

Research Briefing

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# Local Growth Funds



## Summary

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## Summary

This briefing is a short summary of current government administered funds designed to support local economic growth. It includes descriptions of, and where applicable, funding results of the following funds:

- The Levelling Up Fund
- The Towns Fund
- The Community Renewal Fund
- The Shared Prosperity Fund

It also includes a summary of the assessment of the effectiveness of these funds published by the National Audit Office and a summary of future government plans for these funds described in the Levelling Up White Paper.

For more information on the Levelling Up White Paper and the levelling up agenda in general, see the [Library briefing on the subject](#).

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# 1 Local growth funds

## 1.1 The Levelling Up Fund

The Levelling Up Fund was announced in November 2020 as part of the [2020 Spending Review](#). This stated the fund would be worth £4.8 billion, with £4 billion of this to be spent in England and £0.8 billion to be spent in Scotland, Wales and Northern Ireland.

The Spending Review described the purpose of the Fund as investing in “local infrastructure that has a visible impact on people and their communities and will support economic recovery... prioritise bids to drive growth and regeneration in places in need, those facing particular challenges, and areas that have received less government investment in recent years.”<sup>1</sup>

The Government published a [prospectus](#) alongside the [March 2021 Budget](#) - this stated that the Fund would focus on capital investment in local infrastructure and would be delivered through local authorities in England, Scotland and Wales.

The prospectus states funding will focus on those areas “most in need of levelling up” – those areas were determined by an index published alongside the prospectus that ranks local authorities by on a scale of 1 to 3, with those ranked 1 considered most in need and those ranked three least in need. These ranking are split evenly between all local authorities in England, Scotland and Wales – a third are ranked 1, a third ranked 2 and a third ranked 3.<sup>2</sup>

The ranking system is based on three criteria:

- need for economic recovery and growth;
- need for improved transport connectivity;
- need for regeneration.

In England, Category 1 places were eligible to receive targeted capacity funding, to support them in preparing high-quality bids, though all places in Scotland and Wales were eligible for this capacity funding, independent of their place in the index.

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<sup>1</sup> HM Treasury, [Spending Review 2020](#), CP 330, November 2020, pg. 4

<sup>2</sup> See HM Treasury, [Levelling Up Fund – list of local authorities by priority category](#)

Local authorities in Northern Ireland were not included in the index, owing to “the different local government landscape compared to England, Scotland and Wales”; capacity funding was also made available to local authorities in Northern Ireland.<sup>3</sup>

Every local authority was eligible to submit at least one bid. The Fund focuses on investment in projects that require up to £20 million of funding, though bids of between £20 million and £50 million were accepted for transport projects. County councils with transport powers, combined authorities, mayoral combined authorities and the Greater London Authority were eligible to submit one transport bid; unitary authorities in England with transport powers were able to submit one additional bid which must be for transport.

The first round of the Fund focused on three themes - transport projects, town centre and high street regeneration and cultural investment.

The deadline for applications for bids was 18<sup>th</sup> June 2021.

## Round 1 results

Results of the first round of the Levelling Up Fund were published by the Department for Levelling Up, Housing and Communities on 27 October 2021.<sup>4</sup>

305 bids were received, of which 105 were successful. The table below shows funding awards made by region and country.

Levelling Up Fund, round 1 awards by region				
	Awards	% total	Value (£m)	% total
North West	12	11%	232	14%
East Midlands	10	10%	203	12%
West Midlands	11	10%	196	12%
Yorkshire and Humber	10	10%	187	11%
Scotland	8	8%	172	10%
South East	11	10%	151	9%
South West	6	6%	131	8%
Wales	10	10%	121	7%
North East	5	5%	100	6%
East	5	5%	87	5%
London	6	6%	65	4%
Northern Ireland	11	10%	49	3%
<b>Total</b>	<b>105</b>	<b>100%</b>	<b>1,693</b>	<b>100%</b>

Source: [Department for Levelling Up, Housing and Communities](#)

<sup>3</sup> HM Treasury, MHCLG, [Department for Transport, Levelling Up Fund: Prospectus](#), March 2021, pg. 5

<sup>4</sup> For a full list of results, see Department for Levelling Up, Housing and Communities, [Levelling Up Fund, first round successful bidders](#), 27 October 2021

76 awards were made to local authorities in England, worth £1.4 billion, 80% of all funding awarded. The prospectus stated, for the first round of funding, at least 9% of total UK allocations will be set aside for Scotland, 5% for Wales, and 3% for Northern Ireland – Scotland and Wales both received funding in excess of these allocations.

The table below shows awards made by priority index categories published alongside the prospectus. 62 awards were made to local authorities in priority category 1, with a total value of £1.1 billion, 67% of funding awarded.

