorities that have a visible impact on people and communities across all parts of the UK”.
- The UK Shared Prosperity Fund, which aims to “increase life chances and build pride in place across the UK”.

Between them, these funds are worth up to £10.6 billion and aim to allocate £9.5 billion to local places to be spent by 31 March 2026. The Towns Fund is restricted to England while the Levelling Up Fund and UK Shared Prosperity Fund are UK-wide funds and involve several other government departments in aspects of their design and delivery.

Scope of the report

2 This report examines whether DLUHC’s three significant levelling-up funds are likely to deliver value for money. We have carried out our study at a relatively early stage in the lifecycles of the three funds so that we can identify lessons for securing value for money for the funds committed to date and inform decisions around future funding rounds. To reach our conclusions we considered whether:

- the three funds have clear aims and objectives and have been designed and allocated as part of a joined-up approach (Part One);
- the three funds have been distributed in line with their objectives and if they are delivering projects as planned (Part Two); and
- DLUHC has an effective approach for the evaluation of the three funds (Part Three).

Our fieldwork was completed between May and September 2023. To allow us to report consistent data across the three funds we used a cut-off date of 31 March 2023 for funding expenditure and project progress.

3 Our report focuses on DLUHC's delivery of the three funds rather than the full breadth of the government-wide approach to levelling up set out in the *Levelling Up* white paper. We describe the methods for allocating awards across the three funds but have not reviewed the allocation decisions resulting from these processes. We did not revisit the issues raised in our February 2022 *Supporting local economic growth* study around the design and approval of funds, except to consider what has happened in response to relevant recommendations.

Key findings

Design and distribution of the three funds

4 DLUHC has a lead role in three significant funds to support local places, which between them total more than £10 billion. The Towns Fund, Levelling Up Fund and UK Shared Prosperity Fund form a key part of the government's levelling-up agenda to reduce geographic inequality by targeting a broad range of economic and social measures across the UK. DLUHC oversees the Towns Fund and the UK Shared Prosperity Fund, working with other departments as necessary. DLUHC and the Department for Transport (DfT) share accountability for the Levelling Up Fund. DLUHC leads on town centre, regeneration and culture projects while DfT takes the lead on transport projects. Alongside DLUHC and DfT, HM Treasury co-designed the bidding and assessment criteria for the Levelling Up Fund and all three departments were responsible for deciding where funding was allocated. The government describes the three funds as complementary and providing investment into local places to support economic growth. In most cases local authorities are the recipients of the funds. The Towns Fund and Levelling Up Fund were new funding streams, while the UK Shared Prosperity Fund was designed to succeed and improve upon, but not directly replace, the previous EU structural funds (paragraphs 1.2, 1.3 and 1.6, Figure 1 and Figure 2).

5 The three funds have overlapping objectives but were designed and announced at different times, such that local authorities could not align their plans to secure most value. The three funds, starting with the Towns Fund in 2019, were developed over a number of years and under successive secretaries of state. The funds have overlapping investment themes around regeneration, culture and transport but DLUHC allocated funds in different ways. Some funds were allocated by a competitive process after local authorities had submitted bids. This includes the Future High Streets Fund and Rounds 1 and 2 of the Levelling Up Fund. The Town Deals were offered to 101 selected towns based on several metrics and a final decision by ministers. The UK Shared Prosperity Fund was allocated to places based on a formula. The timing of DLUHC's funding announcements meant local authorities could not plan their bids across the funding streams to secure the most value. For example, the deadline for submitting Levelling Up Fund Round 1 bids was before the final confirmation of Town Deals offers. Local authorities also had to submit UK Shared Prosperity Fund investment plans before finding out if they were successful in the Levelling Up Fund Round 2. This meant local authorities did not know what funding they may receive from each fund, preventing effective planning. In October 2023 the Secretary of State for Levelling Up, Housing & Communities said further details of a third round of the Levelling Up Fund would be made available in advance of the Autumn Statement, which is due on 22 November 2023. Each of the funds operates differently across the UK nations with local places having varying amounts of time to spend their allocation for each fund (paragraphs 1.4, 1.8, 1.10, 1.11, Figure 2 and Figure 3).

