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Funding local growth in England

How the next government should simplify the funding landscape

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About this report

Both Labour and the Conservatives recognise that making the way central government funds local and combined authorities simpler will be key to unlocking local growth. This report sets out how the next government should approach a national strategy for funding, in particular, for those areas outside of the single settlement trailblazer deals.

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Summary

The way central government funds local and combined authorities to deliver local growth and other initiatives is not working for anyone. On this there is consensus among politicians, officials and civil society organisations. Both the government's levelling up white paper [1] and the Labour-commissioned Brown review [2] criticised the current funding model, which sees local leaders make bids into central government for funding for projects in their areas, described by the recently departed West Midlands mayor Andy Street as a "begging bowl culture". Both parties have called for simplification.

But despite this and some progress being made in a few cases, a clear model for simplifying the whole funding landscape is still lacking, and serious problems persist. Our past research has found getting the *funding* right is as important as the getting the *powers* right for any government that is serious about giving local areas the tools and ability to deliver growth.[3] Simplifying the funding landscape will ensure that money is spent more efficiently and effectively on the things that local areas need, while still ensuring that central government can meet its objective to increase economic growth across England.

In this report, we outline the current problems and propose how the next government – using the opportunity of a renewed mandate and a new parliament – can simplify the landscape for all local and combined authorities, not just the most developed mayoralties.

Drawing on our analysis of the problems, we set out five tests any plan to simplify funding for local growth must meet – and which the next government should design and carry out any reforms of the funding system against. They are:

1. **Is the funding landscape informed by a clear and over-arching national strategy for local growth with high-level objectives?** There are many different funding streams available to local leaders. These also have tight ring-fences determining how the money can be spent. The Local Government Association found 448 unique grants between 2015/16 and 2018/19 from central to local government. There were 386 in 2022/23 alone. The lack of a national strategy or proper co-ordination means many of these funds often have overlapping – or even competing – aims.

2. **Does the reformed system provide longer term certainty?** Grants are often short term, with many lasting only one year. There is also little certainty that they will be renewed. Almost half of the grants issued in 2022/23 were due to expire at the end of the year (48%) – providing no scope for stability or longer term planning.[4] Delays in announcing allocations exacerbate this time pressure.

3. **Will the new system give enough flexibility to better align local need and central government objectives?** These funds rarely achieve good policy outcomes as they give local authorities insufficient flexibility to spend money in the way that best meets their needs and fragment different projects to prevent a coherent strategy.

4. **Does the plan reduce the administrative burden on local and central government?** Authorities often need to compile bids and compete with other local authorities to win funding. Bids into funds can cost £20,000–£30,000 and authorities are invited to bid for dozens each year, each with its own reporting line that central government must manage. This is a huge resource burden for local authorities and central government. In 2022/23 a quarter of funding streams (covering 8% of total local government funding) used a competitive methodology.

5. **Will central government retain sufficient oversight over how funds are spent?** We also note that attempts to streamline funding often face pushback from ministers, because of ministers' incentives to announce new funding that they can take credit for, as well as legitimate concerns over local government's capacity to spend this money well.

The government has recognised the problems and has already made some progress on funding simplification. Two combined authorities – in Greater Manchester and the West Midlands – have agreed that from the next spending review they will receive flexible pots of money covering certain policy areas like local growth that they can spend as they see fit (the 'single settlement'). This major reform should help to address many of the problems we and others have identified. But, as we argued in our recent paper *A New Deal for England*, in the long term the government should look to expand the single settlement model across the country.[5]

However, combined authorities are not yet established across all of England, nor is every one yet equipped with the strategic capability to take on as much freedom as the single settlement affords. The Department for Levelling Up, Housing and Communities (DLUHC) has also set out funding simplification plans for other areas, including a new set of rules for departments to follow when designing and distributing funding to local government – the simplification doctrine.

We welcome the progress government has made on simplification, but it does not yet go far enough. The current model does not meet our five tests. Our recommendations focus on what the next government should do to ensure that the fragmented funding model is not a barrier to its plans for local growth, and that funding simplification is not something only enjoyed by the most advanced combined authorities.

Recommendations in brief

As well as expanding the single settlement model to places when they are ready, we recommend:

- **The government should publish a strategy for its regional policy agenda.** This should set out the respective roles of central and local government, and explain how different policies and funding lines fit within it. This should be published early in the next parliament.

- **Most funding for local growth should be streamlined into a small set of larger funds.** Each should run for multiple years, covering spending review periods, and have a set of objectives, specified in the government's regional policy strategy, that the money should look to achieve – for example, to improve transport links or adult skills. These could be based on the five single settlement policy areas. Unlike the single settlement, where accountability is based on an outcomes framework, central government should approve local investment plans for each fund before areas can access funding.

