Metro——Dynamics

Economic and Social Research Council

ESRC Practitioner Engagement: Summary Findings Report

This short paper sets out our final findings from Work Package 3, qualitative research based on the experience of policy practitioners, as part of the wider ESRC-MHCLG research project "Improving Public Funding Allocations to Reduce Geographical Inequalities". The project aims to understand the implications of current funding approaches and inform new proposals for change to improve funding allocations to better support local and regional economic growth. More information about the project can be found on the project webpage.

Our Approach

We have carried **out forty-one one-to-one interviews and mini-workshops with local, regional and government policy stakeholders**, including leaders and chief executives of councils and combined authorities, policy specialists and practitioners, current civil servants from MHCLG and the Treasury, and former ministers and special advisors. Each of these interviews followed the same semi-structured interview guide, which also covered interrelated questions around local growth, local capacity and devolution.

Our Findings: Levelling Up and Rival Agendas

Although we took a thematic, not chronological, approach to interviews, **our discussions often focused in particular on policy within the last parliament**, and on the group of initiatives that fell under the previous Government's banner of "Levelling Up". In conversations focused on policy delivery within the last parliament (2019-2024) we have heard a consistent and repeated narrative from policy practitioners - one that highlighted some tensions and some complementarities within "Levelling Up", as characterised below;

- **The "regional growth" agenda;** intended to help all places reach their economic potential, drawing on an older agenda around city growth and devolution.
- **The "take back control" agenda:** based in large part by concerns around fairness, local agency and equality of outcomes, and driven as a primarily political response to Brexit.

Their influence could be seen to varying and lesser extents on funds in the Levelling Up family (i.e. Towns Fund, Levelling Up Fund, UK Shared Prosperity Fund), and we heard from some practitioners that this contributed to perceptions of strategic incoherence.

Policy Reform: Reflections and Recommendations

Through the course of our engagement, we have identified three major barriers to delivering against Levelling Up objectives; **1) Quantum and Prioritisation, 2) Centralisation and 3) Capacity and Local Leadership.** These three factors are reviewed in turn below and form the lens through which we reflect our proposals for change.

The unlearning of good practice in funding design

A range of smaller fund design failures were widely highlighted by participants in our research. These included an over-reliance on competitive bidding, fragmentation of funding streams, short term funding windows, unclear eligibility criteria, a politically-driven reliance on visible grant funding, a loss of good practice in private-public expertise, and an over-reliance on capital over revenue spending. We have heard that this collectively represented a lot of **unlearning of the best practice from the preceding forty-year period, from governments of all colours.**

Issue 1: Quantum and Prioritisation

We have heard repeatedly that one of the largest barriers is the quantum of funding made available, and the inability of successive ministers and prime ministers to align both the financial and departmental machinery of Government behind Levelling Up.

Despite finding a very broad political and practitioner consensus around the necessity to address regional inequality, our engagement revealed a fundamental mismatch between the scale of ambition and the resources deployed. The quantum of funding allocated to Levelling Up initiatives proved insufficient when measured against the scale, and longevity of regional inequality, particularly amid declining local government budgets. Beyond the quantum challenge, stakeholders consistently highlighted the absence of sustained cross-governmental commitment as a significant barrier to the agenda's effectiveness. The fragmentation of effort across government departments, combined with shifting ministerial priorities, created a landscape where initiatives often lacked the coherent long-term focus necessary for meaningful impact.

Practitioners frequently cited the stark contrast with Germany's post-reunification investment program, which deployed approximately £71 billion annually - a figure that dwarfed the £4.8 billion committed to Levelling Up. One council Leader noted how, despite being a recipient of targeted funding for over 100 years, the patterns of ingrained socio-economic disparities within their district had remained the same within that time.

Where successful delivery was identified, it often correlated with strong cross-governmental alignment and sustained prioritisation. One council Leader detailed how securing genuine cross-governmental focus on place (linked to a local asset of key significance to the national security infrastructure), matched by an appropriate funding scale and long-term strategic focus has started to deliver notable local benefits, but these examples seem to remain the exception rather than the rule. These challenges are further compounded by the changing economic environment, with stakeholders highlighting how inflationary pressures had rendered many initially viable projects undeliverable within their original funding envelopes.

Based on our engagement with policy practitioners, we recommend the following reforms:

- **Review and quantify the full spatial distribution of Government spending across the UK. "**Levelling Up" took place in a context of unevenly declining local resources and public service pressures, which made it hard to identify what impact might be possible with the quantum of spending allocated. We need a much better understanding of the distribution of all current Government-directed revenue and capital flows to local areas, including R&D, departmental and agency activity, infrastructure investment and public service spend.
- **Alter revenue/capital split for funding streams with a preference for revenue.** Too many projects have been delivered with a capital-heavy allocation shaped by departmental spending constraints, leaving local authorities with expensive assets that they are subsequently unable to utilise due to local shortages of revenue.
- **Increase funding headrooms to account for inflation.** Much of "Levelling Up" was designed in a low-inflation, low-interest environment, and then delivered in a high-inflation and high-interest rate environment. Future funding streams should include a mechanism for inflation adjustment, potentially through periodic reviews.