Levelling Up Fund, round 1 awards by priority category				
	Awards	% total	Value (£m)	% total
Priority category 1	62	59%	1,133	67%
Priority category 2	18	17%	271	16%
Priority category 3	8	8%	103	6%
Northern Ireland*	11	10%	49	3%
Other**	6	6%	138	8%
<b>Total</b>	<b>105</b>	<b>100%</b>	<b>1,693</b>	<b>100%</b>

Source: [Department for Levelling Up, Housing and Communities](#)

\* Local authorities in Northern Ireland were not included in the priority index

\*\* Five awards were made to county councils and one to a combined authority. County councils with transport powers, combined authorities and the Greater London Authority were not listed in the index, but were eligible to submit a transport bid.

## Second round

The opening of the second round of the Levelling Up Fund was announced in the [2022 Spring Statement](#).

An [updated prospectus](#) was published on 22 March 2022. This states that the second round will focus on the same three themes as the first round - transport projects, town centre and high street regeneration and cultural investment and would offer funding of up to £20 million, with the exception of transport projects, for which bids of up to £50 million will be accepted and large culture bids, for which bids of up to £50 million will be accepted.

A maximum of two large culture bids will be funded – the prospectus states these bids must be for “flagship projects and be in line with the Fund’s focus on highly visible interventions that boost local pride in place.”

An updated version of the [priority index](#) has also been published – places were able to move up to a higher priority category, or remain in their existing one, could not move down to a lower priority category. The number of priority category one places has been expanded – there are now 139 category 1 areas, 117 category 2 areas and 107 category 3 areas – this expansion “to capture local areas whose levels of need have increased since the Fund was launched,

for example due to impacts of the COVID-19 pandemic, without disadvantaging those areas that remain in longer-term need.”<sup>5</sup>

Local authorities that moved up to priority category 1 will be receive £125,000 of capacity funding to support the preparation and submission of bids for this round of the Fund, though places that already received this funding in the first round will not receive this funding.

The deadline for second round applications is 6 July 2022.

## 1.2

## Towns Fund

In a speech in July 2019, the Prime Minister announced a “£3.6 billion Towns Fund.” This is composed of three separate stands:

- The Towns Fund – 101 of 541 eligible towns in England were selected to develop “Town Deals” and bid for up to £25 million (or up to £50 million in exceptional circumstances) following a bidding process, with funding designed to address issues such as “ageing populations, limited regional economic opportunities and lack of investment.”
- A further bidding round for towns not selected as one the initial 101 towns invited to develop Town Deals.
- The Future High Streets Fund – funding is distributed to towns in England, allocated following a bidding process, with the aim of renewing town centres and high streets.

In September 2019, the government announced a list 100 towns in England (later expanded to 101) that been invited to develop Town Deals.<sup>6</sup> Awards by region are shown in the table below; a full list of awards is published on the [Department for Levelling Up, Housing and Communities website](#).

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<sup>5</sup> Department for Levelling Up, Housing and Communities, Department for Transport, HM Treasury, [Levelling Up Fund Round 2: prospectus](#), 23 March 2022

<sup>6</sup> For a full list see Ministry of Housing, Communities and Local Government, [100 places to benefit from new Towns Fund](#), 6 September 2019



Towns Fund awards by region				
	Awards	% total	£ millions	% total
North West	20	20%	486	21%
Yorkshire and Humber	18	18%	422	18%
East Midlands	14	14%	346	15%
West Midlands	15	15%	328	14%
East of England	12	12%	288	12%
South West	9	9%	199	8%
North East	7	7%	172	7%
South East	5	5%	110	5%
<b>UK</b>	<b>100*</b>	<b>100%</b>	<b>2,350</b>	<b>100%</b>

Source: [Department for Levelling Up Housing and Communities](#)

\* 101 towns were invited to develop town deals, though one award was made jointly to two different towns

## Eligibility and Selection Process

The process for selecting towns that were eligible to apply for the Towns Fund and the criteria used to select the 101 towns invited to develop Towns Deals are described in the National Audit Office report [Review of the Town Deals selection process](#) published in July 2020.

541 towns across England were designated by the then Ministry of Housing, Communities and Local Government (now the Department for Levelling Up, Housing and Communities) as being potentially eligible for Town Deals – these were the 541 towns of the 1,082 towns in England (as designated by the Office for National Statistics) with an income deprivation above the median value.<sup>7</sup>

These 541 towns were scored and ranked based on a formula that combined scores against seven criteria to reflect local need and growth potential.