6 DLUHC has allocated £9.5 billion from the three funds to local places across the UK, to be spent between 2020-21 and 2025-26. Allocations comprise:

Fund	Allocation
Towns Fund – Future High Streets Fund	£0.83 billion
Towns Fund – Town Deals	£2.35 billion
Levelling Up Fund – Rounds 1 and 2	£3.78 billion
	The remaining £1.0 billion is due to be allocated through a third round
UK Shared Prosperity Fund	£2.51 billion
	This includes £430 million ringfenced for Multiply, an adult numeracy project

This funding is supporting more than 1,300 individual projects under the Levelling Up Fund and Towns Fund while the UK Shared Prosperity Fund is supporting more than 3,000 projects. Local authorities and other bodies submitted 834 bids across both rounds of the Levelling Up Fund, the most recent of the competitive funds. Of these, 216 bids were successful with a value of £3.78 billion and 618, just under three-quarters, were rejected, with a value of £9.74 billion (paragraphs 1.9, 1.10, 2.2 and 3.11, Figure 3 and Figure 6).

7 DLUHC is taking positive steps to simplify the operation of its levelling-up funds. The *Levelling Up* white paper set out the government's commitment to publish a plan for simplifying the local growth funding landscape. In July 2023 DLUHC published its plan for simplifying funding to local authorities, which included several immediate actions including simplifying the process for local authorities to change their agreed plans and inviting 10 pathfinder local authorities to pilot a simplified funding delivery approach (paragraphs 1.16 and 1.17).

Progress delivering the projects

8 Delivery of projects across the three funds is behind schedule. Projects are happening at a time when there is pressure on public finances because of the impact of the COVID-19 pandemic, the energy and cost of living crisis and sudden interest rate rises. Against this backdrop, DLUHC has concluded it is behind where it would expect to be at this stage. DLUHC uses the progress reports from local authorities to understand the progress of the individual projects. The reports are showing slippage of projects across the Levelling Up Fund and Towns Fund. Keeping to its current spending deadlines requires local authorities and other organisations to deliver more than 1,300 projects on schedule across these two funds. DLUHC sought to fund 'shovel-ready' projects in both the Towns Fund and Levelling Up Fund, but local authorities and other organisations had completed 64 projects across these funds by 31 March 2023. At the same date, of the £2 billion given to local places, they had spent (paragraphs 2.2, 2.3 and 2.8, Figure 6 and Figure 7):

- £0.31 billion from the Town Deals, leaving £0.44 billion, or 59%, of the money released to them from DLUHC, still to be spent by 31 March 2026;
- £0.30 billion from the Future High Streets Fund, leaving £0.22 billion, or 43%, of the money released to them from DLUHC, still to be spent by 30 September 2024;
- £0.26 billion from the Levelling Up Fund, leaving £0.17 billion, or 39%, of the money released to them from DLUHC, still to be spent by 31 March 2024 (Round 1) and 31 March 2025 (Round 2); and
- at 31 March 2023 DLUHC had given the full first year allocation of the UK Shared Prosperity Fund to local authorities.

9 Local authorities' projects were held up due to delayed funding announcements

to local authorities. DLUHC made several funding announcements across the funds later than planned and many local authorities delayed starting work as a result. DLUHC announced the successful bidders for the Levelling Up Fund in October 2021 (Round 1) and January 2023 (Round 2), but it took longer than planned to finalise funding agreements and transfer funding to local authorities. The UK Shared Prosperity Fund was launched in April 2022. Local authorities had to submit investment plans by 1 August 2022, but DLUHC did not approve investment plans until December 2022, giving local authorities only three months to spend their 2022-23 allocation. DLUHC gave local authorities the flexibility to carry forward their unspent funding, subject to submitting a spending plan to DLUHC, but this has delayed their timescales. Local authorities told us they could not risk starting projects with no guarantee that funding would be released, meaning early enabling work such as arranging planning permission or compulsory purchase was delayed. This compresses the period in which funds can be spent (paragraphs 2.4 to 2.8).

10 DLUHC is aware that it needs to balance encouraging timely delivery against moving too fast and risking projects not delivering their intended impacts.

DLUHC has extended the deadline for the Future High Streets Fund by six months to 30 September 2024 and will allow, on an exceptional basis, spending to extend beyond the original deadlines for the Levelling Up Fund. For the other funds, it expects funds will be spent by the original deadlines. However, that looks unlikely given the risks to project delivery, and there is a risk that attempts to hold local authorities and other organisations to original deadlines could reduce the overall value for money of their projects. DLUHC told us that it continues to keep the deadlines for funds under review. Some of the key delivery problems which local authorities have faced are outside DLUHC's and local authorities' control, including rising costs, skills shortages and supply issues in the construction industry. As at March 2023, 50% of main construction contracts for Levelling Up Fund Round 1 projects, due by March 2024, were unsigned. This was also the case for 85% of Levelling Up Fund Round 2 projects, due by March 2025. DLUHC and local authorities will need to work together to unblock those projects which have not started and set realistic expectations for delivery to ensure that projects deliver all the intended benefits. Local authorities told us that pressures to deliver by existing deadlines could lead to projects being left incomplete or not started at all (paragraphs 2.4 to 2.12).