- **Any new funding to meet an existing objective should top up these large funds.** This should happen by default and replace the current model that allocates new allocations via a new fund. The simplification doctrine should explicitly state that small funds (the value of which will vary by policy area) are almost never justified.

- **Competitive funding should only be used in exceptional circumstances.** The presumption should be that competition is not the right allocation method, with only limited exceptions for the allocation of strategic national assets and to encourage policy innovation. Where competition is used, the fund must be designed to avoid some of the pitfalls of recent competitive funds. The funds should be multi-year and open only to authorities that meet a clear set of criteria linked to the purpose of the fund. The government should provide support for bidding.

- **DLUHC should set up an innovation task force to ensure that central government evaluates local growth funding better.** The government should be better at bringing together evaluations from previous funds and analysing best practice of different methods, including whether competition is ever appropriate. This should be shared across government and between central and local government.

- **The Treasury should commit at the next spending review to simpler funding for local growth and set out guidelines for how any subsequent funding streams will be spent.** Much local growth funding originates outside DLUHC, so in order to ensure the new approach is adopted across Whitehall, other departments will need to be bought in too. Enforcement via Treasury spending teams will ensure the plans are followed by all relevant departments. This could build on the existing funding simplification doctrine.

What are the problems with how local growth projects are funded?

There are myriad problems with local government funding arrangements. These include big cuts to the overall spending power of local authorities over the past 15 years to deliver core statutory services like social care and education. However, there is also a distinct set of problems with how initiatives outside these core services are funded, which is the focus of this paper.

Council tax, business rates and core grants pay for the core statutory services, but, for the most part, councils are reliant on specific central government grants for other activities and projects. These include projects designed to boost the local economy and culture, such as transport improvements, high street transformation and some housing development.

The problems with the current funding system for these projects are well documented, including in past Institute for Government work[6] and in the work of other organisations.[7] The government has made progress recently and has launched several new initiatives to simplify funding. These are explored in more detail in the subsequent section but include the new trailblazer single settlement deals for Greater Manchester and West Midlands combined authorities, consolidated funding for new level four devolution deals, and a funding simplification doctrine that sets out principles for how departments should approach the design and implementation of new funds. However, these changes, especially for areas outside of the single settlement, do not go far enough. Deep problems still persist. Here we summarise those problems to help identify what a simplification strategy should look to address.

There are too many funding streams, which are too restrictive and fragmented

The current government's regional policy agenda is absent of a clear national strategy and so policy and delivery are poorly co-ordinated across government.[8] The lack of political direction and interest in recent months and unclear aims has exacerbated the problem. The result is that there are a dizzying array of different funding streams across a broad set of policy areas that combined and local authorities receive from central government. These funds can be allocated by formula, criteria or through a competitive bidding process and are administered and monitored by various government departments and arm's-length bodies.

The system is so complex that there is no official number for how many different funding streams exist. An LGA review found at least 448 unique grants from central to local government between 2015/16 and 2018/19, with the number of funding pots rising over that period.[9] Analysis by academics at the University of Sheffield, who looked at funds relating to place, local economy and regeneration, identified at least 53 separate funds managed by 10 different government departments and agencies.[10] And the levelling up white paper reported a single council had submitted bids for 61 local economic growth funds (excluding non-competitive funds) between 2015 and 2021.[11]

These funds are generally small, and subject to tight ring-fences restricting their use. Over half the funds in the LGA survey were worth £10 million or less in total across the whole country, while one quarter were worth less than £1m.[12] Funds will often come with tight ring-fences, either providing funding for a specific project or for a tightly specified purpose. One extreme example is the funding provided by the Chewing Gum Taskforce to remove chewing gum from the streets, for which councils were asked to bid against 12 criteria for a grant of up to £20,000:[13] in the first year, 56 of the 68 that applied were awarded the funds.[14]

Tight ring-fencing across so many different pots not only makes it difficult to meet local needs but also to meet central government objectives. Core to the current government's levelling up agenda is improving productivity. This requires a variety of different types of policies – from skills and innovation to transport[15] – and the relative importance of these factors varies from place to place. Central government struggles to co-ordinate policies and funding across department silos so the job of joining up funding for these policies is often left to local authorities; the same LGA research referenced above found that only 18% of the funds from central government were intended to be spent across more than one policy area.[16]

Many of these ring-fenced funds also have similar objectives, operating in overlapping areas, but are administered entirely separately and on different timelines. For example, both the Getting Building Fund and the Capital Regeneration Projects were designed to fund infrastructure projects to boost economic growth, funding projects that deliver jobs, skills and infrastructure; the Levelling Up Parks Fund and the Community Green Spaces Fund both aimed to regenerate public and community green spaces, and were both for relatively small amounts. Several other levelling up funds also have similar objectives, such as the Levelling Up Fund and Towns Fund. The result is that authorities must rely on different pots from which they are "constantly trying to stitch funding sources together" to make the funding meet their priorities[17] – Bolton Council, for example, has received funding from 13 different funds designed to support levelling up. On top of this it also receives a share of funding from the UK Shared Prosperity Fund (UKSPF) as well as Investment Zone funding through the Greater Manchester Combined Authority.

