The Levelling Up Fund, Community Renewal Fund - and the support needed for London's economic recovery

LONDON COUNCILS

Introduction

The pandemic's dramatic impact on London's economy is worsening inequalities in the capital, which are already among the highest in the country.

London's labour market has been the worst hit in the UK, having experienced:

- The **highest number of job losses** (the latest data for the three months ending March 2021 shows London has the highest unemployment rate in the UK at 6.8 per cent, compared to the UK average of 4.8 per cent).
- The **highest proportion of the workforce furloughed** (the latest data from March 2021 shows 654,000 Londoners on furlough).
- The **highest rises in Universal Credit applications** of any region (a 172 per cent increase over the past year compared to the UK average of 111 per cent).

London's economy contracted by 9.9 per cent in 2020 alone, suggesting there could be long-term economic scarring. Even before the pandemic, London's productivity growth was struggling and there were huge disparities across the city.

London boroughs use government investment to support the capital's most vulnerable individuals into employment and to foster new and innovative businesses.

The government recently announced two major funds to support economic development and recovery in the UK: the Levelling up Fund and the Community Renewal Fund.

London Councils is concerned that the funding allocation processes for these flagship investments in economic development will put London at a disadvantage. In addition, the process represents a significant step-back from devolution, with decisions made in Whitehall that in the past were made in the English regions, such as London.

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The Funds

Levelling Up Fund

The new national Levelling Up Fund (LUF) is £4.8 billion of capital investment to be distributed across the UK over the next four years with Ministers deciding the final allocations. This type of funding has been typically delivered regionally via the London Economic Action Partnership (for example the Good Growth Fund).

The LUF will focus investment on capital projects that require up to £20 million, although bids in the £20-50 million bracket will be considered for transport projects. Local authorities will bid directly to central government.

Community Renewal Fund

London boroughs currently use central government and EU investment to help vulnerable Londoners into employment and to support new and innovative businesses. Many of these programmes come to an end this year and next and will be replaced by the UK Shared Prosperity Fund (UKSPF).

In its 2019 manifesto, the Conservative Party pledged for the UK Shared Prosperity Fund (UKSPF) to "at a minimum, match the size of EU structural funds in each nation".

The Community Renewal Fund (CRF), worth £220 million in 2021/22, will deliver a series of one-year pilots intended to inform the design of the UKSPF from 2022/23. The CRF will invest in revenue projects to support economic development and employment. London partners will submit bids to the Greater London Authority (GLA), which will then undertake an initial assessment and provide a shortlist to central government for final selection.

Priority Places

Both funds include a list of "priority places for investment" based on local authority areas, although other places can bid for funds.

Within the **Levelling Up Fund,** three groups have been defined based on priority, group 1 being highest priority. The table below shows how many authorities are categorised as priority 1, 2 or 3, with only 2 London boroughs defined as priority 1 areas.

Priority	Total English local authorities	London Boroughs	London per cent of England total
1	93	2	1.9 per cent
2	108	16	17 per cent
3	113	15	17 per cent

Chart 1
Only 6 per cent of London boroughs are placed in category 1 within the **Levelling Up Fund**, compared with 30 per cent nationally.

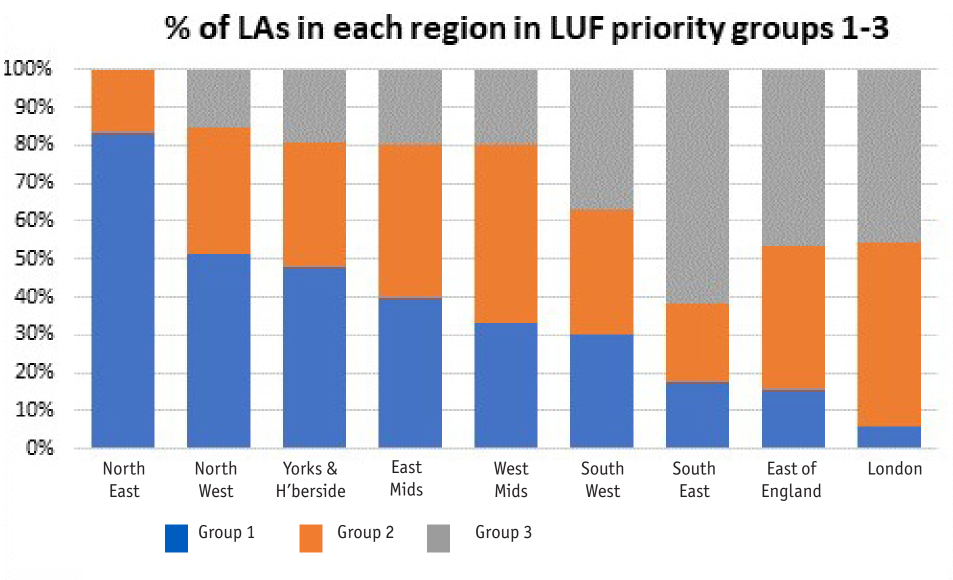
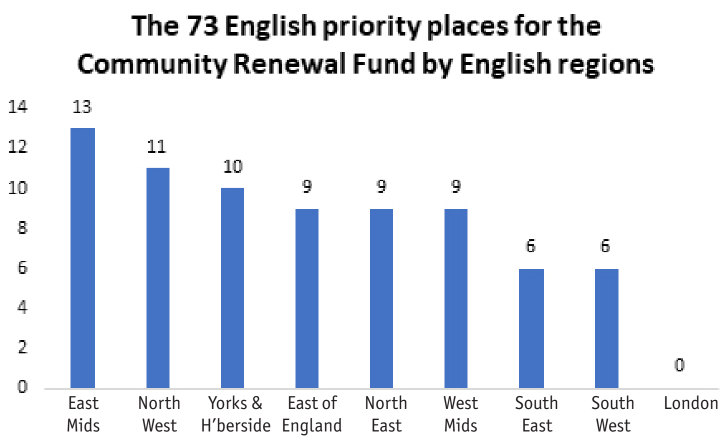


Chart 2
Within the **Community Renewal Fund**, the government defined 73 priority local authority areas in England. None were in London.



