Appendix 2 - Paper by Industrial Communities Alliance

LOCAL AND REGIONAL DEVELOPMENT: THE CASE FOR LONGER-TERM FUNDING

Paper for consideration by HM Treasury

The problem

The present system of funding for local and regional development is deeply flawed. This is a problem that affects all parts of the UK, including the devolved nations. At its heart lies the financial rules operated by the Treasury.

That the current system is failing is the widely held view of local authorities. It is also a view known to be held by officials in the Department for Levelling Up who deal with this funding on a day-to-day basis.

Under the present system, the principal funding for local and regional development is only made available for the duration of a Spending Round – currently through until March 2025. Each Spending Round typically lasts only three years and it can be well into the first year before the government has put the funding architecture in place, thereby reducing the duration of spending to not much more than two years. Under the present system a specific sum is also set for each financial year, with only ad hoc and limited provision for transfers between years.

This system has profound disadvantages:

- It presents an **obstacle to longer-term projects**, including those of a transformative nature, that need to run on beyond the end of a Spending Round.

- It renders the funding of **capital projects** especially difficult, since these often require significant lead-in time to work up specifications, secure permissions and put contracts out to tender.

- It undermines **revenue-funded schemes**, which typically require an up-front period to recruit staff who then find that they need to prioritise looking for alternative work or funding in the final year of a project.

- It requires **local spending plans** to be put together in a rush to satisfy deadlines, often with inadequate input from stakeholders.

The shortcomings of the present arrangements have been highlighted by the replacement of EU funding by the UK Shared Prosperity Fund. Whereas EU spending rounds ran for seven

years with the option for spending to run on a further three years, the government has allocated UKSPF funding for only three years with no option for monies to be rolled forward beyond March 2025. In practice, because the UKSPF Investment Plans were not signed off until the autumn of 2022 all the UKSPF spending has to take place over just two-and-a-half years.

These arrangements fail to deliver best value for money. Because of the short timescales for planning and delivery, they also favour 'shovel-ready' projects over other schemes with potentially greater impact.

Treasury concerns

The Treasury does of course have legitimate concerns:

- The need to control the scale of public spending in each financial year – an essential part of macroeconomic management.

- The avoidance of spending by local players being deferred further into the future. This would undermine government efforts to deliver early results.

- Financial commitments beyond the end of Spending Rounds would limit the options open to future ministers, especially if there were to be a change of government.

On the other hand, as the Treasury will be aware, although named spending programmes come and go the broader departmental budget lines tend to be carried forward from one Spending Round to the next. For example, the present day Towns Fund, High Streets Fund and Levelling Up Fund are in budgetary terms the successors to the Local Growth Fund (2015-21) which in turn replaced amongst other things the pre-2015 Regional Growth Fund and Growing Places Fund.

Striking a balance

What is needed is a **pragmatic compromise** that balances the need to maximise local and regional benefits (and thus value to the taxpayer) with the Treasury's need to maintain financial control.

The straightforward option would be to earmark a proportion of funding to be spent beyond the end of each Spending Round. In effect, some of the funding would be allocated across two Spending Rounds – perhaps up to six years ahead. To maintain spending in the short-term (a Treasury objective) the allocation to be spent in the first Round would remain unchanged; the additional funding would be for projects that needed to roll on into the subsequent Round. This roll-on funding would accordingly be somewhat less, leaving scope for discretion on overall spending in the second Round.

A stable level of spending through time would imply that at each Spending Review budget lines would topped-up for the forthcoming round and the one after that.

In dealing with EU funding rounds lasting seven years (with a further three-year roll-on at the end) the Treasury has over the last thirty years built up substantial experience in managing longer-term budget lines of this kind. In the case of EU funding, the spending profiles were predictable and on the whole led to little difficulty in getting money 'out of the door' at the right time.

In other spheres of public spending, of course, committing monies beyond the end of Spending Rounds is not unusual. It is the norm for example for major infrastructure projects and in defence procurement.

A variant might be to differentiate between capital and revenue spending. Capital projects are generally slower to get off the ground and take longer to complete. Money earmarked for capital projects might therefore be allocated across two Spending Rounds. By contrast, spending on revenue-funded projects is somewhat easier to turn on and off (though not without problems around staffing, as noted earlier). Revenue spending might in theory continue to be allocated just for the duration of a single Spending Round.

The benefits of longer-term funding: two examples

National Coalfields Programme

In 1996 the then Conservative government established the National Coalfields Programme, under the management of English Partnerships (now Homes England) to return 56 former pit sites to use. The programme was expanded in the wake of the 1998 Coalfields Task Force report and again (twice) in the early 2000s to cover 107 sites in all. Around £800m of public money was invested up-front, of which around half was subsequently returned in land sales, levering in a further £2bn of private sector investment.

Barring a few loose ends, the coalfield programme ran for almost 20 years until 2015. It made probably the biggest single contribution to regeneration in England's coalfields – the sites now accommodate some 40,000 new jobs and 10,000 new homes, plus public open space.