The patchwork landscape also creates broader problems that hamper effective government. The government has been accused of having little oversight of the money sent to local authorities to deliver on its policy objectives. For example, a Levelling Up, Housing and Communities Select Committee inquiry in 2023 noted that there was "very limited evidence of any joint working and co-ordination across government" and that the government did not provide, when asked, a list of funds directly related to levelling up that were being spent across government.[18]

This criticism is not unique to the current government: the National Audit Office (NAO) raised a similar concern with the 2010 coalition government's local growth plans, which it said were not designed as a "co-ordinated national programme with a common strategy, set objectives and implementation plan".[19]

As we have said in previous work, the government's regional economic policy plans have suffered from common problems that beset cross-government working, including short-termism and policy churn, both further frustrated by a lack of clarity and aims of policy.[20] The problems of co-ordinating funding streams across government are exacerbated when the main policy agenda the government is trying to tie them to is seen as amorphous, unclear and lacking political prioritisation. Driving a coherent cross-government policy agenda is not easy given structures and culture in Whitehall – it requires the agenda to be set from the top and for all parts of government to work together, including the Treasury, to be successful.

Short funding periods and allocation delays make long-term policy making and good spending decisions difficult

Funding is often provided on excessively short timescales. Almost half of the funding streams for local government (48% of the total and 67% by value) listed in the government grants database for 2022/23 were due to expire by the end of that year. In practice, several will have been on an even shorter timescale, announced or released to local government within the financial year and needing to be spent before the end of the year.

Even where grants are awarded over multiple years for investment, timescales are often too short. While the government has been clear its levelling up agenda will take decades of investment to bear fruit, the Levelling Up Fund, one of the flagship funds, was specifically designed to get funding out of the door quickly and show visible progress by providing capital funding for 'shovel ready' projects.[21] Allocations for the first round of the fund were announced in October 2021 and prioritisation was given to projects that could be delivered by March 2024.[22]

For local authorities, the implicit incentive in a fund with a short time frame is to propose a project that can bedelivered in the short term. However, in reality few authorities have these types of projects waiting in the wings for funding. The Public Accounts Committee, looking at the Levelling Up Fund, raised concerns that many bids were over-optimistic about just how 'shovel ready' the successful projects were, suggesting that other, more realistic bidders, may have missed out based on this criteria.[23] As a result of these incentives from central government there are likely to have been many other projects that might have been delivered over longer timescales, and ultimately met the government's objectives better, that were not considered.

It is also difficult for authorities to develop long-term strategy when funding operates on short timescales. One-year funding pots force local government to focus on the immediate term, and what projects are deliverable quickly, rather than developing a longer pipeline of projects that could be delivered over several years in a complementary way. There is little value to developing an overarching local economic strategy when there is no certainty about what spending will be available and so little ability to commit to projects in future years. Working on such short timescales also makes it difficult to build in buy-in with the private sector and industry partners, who will be working to longer timescales with more future certainty.

This short-term approach to funding is especially problematic when funding is delayed, leaving only a few months to spend and is a particular problem when funding is ring-fenced and budgets are fixed. For example, the approval of investment plans for the UK Shared Prosperity Fund (UKSPF) was meant to be announced in October 2022 but was delayed until December, leaving far less time to spend money allocated for that financial year.

The Levelling Up Fund has faced similar delays. Successful bids for the second round of the fund, originally expected to be announced in October 2022, were not announced until January 2023, six months after the application deadline for local authorities.[24] The delays were in part due to a lack of capacity in DLUHC as the UKSPF investment plans and Levelling Up Fund bids landed at the same time.[25] As a result of these delays the Levelling Up Fund has been beset with problems due to high construction costs. The inflation of construction prices at the point of delivery, compared to the point of bidding, has made many of the projects awarded through the Levelling Up Fund undeliverable at the originally anticipated cost.

Since local authorities have had limited flexibility to move other money around to fill the gap, they have not been able to spend the money: only just over 10% of the £10.47 billion of funding from the government's three levelling up funds had been spent by December 2023.[26]

Competitive pots are often bad value for money

The government's regular use of competition to decide the allocation of funds to local authorities gets much criticism because it requires a lot of resource for relatively small amounts of funding. Of all grants provided to local government in 2022/23, around a quarter (only 8% by value, £6.8bn) were awarded according to competitive processes.[27] This includes many of the most high-profile funding lines linked to the government's levelling up agenda, including the Towns Fund and Levelling Up Fund.