Issue 2: Increasing Capacity and Local Leadership

In parallel, we found consensus that the widespread diminution of local government's capacity to deliver over the prior decade resulted in the loss of local initiative, proactive capacity and well-developed project pipelines.

Levelling Up was implemented during a period of continued fiscal constraint for local authorities. The cumulative impact of resource limitations as a result of austerity has significantly weakened local authorities' capabilities, particularly when paired with mounting pressures on statutory services. This resource context has resulted in a substantial reduction in capacity that extends beyond simple staffing constraints, manifesting as a loss of institutional knowledge, strategic oversight capabilities and the ability to develop project pipelines. Areas facing the greatest socioeconomic challenges, and thus most in need of 'Levelling Up', often faced the most significant capacity constraints, and struggled to secure the necessary talent and leadership to deliver effective policy change.

One interpretation of the funding approach outlined by a former Government special advisor was the intention to build local autonomy and stimulate local authorities to exercise action responding to locally identified needs. However, the combination of diminished resources and growing statutory responsibilities forced many authorities into a reactive posture. This led them to respond to centrally defined funding opportunities rather than having the time and resource to develop locally tailored strategies, ultimately reinforcing an overreliance on top-down funding mechanisms that further undermined local initiative.

Our discussions revealed particular challenges arising from the loss of specialised capacity acting as a barrier to deliver and integrate private investment effectively – identified as crucial capability for leveraging public funding and achieving sustainable economic development outcomes. One senior local authority figure detailed how their economic development team had contracted from 67 to just six core team members.

Based on our engagement with policy practitioners, we recommend the following reforms:

- **Place-Based Secondments/Capacity Building Programme.** We have heard a clear need to build and retain quality personnel within places, and one proposal repeatedly noted was the development through a programme of place-based secondments between central Government, institutions like universities and the private sector. Some have gone further and suggested that entry into the senior civil service should be conditional on having worked within local or regional authorities for a set period (e.g. two years).
- **Expansion of ringfenced, long-term local capacity funding.** We have heard about the challenges in retaining experienced delivery capacity in the face of statutory service spend pressures for local government, and with the programme-based nature of much economic development funding. Accompanying capacity funding should be reformed to support longer term hiring on delivery and implementation, ringfenced to avoid wider service spend pressures.

These short term fixes will have some impact, but in the long run civic leadership reflects the ability to effect change, local power and resources. Because Government controls the main levers of local taxation (business rates and council tax), the ability of councils to innovate is limited; we have heard that **experimenting with fiscal devolution** to help places invest in growth-enabling projects could be one way to avoid this challenge.

Issue 3: Addressing Overcentralisation

Finally, we have found that exacerbating the lack of local capacity is the highly centralised nature of the distribution of Levelling Up funding and decision-making, which created repeated chokepoints, delays and inefficiencies in fund delivery.

Through our engagement, the highly centralised structure of Levelling Up funds emerged as a significant structural impediment to effective regional development across the UK. Stakeholders consistently highlighted how the concentration of decision-making authority within central government created burdensome processes that constrain local authorities' ability to respond to local needs. The resulting system was characterised by bottlenecks where local initiatives must await central approval, introducing systemic inefficiencies that compromise the funds’ effectiveness.

At its core lies what one senior civil servant characterised as a "painful" process of seeking approval for even modest project adjustments, reflecting the fundamental tension between central accountability and local delivery needs. While our engagement acknowledged the clear necessity for central oversight of public spending and accountability, stakeholders within Whitehall also recognised that the current framework has become overly restrictive, and put pressure on limited central capacity.

A frequently cited example of a more effective funding model was the City Region Sustainable Transport Settlement (CRSTS). One senior figure within a combined authority characterised the Settlement's prospectus approach as offering a “new opportunity for timelier and strategically thought through project propositions".

Based on our engagement with policy practitioners, we recommend the following reforms:

- **Remove the requirement for ministerial sign-off for small project changes under a certain financial threshold**. Too many projects have been held up by excessive centralised micro-management. We have heard that delivery can be accelerated by removing the requirement for central approval for project changes within set criteria.
- **Deploy “menu” and “prospectus” approaches more widely.** We have heard menu and prospectus approaches (i.e. CRSTS, Investment Zones), have represented a positive development, allowing consolidation of business cases for schemes under certain thresholds, improving efficiency while retaining national strategic direction.
- **Lengthen delivery windows and provide long-term certainty over funding to allow for proactive project development.** We have heard that all Levelling Up funding streams should be aligned with multi-year Spending Review windows, with clear future allocations to support locally-led project development in advance of funding.
- **Allow for further flexibility between pillars through the Integrated Settlement model as the model is rolled out**, increasing pillar to pillar flexibility beyond the 10% proposed to allow further tailoring of policy to local circumstance.