These were:

- Income deprivation
- Skills deprivation
- Productivity
- EU Exit exposure
- Exposure to economic shocks
- Investment opportunity and
- Alignment to wider government intervention.<sup>8</sup>

Towns were then categorised as being high, low or medium priority – 40 of 541 towns were classed a high priority, 181 as low priority and 340 as medium

<sup>7</sup> NAO, [Review of the Town Deals selection process](#), HC 576, July 21 2020, pg. 7

<sup>8</sup> NAO, [Ibid.](#), pg. 8

priority. Regional allocation formulae were also applied, with the aim of focusing on regions in greater need, using data on productivity, income, skills, deprivation and rural/urban classification (rural areas were assumed to have greater need).<sup>9</sup>

All 40 high priority towns were invited to bid for Town Deals, as were 49 medium priority towns and 12 low priority towns - the regional distribution and priority status of towns invited to bid for Town Deals is shown in the table below.

Successful Town Deals by region				
	Priority category			Total
	High	Medium	Low	
North West	8	9	3	20
East Midlands	6	12	1	19
Yorkshire and Humber	8	4	4	16
West Midlands	7	7	1	15
South West	2	5	2	9
South East	2	5	1	8
North East	4	3	0	7
East of England	3	4	0	7
<b>Total</b>	<b>40</b>	<b>49</b>	<b>12</b>	<b>101</b>

Source: [National Audit Office](#)

Aspects of the selection process were criticised in the Public Accounts Select Committee report [Selecting towns for the Towns Fund](#), published in November 2020.

This report concluded that the selection process was “not impartial” as, while officials ranked towns against a set of criteria, the selection process gave Ministers “discretion to choose which individual towns would be eligible to bid” and that pre-selecting towns in this way “benefited towns that lacked the capacity and experience to put together competitive bids and would be disadvantaged by an open bidding process.”<sup>10</sup>

Additionally, the report found the rationales given for the selection of towns from the medium priority group were “scant and appear based on sweeping assumptions” and in some cases “towns were chosen by ministers despite being identified by officials as the very lowest priority (for example, one town selected ranked 535th out of 541 towns)”. The report goes on to say that the failure of the then Ministry for Housing, Communities and Local Government

<sup>9</sup> NAO, [ibid.](#), pg. 9

<sup>10</sup> House of Commons Public Accounts Committee, [Selecting towns for the Towns Fund](#), HC 651, November 2020, pg. 8

to publish criteria used to select towns “fuelled accusations of political bias in the selection process.”<sup>11</sup>

The report also expresses concern that selected towns “may not have the capacity to deliver their plans and spend the money well” and that it remains “unclear what impact the Department is expecting from the Towns Fund” and how success of the Fund will be measured.<sup>12</sup>

The [Towns Fund Prospectus](#) (published November 2019) indicates that another round will be held to allow further towns to “have the opportunity to agree a Town Deal”; as yet no further information on this round has been published.<sup>13</sup>

## 1.3 Community Renewal Fund

The Community Renewal Fund was announced in March 2021, alongside the Budget. The Fund had one bidding round, which was open for applications between March and June 2021.

The purpose of the Fund was described in the prospectus as to “support our communities to pilot programmes and new approaches ahead” in preparation for the introduction of the UK Shared Prosperity Fund, which is designed to replace the EU structural funds.<sup>14</sup> The prospectus listed four “investment priorities” for the assessment of bids:

- Investment in skills
- Investment for local business
- Investment in communities and place
- Supporting people into employment

100 “priority places” were identified based on “an index of economic resilience” – details on how these places were identified is available in a methodology note – the index measured productivity, household income, unemployment, skills and population density.<sup>15</sup>

Bids from these 100 places were prioritised, with the lead local authority of each of these areas receiving capacity funding to help with bid co-ordination and appraisal – this was worth £20,000 per priority place.

Bids were submitted through local authorities – local authorities were asked to invite bids from local organisations, including local district councils,

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<sup>11</sup> House of Commons Public Accounts Committee, [Ibid.](#), pg. 9

<sup>12</sup> House of Commons Public Accounts Committee, [Ibid.](#), pg. 9

<sup>13</sup> MHCLG, [Towns Fund Prospectus](#), November 2019, pg. 17

<sup>14</sup> Department for Levelling Up, Housing and Communities, [UK Community Renewal Fund: prospectus 2021-22](#)

<sup>15</sup> See Department for Levelling Up, Housing and Communities, [UK Community Renewal Fund: prioritisation of places methodology note](#), May 2021

voluntary and community sector organisations and local education providers including universities, appraise these projects submissions and produce a shortlist of projects, up to a maximum of £3 million per place, which were then submitted to the UK government for appraisal.<sup>16</sup>

The deadline for submission of bids was 18<sup>th</sup> June 2021; a list of successful bids was published by the Department for Levelling Up, Communities and Housing on 3 November 2021.

The table below shows a list of successful bids by region and country. 477 out of 1,076 bids were successful.