The idea behind competitive bidding is that it drives up standards by encouraging local authorities to design better projects, leading to more efficient use of resources and ultimately faster economic growth.[28] The model was popularised under Conservative governments in the 1990s, then to encourage an "imaginative and innovative approach to tackling inner city problems" and to allocate area-based funding in a more targeted and less bureaucratic way.[29] Successive governments since have continued competitive allocation, with Michael Gove recently stating that competitive bidding is "one of the best ways of generating innovation or rivalrous emulation".[30]

However, as the use of competition has proliferated, even for relatively small pots, and become the default mode of allocating local growth funding in particular, it has become clear in several respects the model offers poor value for money and fails to achieve the central and local governments' objectives.

A key concern is that it encourages an emphasis on central government priorities over local ones. Whitehall sets the criteria for bids, which encourages authorities to bid for the projects they feel are most likely to be approved rather than are most likely to deliver the best local outcomes.[*] Additionally, even if priorities align, different planks of a local growth strategy might be funded by multiple different bids: one might succeeds but others fail, throwing the whole strategy.

Administrative costs can be large, and results far from guaranteed

Competitive bidding also has direct administrative costs, as authorities either have to divert staff away from other projects or enlist consultancy firms to produce bids. Both come at considerable cost. Portsmouth City Council estimated it took 362 hours to apply for the UK Community Renewal Fund (UKCRF),[31] and analysis by the research organisation Localis and the LGA placed average cost at £20,000–£30,000 per bid.[32] This all adds up: Durham County Council estimated it had spent £1.2m applying for *unsuccessful* bids.[33]

In practice, consultants were used to prepare the vast majority of bids for the first round of the Levelling Up Fund, Future High Streets Fund and Towns Fund (90%).[34] Some of these funds come with specific capacity funding to support bid writing. However, this often does not cover the entire cost, especially for larger authorities submitting more than one bid.[35]

The administrative cost is exacerbated by the fact that funds are often announced at short notice, with little consultation. And it is often not clear at the start exactly how the government will assess bids, meaning areas waste time bidding into pots they are unlikely to win. For example, in the second round of the Levelling Up Fund, DLUHC did not award funds to places that had received funding in the first round – Durham was one of the councils that had won in round one and had subsequently spent money preparing bids for round two that were later deemed ineligible. The council estimated it spent £1m developing the second-round bids.

The lack of a clear transparent process for awarding competitive funds is also problematic. While methodologies are often published to assess how places are ranked or bids appraised, how these methodologies are decided upon, and the extent of ministerial influence, is opaque. Levelling up funds have systematically been more likely to go to places represented by Conservative MPs, for example.[36] Even if the decisions have been reached without bias, this is rarely the perception, and those that lose out are likely to feel especially hard done by. As a result, competitive processes can damage trust and strain relationships between local and central government.

* Despite efforts by DLUHC and initiatives such as the Cities and Local Growth Unit (set up as an outward facing joint DLUHC and DBT unit) central government is not typically well informed about what local places need, and in which combination.

The resource burden falls to some extent on central government as well. A 2022 NAO report stated that DLUHC at that time still did not have the capacity or capability it needed to deal with the increased workload, in part arising from the replacement of European structural funding.[37,38] In January 2022 there were a total of 1,399 bids of UKCRF, LUF and Freeports at the same time. The department has subsequently increased its headcount.

Scrapping all competition is not necessarily the answer

Some have suggested that competitive bidding should be banned entirely – but there are some cases when it can work well. Experts we interviewed for this project argued that there could be benefits to competitively allocating funding under specific circumstances but that steps could be taken to reduce the resource burden of bidding. Given, for instance, that a key rationale for competition is that it incentivises innovation, there may be some circumstances where it is appropriate to run a competitive process for locally developed, innovative pilot projects.

This worked for the Community Renewal Fund (CRF) launched in May 2021. This was a new programme that funded pilot projects to help explore ways to boost economic recovery in the aftermath of the pandemic. To try to ensure the fund targeted areas of greatest need, the government identified 100 priority areas for the CRF based on an index of economic resilience. The result was a wide range of projects were funded, many of which were in the priority areas including a support programme for Leicester's textile industry exploring skills- and innovation-led regeneration in the city and agri-tech projects in Devon.[39]

One other area where competitive allocation can be appropriate is in funding a large non-fungible national asset – for example, a government department or research centre – that could generate large 'cluster benefits' wherever it is located but where the government does not have a clear justification for choosing one area over another. In this case it will need to work out which area has the best characteristics – appropriate sites, the availability of land, a local plan and a shared vision across the different structures in that local area to deliver. Here, local authorities 'making the case' could help identify the best place for such an investment.

Pushback from ministers makes streamlining across government difficult

This complicated landscape of many funding pots has emerged more by accident than design. Some we spoke to told us that attempts to streamline funding both now and in the past have faced pushback from central government departments. This is both because of ministers' incentives to announce new funding that they can take credit for – to "be seen to be doing something about the hot issue of the day"[40] – as well as legitimate concerns over local authority governance and capacity to deliver. Both have driven the increase in individual funding pots.