Heads of the Valleys road

The dualling of the Heads of the Valleys road (A465) between Abergavenny and Swansea in South Wales is a major initiative that got the go-ahead in 1999. It has been undertaken in stages, with the final part due to be completed in mid-2025. EU funding, available on a multi-annual basis right the way through until 2023, has been central to the scheme. The most expensive and difficult section, rising up a narrow gorge, cost £300m.

Dualling transforms the road from a slow and dangerous single carriageway to a strategic link in Britain's road network, speeding up access to West Wales and opening up

development opportunities in what is possibly the single most economically disadvantaged part of the UK – the upper half of Welsh Valleys embracing towns such as Ebbw Vale, Tredegar, Rhymney, Merthyr Tydfil and Aberdare.

Which funds, and how much?

Exactly how much funding needs to be placed on a longer-term footing is unclear. The starting point is probably the existing levelling up funds:

Fund	Amount
Towns Fund	£2,350m
Future High Streets Fund	£830m
Levelling Up Fund	£4,800m
UK Shared Prosperity Fund	£2,600m
Community Renewal Fund	£200m

These are the sums allocated in the present three-year Spending Round through to March 2025. The combined value of the five funds comes to just under £10.8bn, all to be spent by the end of 2024-25.

Additionally, the UK is still drawing down EU funding. When this finally drops out of the picture in 2024-25 the UK Shared Prosperity Fund for that year, intended to be the replacement, has been set at £1.5bn – equivalent to £4.5bn over three years. On this basis, a further £1.9bn (£4.5bn less the present three-year UKSPF allocation of £2.6bn) needs to be added for legacy EU funding in the present Spending Round.

Adding in the legacy EU funding brings the running total to £12.7bn. Adjusting for inflation (20 per cent between 2021 and 2024 might not be unreasonable) the next three-year Spending Round might therefore need to allocate around £15bn, or £5bn a year. This would do no more than match present levels of equivalent funding.

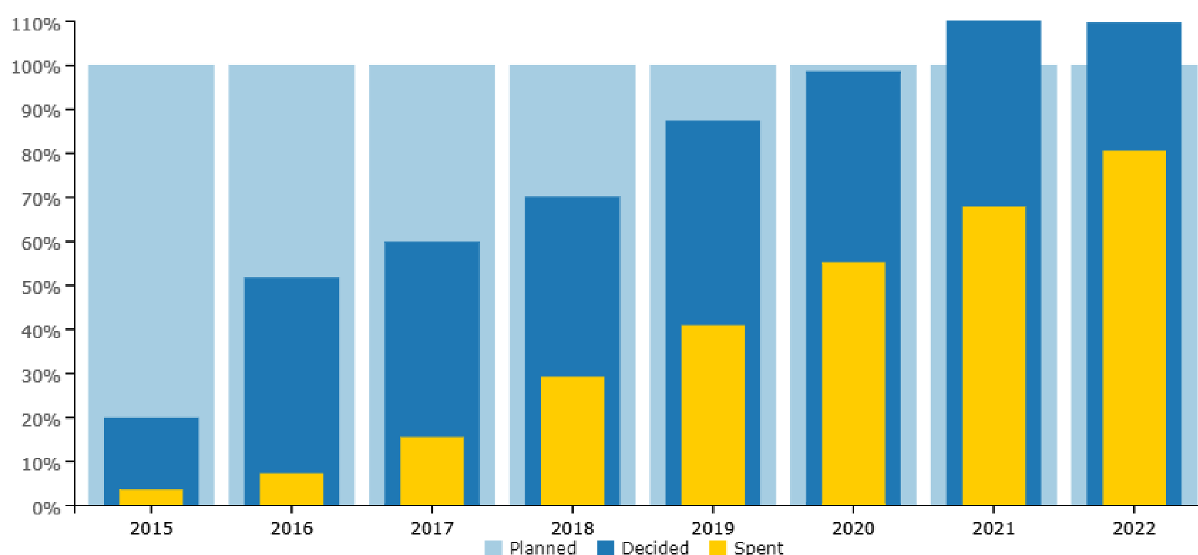
A figure of £5bn would be the **spending in each year** of the new Spending Round. To allow roll-on beyond the end of the round, the **financial commitment** would need to be larger.

How much should be committed further ahead?

So how much funding would need to be committed further ahead, beyond the end of the Spending Round?

EU funding to the regions may offer a guide. According to European Commission data, at the end of the 2014-20 EU spending round in December 2020, 99 per cent of the ESIF funding available to the UK had been committed to projects but only 55 per cent had actually been spent[1]. The remainder was due to be spent before the end of 2023.

[1] Source: European Commission *Open Data Portal for the European Structural Investment Funds*



In practice there are likely to be delays in recording EU-funded expenditure – the figures here are passed on by local players to central government and then to the Commission – so the actual spending by December 2020 will have been somewhat higher. What these figures do suggest, however, is that perhaps a third of EU-funded spending rolled on beyond the end of the spending round. This is a reflection of the funds' role in supporting longer-term projects, often involving capital spending and in some cases, no doubt, of an ambitious or transformative nature.