<b>Community Renewal Fund awards by region and country</b>				
	Awards	% total	£ millions	% total
Wales	165	35%	47	23%
Scotland	56	12%	18	9%
South West	37	8%	22	11%
East	37	8%	19	9%
East Midlands	34	7%	19	9%
Northern Ireland	31	6%	12	6%
North West	28	6%	12	6%
South East	25	5%	14	7%
West Midlands	25	5%	16	8%
Yorkshire and Humber	19	4%	12	6%
North East	14	3%	8	4%
London	6	1%	4	2%
<b>UK</b>	<b>477</b>	<b>100%</b>	<b>203</b>	<b>100%</b>

Source: [Department for Levelling Up, Housing and Communities](#)

While the prospectus stated funding awarded would have to be spent with the 2021/22 financial year, the deadline for spending funding was later extended to 30<sup>th</sup> June 2022, owing to the assessment process falling behind schedule, as a greater than anticipated number of applications were received, and funds awards being announced three months later than initially planned.<sup>17</sup>

<sup>16</sup> Department for Levelling Up, Housing and Communities, [UK Community Renewal Fund: prospectus 2021-22](#)

<sup>17</sup> National Audit Office, [Supporting Local Economic Growth, report by the Comptroller and Auditor General](#), HC 957, 2 February 2022, pg. 38

## 1.4

# Shared Prosperity Fund

The Shared Prosperity Fund is designed to replace funding received from the EU Structural Funds.

The Shared Prosperity Fund is not yet operational. Pre-Launch Guidance for the Fund was published alongside the [Levelling Up White Paper](#) on 2 February 2022.

The White Papers states the Fund will focus on investment in three areas:

- Improving communities and place
- People and skills
- Supporting local business.<sup>18</sup>

This states the Fund will be worth £2.6 billion over the period to 2024-25, with funding allocated to all areas of the UK via a funding formula, rather than a competitive bidding process.<sup>19</sup> Areas will receive a conditional allocation; to access these funding allocations, areas will be asked to “set out measurable outcomes they are looking to deliver, and what interventions they are choosing to prioritise in an Investment plan”, to be approved by the UK Government.

The allocation formula and local allocations have not yet been published.

For more information, see the Library briefing [The UK Shared Prosperity Fund](#).

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<sup>18</sup> HM Government, [Levelling Up the United Kingdom](#), CP 604, 2 February 2022, pg. xxiv

<sup>19</sup> Department for Levelling Up, Housing and Communities, [UK Shared Prosperity Fund: pre-launch guidance](#), 2 February 2022

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## 2 Assessments

### 2.1 National Audit Office

In February 2022, the National Audit Office published the report [Supporting Local Economic Growth](#), examining how effective local growth policies and funds have been in supporting the regeneration of towns and communities. This is done through an assessment of the Levelling Up Fund, the Towns Fund, the Community Renewal Fund, as well as the [Freeports programme](#).

The report found that the Department for Levelling Up, Housing and Communities, which assessed the bids of the three funds studied has “a poor understanding of what has worked well in its previous local growth programmes” as it has not “systematically assessed whether individual policies have had their intended impact” and as a result cannot say which have been most effective.”<sup>20</sup>

The report also address the competitive element to these funds, stating while this is “in line with government guidance on grants and could help to protect some aspects of value for money”, the existence of “multiple funding pots and overlapping timescales” can “create uncertainty for local leaders” and local authorities wishing to make “broad-based investments across skills, infrastructure, business and innovation must submit winning bids across several funds or find alternative sources of funding.”<sup>21</sup>

### 2.2 Levelling Up White Paper

The Levelling Up White Paper also addresses problems associated with these funds and the bidding processes.

The Paper states the competitive nature of local growth funds has meant bidding processes require local authorities to “to commit considerable resources for work that may not result in any funding” and short bidding timescales has resulted in challenges in local authorities securing match funding, as well as extra costs associated with the need to commission

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<sup>20</sup> National Audit Office, [Supporting Local Economic Growth, report by the Comptroller and Auditor General](#), HC 957, 2 February 2022, pg. 8

<sup>21</sup> National Audit Office, [Ibid](#), pg. 10

consultants. These challenges and costs have also meant some local authorities have chosen not to bid for certain funds.<sup>22</sup>

To address these problems, the White Paper states the Government “will set out a plan for streamlining the funding landscape this year” and this plan will include “a commitment to help local stakeholders navigate funding opportunities”, based on four principles:

- Reducing the unnecessary proliferation of individual funding pots with varied delivery approaches
- Streamlining bidding, and supporting greater alignment between revenue and capital sources
- Ensuring places have robust ongoing monitoring and evaluation plans for the impact and delivery of investments and spending; and
- Tailoring investment and delivery to the local institutional landscape of each nation of the UK.<sup>23</sup>

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<sup>22</sup> HM Government, [Levelling Up the United Kingdom](#), CP 604, 2 February 2022, pg. 128

<sup>23</sup> HM Government, [Ibid](#), pg. 128

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