As ministers find small amounts of money, or look to deliver on particular objectives, the response is often to set up a new fund to tackle that particular objective or to deliver a specific type of project. There is a logic to applying tight conditions to small funding streams in these circumstances. When ministers spend more money, they want to know what that money will provide and that it will address things they care about. Small and ring-fenced pots can be a way to ensure money is spent in line with government priorities. Competitive allocation has the benefit for ministers of retained control: once a minister has decided that something (for example, towns) is an important priority, they can then decide which towns the money goes to.

Local authorities have faced substantial cuts to their core funding over the last 14 years, with many having to hollow out services like planning and economic development to keep front-line, often statutory, services going.[41] As ministers are accountable to parliament for money sent to local authorities, concerns about capacity have added to this culture of control. The single settlement trailblazer deals for the Greater Manchester and West Midlands combined authorities show that central government is satisfied that these places have the strategic capability and sufficient institutional maturity to take more local growth decisions.

At a smaller scale, the consolidated funding pots in the forthcoming 'level 4' devolution deals will act as a stepping stone for other combined authorities as they build this maturity and capability. While many more places are not yet at this stage, short-term and inconsistent funding outside of the core settlement has made it difficult for these local authorities to retain staff and expertise in house.

More fundamentally, this over-centralisation also misses the point that one of the main benefits of devolution should be the use of local knowledge. By restricting how money can be spent, the system limits authorities' ability to do employ its knowledge to the best of its ability. There needs to be a balance struck that retains a level of central government oversight and accountability of funding but which also supports local authorities to build capacity in the longer term.

The challenge of simplifying funding for local authorities is nothing new. Past governments have attempted to streamline funding – from the Single Regeneration Budget and Modernising Rural Reforms in the 1990s to the coalition government's reforms in the 2010s – only for plans to stall, or for the number of different pots to increase again. The next section sets out our proposals for how the next government, with a fresh mandate and at the start of a new parliament, can go about making changes that stick.

Five tests for successful reform

In light of the problems identified, we set out five tests any plan to simplify funding for local growth must meet if it is to fix the elements of the current system that are broken – and which the next government should design and carry out any reforms of the funding system against.

1. **Is the funding landscape informed by a clear and overarching national strategy for local growth with high-level objectives?**
   Past attempts to boost local growth, including the levelling up agenda, have been undermined by a lack of strategy to guide decisions about what funds should be available and what they should try to achieve. A cross-government strategy will provide central and local government with a clear understanding of how different policies and funding streams fit together to drive local growth.

2. **Does the reformed system provide longer term certainty?**
   The development of coherent local strategies relies on consistent funding. Authorities cannot do this in a context where funding is announced at short notice, after budgets have been set, and with short time frames for delivery with no certainty of winning funding further down the line. Longer term funding will allow local areas to set out clear plans, build pipelines of projects and provide better value for money.

3. **Will the new system give enough flexibility to better align local need and central government objectives?**
   Tightly ring-fenced funding that is aligned to central government priorities undermines the potential benefits of local leaders who could, with more flexibility, spend the money in a way that best meets local need and joins up projects in a way that the centre cannot do for each individual area.

4. **Does the plan reduce the administrative burden on local and central government?**
   The current system imposes high burdens on combined and local authorities through both the requirement to write bids and the need to monitor and report against dozens of different funding lines. Judging bids and monitoring the system effectively also uses up substantial central resource.

   These could mostly be achieved through making funding as flexible as possible, with some central government oversight and a clear strategy – as is largely the approach of the government's single settlements in trailblazer devolution deals. But focusing only on these four tests would fail to acknowledge the reasons why the current system has evolved into such a fragmented landscape, and why ministers have been unwilling to embrace a much more flexible system. There are, after all, good reasons why central government would want to maintain some control over how local government spends funds for local growth, especially where local capacity to take strategic decisions is known to be more limited. As a result, we also include a fifth test.

5. Will central government retain sufficient oversight over how funds are spent?

Central government is ultimately accountable for funding provided to combined and local authorities, and any increased flexibility must be provided in a way that ensures ministers can be confident that the funds are spent effectively and in line with their priorities. However, as we show below, accountability can be retained with substantial improvements to the current arrangements.

The government's funding simplification plans

Both Labour and Conservatives have presented variously titled plans for local growth that recognise the current funding landscape as a key barrier in England. The government has committed in its levelling up white paper to deliver "a more transparent, simple and accountable" approach to local government funding.[42] Along with the broader English devolution project, funding simplification is an area where this government has made progress. However, the job is not complete and for its part Labour has also committed to review local government funding if it forms the next government.[43] In this section we assess the current government's progress against our tests set out above.