11 DLUHC's processes had caused delays for some projects, but it is now taking action to address these problems and further support local delivery. In spring 2023, DLUHC reviewed the delivery problems local authorities were facing across the Levelling Up Fund and Towns Fund. This review highlighted that the complex processes involved in securing approval from DLUHC to make changes to projects once they had started had caused further delays. DLUHC has since rolled out a revised project adjustment process to all local authorities to allow them to make changes to the scope and scale of their projects. In 10 places it is also running a simplification pilot enabling local authorities in receipt of multiple levelling-up funds to switch money between projects in the different funds to help delivery. DLUHC is also providing an additional £65 million to local authorities to support Levelling Up Fund projects. This will include direct grants, training and expert support. In summer 2023, as part of a package of support for local authorities, DLUHC launched a procurement process to appoint external experts to work with Levelling Up Fund recipients to help support delivery. It has also approached a small number of local authorities it considers may require the support of DLUHC finance, legal and commercial experts to help overcome barriers to delivery and will use this to learn and disseminate best practice to other local authorities (paragraphs 1.16, 1.17, 2.4, 2.7 and 2.8).

12 DLUHC has significantly improved its grant management processes, which were previously found to have weaknesses. In August 2021 a Government Internal Audit Agency (GIAA) audit found that DLUHC was not well placed to manage the anticipated increase in grant funding that would result from the Levelling Up Fund and UK Shared Prosperity Fund. In response, DLUHC improved its internal grant management by restructuring the directorate overseeing the funds, clarifying roles and responsibilities, and putting new assurance frameworks in place. DLUHC has also improved its data capabilities, including developing data dashboards to support monitoring and decision-making. A further GIAA audit assessment in March 2023 found the framework of governance, risk management and controls over grant management were rated as 'substantial', the highest rating, meaning they were adequate and effective. An Infrastructure and Projects Authority (IPA) review of the Levelling Up Fund in March 2023 also commented on the strength of governance but highlighted future challenges including managing delivery of existing rounds alongside the additional pressure of a further third round. DLUHC's plan for funding simplification also includes proposals to reduce the burden on local authorities by streamlining the grant-giving process and developing a set of principles to be followed across government (paragraphs 1.16 and 2.13).

Progress evaluating the three funds

13 DLUHC has developed its plans to improve its fund evaluation since we last reported on this subject in 2022. Our February 2022 report *Supporting local economic growth* highlighted that DLUHC had a poor understanding of what had worked well in its previous local growth programmes because it had not consistently evaluated them. DLUHC has since published its first overarching evaluation strategy, as well as specific plans for evaluating the Levelling Up Fund and UK Shared Prosperity Fund. Plans for the Towns Fund evaluation had already been published in 2021. DLUHC has allocated funds and increased the size of its internal teams to support these plans (paragraphs 3.2 to 3.5 and 3.15).

14 While the place-based nature of the three funds creates challenges for evaluation, DLUHC's early plans for evaluating the funds are a positive step.

DLUHC's overarching evaluation strategy highlights some specific challenges in evaluating place-based initiatives, which the three funds also face. These include the difficulty of identifying meaningful comparator places and attributing impacts to specific interventions where places may receive multiple or overlapping funding streams. This is further complicated by the highly devolved design of the funds, which creates many different projects for evaluation. DLUHC is proposing a range of quantitative approaches across its evaluations to tackle these challenges. Approaches include plans for randomised control trials on elements of the UK Shared Prosperity Fund, which will be the first time DLUHC has used this technique to evaluate local economic growth. DLUHC has commissioned feasibility studies on each of the funds to provide external advice on the practicality of its plans based on the data that are likely to be available. DLUHC published the findings of the Levelling Up Fund feasibility study in June 2023, received feasibility findings for one element of the UK Shared Prosperity Fund in September 2023, and expects to receive the Towns Fund feasibility findings in November 2023. It has also put in place a range of governance mechanisms enhancing external scrutiny of its plans (paragraphs 3.6 to 3.8, and 3.10 to 3.11).

15 DLUHC has decided to commission and deliver much of the evaluation work centrally, to improve its quality and reduce the burden on local authorities.

DLUHC initially envisaged that funded places would undertake local evaluations. However, in its simplification plans published in July 2023 DLUHC said that requiring local-led evaluations put a high burden on local authorities for the insight produced. It noted that central evaluations have better data access and capability to deliver quality place-level insights. Although DLUHC has not changed the mandatory requirement for local evaluation for the Levelling Up Fund Round 1 projects, as these are already in progress, local evaluations on individual projects are now encouraged but not required for the other funds. These local evaluations will support local authorities' own learning and are in addition to the central evaluations (paragraph 3.9).