The figure earlier of **£15bn over three years**, needed to match present levelling up spending, referred just to expenditure within the next Spending Round. If the ratio between 'in-round' and 'roll-on' expenditure in EU funding were to be applied to UK levelling up funding, an **additional £7.5bn** would need to be committed in the next Spending Review for expenditure running beyond the end of the Spending Round.

The calculation here, based on EU funding, is purely illustrative. In practice there is no 'magic figure' for the proportion of roll-on expenditure or indeed for the duration of roll-on spending. Different projects take different times to deliver, so the choice between alternative schemes will always to some extent be influenced by the scale and duration of the available funding. What needs to be clear, however, is that the present funding timescales, driven by the duration of single Spending Rounds, are wholly inadequate.

How would all this work in practice?

Expenditure control

Let's be absolutely clear: what is being proposed here is not additional expenditure. Any funding allocated to be spent in the next-but-one Spending Round would be an early commitment of monies to be spent in that round. At the following Spending Review, the

allocation for additional in-round expenditure would accordingly be lower, though again there would be a commensurate allocation for roll-on expenditure into the next Spending Round.

Performance management

The Treasury wants to make sure that local partners deliver on their promises and above all that money does not go astray – fair enough, though fears about the competence and intentions of local authorities are seriously overblown.

It would be unreasonable for the Treasury (or one of the spending departments) to withdraw money that had already been allocated for roll-on expenditure because this would derail projects that were only half-completed. The potential for roll-on funding to be withheld would also have the perverse effect of disincentivising local partners to engage in the more ambitious longer-term projects that roll-on funding is intended to create. If there really were to be a local performance management issue, central government could presumably react by curtailing *additional* funding allocations to the area in question.

Devolution

Again let's be clear: what is being proposed here is an across the board arrangement that would apply to all local authorities (certainly in England) irrespective of status or the stage of any devolution deal. To do otherwise – say to restrict roll-on financing to just a handful of combined authorities – would completely remove the potential benefits of longer-term funding across a wide swathe of the country.

That said, the principle of longer-term funding does not imply a specific geography. It may be that for some funding combined authorities offer the best option for distribution and management; for other funding streams it may be unitary or district authorities.

Ministerial discretion

Ministers would not be disempowered by the introduction of longer-term funding, nor lose the discretion to determine spending levels further into the future in response to political priorities and budgetary constraints. Once the system was in place, at each Spending Review ministers would have the same discretion to reduce or increase specific budget lines but a proportion of the expenditure from each budget line would cover spending further ahead in the future.

The real bonus for ministers would be that they would be implementing a framework that would deliver better value for money. For this they should be able to claim political credit.

Conclusions

- The present funding arrangements are seriously flawed and do not deliver value for money.
- A pragmatic compromise needs to balance effective local and regional development against the Treasury's desire for financial control.
- The way forward would be to commit a portion of planned spending beyond the end of each Spending Round.

Industrial Communities Alliance
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Industrial Communities **Alliance**

The Industrial Communities Alliance is the all-party association of local authorities in the industrial areas of England, Scotland and Wales

National Secretariat, 1 Regent Street, Barnsley, S Yorks. S70 2EG
01226 200768
natsec@ccc-alliance.org.uk
www.industrialcommunitiesalliance.org.uk

Comments from selected local authorities

Barnsley MBC

"Each funding bid…required a HM Treasury Green Book business case and individual delivery, monitoring and evaluation frameworks with funders – often reporting on the same metrics to the same funder (e.g. DLUHC) on separate funding elements. Had we had the opportunity to make the case…for the total central government investment (c. £25m) from the outset this would undoubtedly have been more efficient and achieved better value for public money in terms of both BMBC and central government resources."

Caerphilly Council

"Due to the short delivery time available for a complex capital programme of projects we were only able to include the mobilisation phase of the most significant element of the masterplan…i.e. land acquisition and ground/utility preparation, which meant that the bid was significantly weakened…"

Durham County Council

"The government needs to… understand that local authorities cannot afford to keep projects shovel-ready."

"The government's levelling up approaches are too short-termist and do not enable fundamental, long-standing economic weaknesses to be addressed…With short timescales, the emphasis is on deploying all of the investment rather than ensuring the optimum results and value for money."

Glasgow City Council

"Three years is too short a period as you are no sooner starting delivery under one programme than you have to start thinking about the next…The current UK system puts a premium on projects that can deliver quickly rather than necessarily the best projects"

"Having had a dash for design we are… now in a dash to deliver."

Wigan MBC

"Spending rounds…present a challenge in establishing and maintaining a longer-term strategic 'pipeline' of regeneration and development projects…including brownfield sites that are often complex to prepare for development. Bringing projects of this type to fruition involves activity at multiple stages from initial concept development, through technical due diligence and development, to funding and delivery. Ideally there would be the ability to commit funding across all stages of this activity at the outset…so that investment decisions could be made with less concern about the potential for abortive spend."