The government's plans for local growth lack a clear strategy tying together policy and funding

The levelling up white paper was an attempt to introduce much needed detail and strategy into a nebulous agenda and recognised the role of local government funding for unlocking the potential of devolution and supporting economic growth. However, as our previous research has shown, since then the agenda has fallen into some familiar traps. One is a lack of a clear national strategy setting out the aims of the policy.[44] Given how broad the challenges of tackling regional inequalities are, aims and objectives need to be stated clearly. A national strategy should include a plan for how all actors – including central and local government – are expected to play their part and how funding will be tailored to support them.

While the white paper highlighted the importance of the long-term plan, the funding strategy accompanying it focused rather on getting money out of the door to "ensure the visible delivery of regeneration projects within the space of a few years".[45] A recent *Financial Times* report headlined "Inside the UK's failing plans to level up left behind towns" highlighted the problems caused by the lack of a national strategy underpinning the government's levelling up funding to local authorities.

The current government's record does not meet our first test – although, despite this, it has made progress in two distinct areas: the single settlement trailblazer deals and the funding simplification doctrine.

Single settlement trailblazer deals represent a big step forward but will not benefit all areas

The most radical progress the government has made on funding simplification is on new funding arrangements for most – though not all – mayoral combined authorities from the next spending review. Through their trailblazer deals, Greater Manchester and the West Midlands will each receive a 'single settlement' block of funding to cover five functions.* Rather than bidding for funds, or receiving fund-specific ring-fences and reporting requirements, the authorities will receive funding in one tranche.
By providing multi-year settlements, with much more flexibility, the single settlement model meets our tests to increase certainty and flexibility and reduce administrative burdens. Accountability to central government will be achieved through an outcomes framework – judging the results of spending rather than controlling inputs.

The government has also set out plans for new level 4 devolution deals to act as a stepping stone for other combined authorities before they get trailblazer single settlement deals. These level 4 deals offer something similar to the single settlement, a simplified model of block grant funding, but only for the two areas of funding overseen by DLUHC (local growth and place and housing and regeneration).

The funding simplification plans for these areas meet most of our tests. Consolidated funding over longer time periods with reduced reporting requirements will allow these places to make better strategic decisions. However, most areas sit outside of these deals, the funding system for those areas not ready to take on level 4 or trailblazer deals does not meet our five tests.

The simplification doctrine is a plan for all of government but has relatively weak incentives for change

Another development, the 'funding simplification doctrine', is the government's approach to simplifying funding in those areas outside of the single settlement. The doctrine is a cross government policy to reduce the burden on local authorities and drive value for money by encouraging departments to choose the most suitable distribution method when designing funding for local authorities.

It represents a gradual reform of the existing landscape, recognising that not all areas are ready for the freedom and responsibility the single settlement offers. The doctrine is built around four principles (see Box 1) that departments should consider when designing new funds for local government.

* The funding streams cover local growth and place, housing and regeneration, buildings retrofit, local transport and skills

Box 1: The principles underpinning DLUHC's funding simplification doctrine

Build on existing programmes: with the aim of reducing the number of new funds, each with their own monitoring and evaluation processes, departments should, in the first instance, look at topping up existing funds instead of creating new ones.

Select a distribution method: with the aim of reducing the reliance on competitive distribution of funds, the value for money consideration of the funding should include scrutiny of how the design impacts the cost to local authorities and government departments.

Test: with the aim for departments to get a better understanding of the impact of the distribution method on local authorities before launching the fund, departments should ask for feedback on their proposed plans from a sample of local authorities.

Use exiting data: with the aim of reducing the burden of data requests on local authorities, departments are encouraged to use existing and alternative sources of data.

The doctrine is a welcome step but will do relatively little to promote longer term certainty – our second test. None of its principles requires departments to consider how long funding should be committed for. However, the first principle – to build on existing funds – may help to achieve this if departments respond by expanding multi-year funds like the UK Shared Prosperity Fund.

The commitment to build on existing funds may also indirectly help to provide greater flexibility for authorities – our third test. Integrating new funding streams into existing schemes could provide greater flexibility than the invention of new funds with new ring-fences. If departments respond, as is intended, to the doctrine by reducing the number of new competitive pots, and instead provide more flexible funding, this will also help to achieve this objective and meet our third test.

Our fourth test – that administrative burdens be lowered – is a core focus of DLUHC's doctrine. Rolling multiple funds into one streamlined monitoring and reporting system will reduce the burden on local authorities during the timeline of the funding. However, there is limited detail yet on what constitutes a well-designed fund, and under what circumstances competitive bidding might be appropriate for officials and ministers to draw on when making decisions about funding design.

The funding simplification model retains a lot of control at central government level, and therefore meets our fifth test. However, the doctrine has relatively week incentives for departments to change their current approach to funding and therefore gives little authority to DLUHC to drive these changes across government. The main force behind the doctrine is that other departments will need to demonstrate that 'they have considered the doctrine' by submitting a pro forma to DLUHC. The department will then provide feedback before the business case goes to the Treasury and/or relevant departmental investment sub-committee. The Treasury, or other decision maker if it does not require Treasury approval, should then 'consider' DLUHC's assessment when determining whether the business case should be approved.