16 DLUHC's plans for sharing insights from its evaluation activity, that local authorities and local policy-makers may find helpful, are not yet fully developed.

Our 2021 report *Evaluating government spending* found one of the most common barriers to the use of evaluation is a lack of understanding of evaluation evidence by policy-makers. DLUHC has decided to evaluate the funds centrally, and it has taken actions to share learning. However, its plans do not explain fully how it will provide local decision-makers with examples of what works which they may find helpful to inform their own decision making. Actions include DLUHC's area teams, which provide support for local places, and a conference for Towns Fund participants in June 2023 that included sessions on learning from delivery to date. The What Works Centre for Local Growth will play a role in disseminating findings to local places and local decision-makers. DLUHC is considering other learning models including 'buddying' between local authorities for current projects and setting up a central database to capture learning on what works (paragraphs 3.12 and 3.13).

17 DLUHC will use interim evaluation findings to inform short-term future spending decisions and will need to bid for further funding when longer-term impacts can be evaluated.

The impacts from the funds DLUHC plans to evaluate will take time to appear, which means that there are limitations to what impact evaluation evidence will be available in the short term. The earliest external evaluations will be an evaluation update report relating to the Towns Fund, which DLUHC currently expects in spring 2024, alongside interim findings relating to elements of the UK Shared Prosperity Fund. DLUHC has not yet commissioned an impact evaluation of the Levelling Up Fund because the full set of benefits will not be apparent until after projects have been completed. This creates a risk that there will be limitations in the evidence available to inform spending decisions around the future of local growth funds beyond spring 2025. As such, it is looking to use these interim findings and insights from other sources such as internal process reviews and analysis of monitoring data. While DLUHC anticipates that benefits will continue to arise beyond spring 2026, it has not yet been able to contract any evaluations beyond that point because of DLUHC's internal procurement rules and the normal government Spending Review restrictions. Longer-term plans therefore remain uncertain (paragraphs 3.14 to 3.16, Figure 8 and Figure 9).

Conclusion on value for money

18 In 2021 DLUHC had a poor understanding of what had worked in its previous local growth programmes and was not well placed to manage the increase in grant-making required by its new £4.8 billion Levelling Up Fund and £2.6 billion UK Shared Prosperity Fund. However, more recently the GIAA has found that DLUHC has improved its oversight of its major levelling-up funds. DLUHC was slow to agree funding across the Towns Fund, Levelling Up Fund and UK Shared Prosperity Fund. Towns Fund and Levelling Up Fund projects are experiencing delays, which has led to many projects needing to be adjusted or rescope. Projects are being delivered in the context of rising costs and pressures on public finances. Reflecting this context, DLUHC has taken steps to understand local authorities' delivery challenges and is piloting a more flexible approach to move money between Towns Fund and Levelling Up Fund projects. However, at this stage it appears unlikely that local authorities will be able to complete projects by the original deadlines. The ability of projects to deliver all their intended benefits will rely on DLUHC and local authorities working together to unblock those projects which are delayed or have not started and set realistic expectations for delivery.

19 DLUHC has made significant improvements in its approach to evaluation, which puts it in a better position to understand future impacts delivered by these funds. DLUHC has ambitious plans for the evaluation of each fund, has sought external input and is undertaking feasibility work before committing to final approaches. Most of this work is still to come and further funding will be needed to understand the effect of the projects over the longer term. Equally important is that any high-quality learning from this evaluation work is shared with local decision-makers to support better value for money in future economic growth approaches. To secure value for money and maximise the desired benefits from these funds DLUHC should review expectations for what outcomes can be delivered by when and support local authorities and their partners to deliver the long-term benefits for people in their local places.

Recommendations

Current funds

- a** Given the delays to projects across the Levelling Up Fund and Towns Fund, DLUHC should set out what further action it is going to take if projects cannot be completed within the existing funding deadlines. This could include resetting expectations for what and when these funds will deliver, to take account of rising cost pressures driven by factors including inflation and capacity shortages.

Application to current and future funds

- b** DLUHC should swiftly build on the simplification pathfinder pilots and embed the learning into any further rounds of the Levelling Up Fund and similar future funds.
- c** DLUHC should further use the learning from the process and impact evaluation to build an evidence base of what works to stimulate local economies.
- d** DLUHC should work with HM Treasury to ensure that funds for impact evaluation are secured beyond the current spending cycle and explore whether funding deadlines for the current funds can be extended to protect value for money.
- e** DLUHC should develop its plans to disseminate learning and insight from its evaluations in a timely way and engage with local authorities to maximise understanding of what works prior to waiting for final evaluation reports.