While the doctrine sets out a useful framework for considering the impact of funding design, it does little to challenge the incentives of ministers to announce new funds – on 'pet projects', for example – or provide enough detailed guidance for officials to think about the different design elements of new funding or to challenge the prevailing theory that 'competition is best'.

Recommendations

The next government, whoever leads it, needs to take a different approach to its predecessors if it is to deliver the simpler funding landscape that both main parties have called for. The current government's plans represent a step in the right direction, especially as regards the single settlement deals, but do not go far enough. Our recommendations are designed to help the next government carry its agenda forward more effectively.

Funding should be based on a clear strategy for delivering the government's local growth agenda

The fragmented and confused funding landscape in recent years reflects a failure of central government to develop a coherent strategy. Without a clear idea of what funding will be used for, and what outcomes and objectives will be prioritised, funding is likely to remain fragmented. This is particularly the case when funding for local growth and other initiatives comes from several different departments across government, and some of the outcomes targeted will cut across departmental portfolios.

As we have previously recommended, **a successful regional policy agenda requires a clear strategy that sets out the respective roles of central and local government**, and explains how different policies and funding lines fit within it.[46] The government should set this out early in the next parliament.

The single settlement model should be expanded to more places over time

The single settlement model of funding satisfies most of our tests, providing combined authorities with flexible, medium-term funding to spend on five key economic functions. This represents a large shift in the role of combined authorities, giving them a much greater say in how funding for economic projects is allocated. This requires additional strategic capability, and sufficient institutional maturity to take difficult financial decisions. It is therefore right that, for the next spending review, the model will only be available for Greater Manchester and the West Midlands, while a less expansive version covering local growth and housing will be available to three other combined authorities.[47]

This is the model of funding that the government should be moving towards for all of England in the medium to long term, but it should ensure places are ready to spend the funding well before devolving the additional responsibility. The government should aim to provide a single settlement model for **West Yorkshire, South Yorkshire, Liverpool, North of Tyne and Tees Valley combined authorities by the second multi-year spending review in the next parliament**, which will require completing deals in the first two years of the parliament. Other places should follow as their new devolved institutions mature.

Over time, the model should also be made more flexible. Initially, combined authorities will only have limited flexibility to switch spending between (for example) skills and housing funding. This flexibility should be increased over time, and the outcomes they are required to achieve should be higher level, only specifying genuine outcomes rather than inputs and outputs. These outcomes should also closely relate to the government's regional strategy.

Funding outside competitive pots should be streamlined into a few larger funds

For places not yet ready for a single settlement, the funding model needs to retain more central government control and accountability. It should also recognise that ministers can legitimately set out priorities for how funding should be spent, as is the case even in the single settlement model through ministers specifying outcomes. However, the problems of too many funding streams, with separate reporting requirements and highly restricted use for each, can only be remedied through a major simplification that strikes the right balance between flexibility and central control and accountability.

Most local growth funding should be funnelled through multi-year streams linked to achieving particular objectives, covering spending review periods. Too often, different funds with similar objectives are administered separately, preventing effective join-up and adding bureaucracy. By linking funding to objectives, rather than central government specifying which projects money can be spent on, this model would also allow local areas to identify the highest priority projects.

The objectives for different funds should be specified in the government's regional policy strategy, and should be linked to the outcomes set for combined authorities in the single settlement. In some cases, it might be appropriate for there to be only one fund corresponding to one of the five single settlement functions: for example, on housing. In other cases, it might be appropriate to have a couple of funds: for example, the local growth stream of the single settlement covers both cultural and economic interventions.

The key difference between this model and the single settlement is how accountability and government oversight would work. Under the single settlement, central government will have little oversight over what is spent. **For areas outside the single settlement, areas should submit their plans for spending each stream for prior approval**, set by the highest subnational unit in each geography. This should follow the model of the UKSPF, where combined authorities, the GLA, and unitary and district councils outside areas with devolution deals have submitted investment plans, comprising a list of pre-vetted types of intervention set out by DLUHC (although it should be county rather than district counties setting plans in two-tier areas).

Only major changes to these investment plans then need to be reviewed by central government after initial approval. By default, these funds should be administered by the highest subnational authority in each place, which will increasingly be combined authorities but will also be county councils in some places. **Where appropriate, plans should be approved by multiple departments if objectives are cross-cutting.**

If new funding becomes available, by default it should 'top up' these existing pots rather than be distributed by a new fund. This funding need not follow the same distribution methodology as the overall fund if it has a particular purpose: for example, it could prioritise rural areas if this is the purpose of the funding. In September 2022 the government launched the Rural England Prosperity Fund to replace the EU LEADER and Growth Programme, part of the Rural Development Programme for England, as an addendum to UKSPF. Like UKSPF, local governments could also be required to specify when projects have been achieved using one of these funds to allow ministers to take credit.

This model would retain sufficient central government oversight to ensure funding is spent well, while also representing a radical simplification of the system. Multi-year funding would allow areas to plan a set of interventions, with less onerous reporting requirements and the ability to focus on the local areas' highest priorities. Other funding pots could be used in special circumstances, but these would be the exception rather than the rule.

Competitive pots should only be used in exceptional circumstances

It will not be appropriate to deliver all funding through these multi-year streams, although there should be a strong presumption that most funding will be. The system will, however, need guards against the proliferation of competitive pots that has characterised the landscape in recent years and do not drive good value for money.[48] Banning any use of competitive funding would be to go too far: as we noted above there might be instances when competitive bidding is justified. But those reasons – innovation and the allocation of strategic national assets – would not cover many of the funding pots launched in recent years.

There should be a strong presumption that competitive pots are not the appropriate distribution methodology for local growth funding, except in specified circumstances. Those circumstances where competition is appropriate could evolve over time as evidence improves, but we recommend that those circumstances are innovative funds and the allocation of strategic non-fungible national assets in the first instance.

When competitive projects are judged to be appropriate, there are also ways in which they can be designed to minimise other costs so that they can meet our tests. **To reduce the burden on resources, new funds allocated through competition should only be available to local authorities that meet certain criteria set out in advance that relate to the outcomes of the funding**; for example, if the fund will target rural or urban challenges. Or in the case of the Community Renewal Fund, which was targeted at post-pandemic economic recovery and prioritised areas using an index of economic resilience. This would reduce the number of 'losers' who spend money preparing a bid when they have little chance of winning and ensure that the funding is targeted at the right type of places rather than primarily those that have a greater capacity to write winning bids. **The government should also provide support for places to write bids for these funds.**

Pots often lead to difficulty when there is not enough time to spend the money once it has been distributed. **To provide long-term certainty, competitive funds should also have multi-year time frames with at least one year from distribution to a deadline for spending.**

Central government should evaluate local growth funding better

The NAO has found that we have not learned as much about what works in local growth funding because evaluation has not been good enough.[49] This also helps to explain the gaps in the evidence base that mean we do not know if and when competition is an effective allocation methodology. The government should ensure it is learning about what works in all local growth spending, and especially for competitive pots where the primary purpose is innovation.

DLUHC should set up an innovation taskforce specifically to bring together evaluations from previous funds, analyse best practice of different allocation methods and where competition has been used for pilot projects act as a hub for sharing learnings across local authorities. It should also evaluate spending across the large multi-year funds to identify best practice and share these findings with devolved authorities. DLUHC is best placed for this because it has existing relationships with local authorities.

A clear process of enforcement should be set out to bind other departments

For a new model of simpler funding to be applied to all local growth spending, and possibly wider, there will need to be a robust enforcement mechanism that keeps departments, including their ministers, on track despite incentives to do otherwise. While DLUHC, as the department of local government, can be expected to follow any new approach, grants are also given by other departments including DfT, DfE, DCMS and DBT. The support of the Treasury, as guardian of public spending, is key.

The Treasury should commit at the next spending review to simpler funding for local growth, apply these to departmental awards and set out clear guidelines for how any funding streams announced after the spending review will be spent. This could be done by committing to a strengthened version of the current funding simplification doctrine.[50] It may also require the Treasury to change the *Managing Public Money* handbook to clarify that competitive allocation is generally not considered value for money.

We understand that the Treasury is supportive of the funding simplification doctrine, and has already written to departments to indicate it expects them to adhere to the funding simplification plans. However the next government chooses to approach simplification, it should establish it clearly at the first multi-year spending review and ensure Treasury spending teams are responsible for its enforcement.

Conclusion

Both Labour and the Conservatives, through their different plans, have committed to devolution as a model for driving local economic growth. Both rightly recognise that reforming the local funding landscape is key to achieving these aims. Fragmented funding across many different funds and a "begging bowl culture" driven by an over-reliance on competitive bidding has placed huge resource strain on local and central government and stops local government from being able to join up and spend money in a way that best meets local need.

This government has made notable progress on English devolution. However, the job is not yet done and clear problems persist that are holding back local areas outside the single settlement. The next government should build on this progress and go further.

If a government were able to deliver the changes we have recommended in this report, it would go a long way to fixing existing problems with the 'plumbing' of local growth funding, making processes and decision making more efficient in both central and local government. This will give the next government's local growth plans, and any other policies it looks to implement in partnership with local government, a much greater chance of success.

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50 The doctrine should be strengthened to set out the principles that we outline in these recommendations, including that competition is only justified in limited circumstances.

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