The CRF assessment criteria shows priority areas' funding bids need to score 50 per cent to be shortlisted, compared to 80 per cent for non-priority areas, meaning it will be much harder for London boroughs to succeed in securing support from the CRF.

Our Concerns

Concerns over the methodologies for both funds

London Councils believes the selection process for this much-needed investment represents a significant step backwards from the decentralisation seen with similar funds, such as the Good Growth Fund and European Structural and Investment Funds.

Regional and local investment decisions are best made at the regional and local level rather than centrally determined in Whitehall. The pandemic showed clearly the strength of local authorities in responding to their situations and the importance of local decision making. The LUF and CRF will see funding decisions of as little as half a million pounds taken by Whitehall officials with ministerial direction, which we believe is not the most effective means of decision making.

These decisions should be given to local leaders, who are closer to their communities and experienced at making funding decisions of this scale and scope. Empowering local decision-making makes for better and more cost-effective investments.

In addition, London Councils has specific concerns regarding the methodologies used to determine priority areas within both funds, which clearly disadvantage London boroughs.

Levelling Up Fund

- The size of the weighting for journey time to employment by car (18 per cent of the overall index) and the rationale for it being three times larger than public transport and 21 times larger than cycling is not well justified and would appear to be at odds with 'net zero' environmental objectives.
- Using GVA per hour worked in a locality (17 per cent of the overall index) penalises residents of inner-city authorities, such as Tower Hamlets, where residents live in close proximity to concentrations of well-paid employment (Canary Wharf), but with the workforce predominantly travelling into work from wealthier areas.
- Commercial vacancy rate (18.8 per cent of the overall index) uses July 2020 which, because of the time lag, does not fully reflect the true impact of the pandemic. While, for example, logistics has fared well, office space and town centre retail face a more uncertain future.

Community Renewal Fund

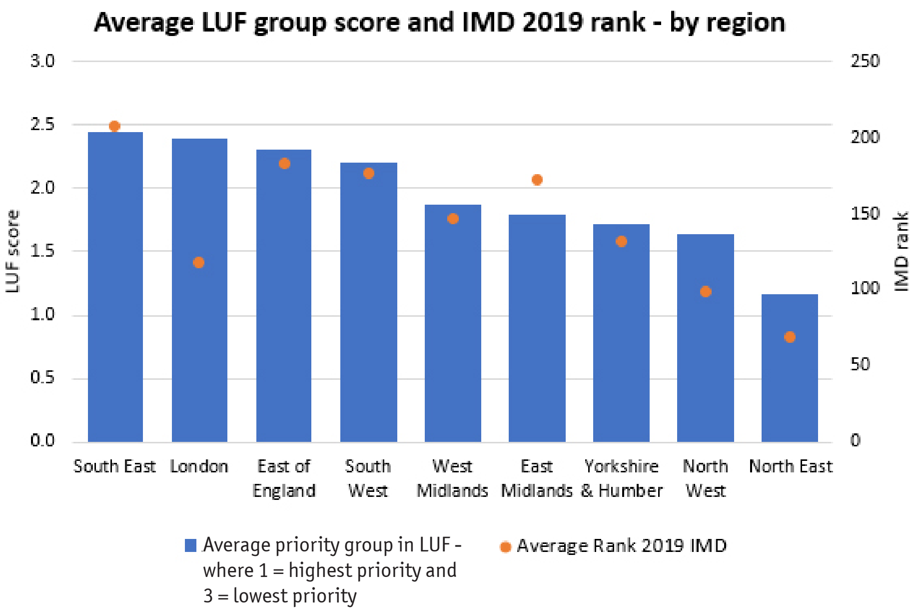
- Again, using GVA per hour worked in a locality (30 per cent of the overall index) will penalise residents living close to high concentrations of well-paid jobs.
- Using Gross Disposable Household Income per head of population (10 per cent of the overall index) is an unrealistic measure of real disposable income as this does not take into account housing costs.
- Low population density is used as a proxy for an area's weak economic resilience (20 per cent of the overall index). The unique economic impact of the pandemic has shown that areas with high population densities can be particularly economically vulnerable.

Neither methodology uses the well-established Index of Multiple Deprivation (IMD), which covers seven domains of deprivation including: income; employment; education, skills and training; health and disability; crime; barriers to housing and services; and living environment.

The chart below shows the average LUF group score by region (blue bars/left axis) compared with average IMD 2019 rank (orange dots/right axis). For most regions there is a broad correlation between need defined by a low IMD ranking and potential for funding represented by a low LUF ranking. However, London is the exception to this rule. London is the third-most deprived region using the IMD rank (with an average rank of 118), but the second-lowest priority for LUF investment after the South East (London's LUF group score is 2.4).

Chart 3

Average LUF group scoe and IMD 2019 rank : by region



It is notable that some of the London boroughs ranked as the lowest priority for LUF investment areas in London have a remarkably low (i.e. highly deprived) IMD scoring.

The four highest ranked IMD areas in LUF category 3		
	LUF	**IMD**
Tower Hamlets	3	27
Islington	3	28
Lambeth	3	42
Southwark	3	43

Conclusion

London's economy has been scarred by the pandemic and is experiencing significant structural changes. Assumptions that London's economy will simply 'bounce back' are misplaced. The pandemic is exacerbating long-standing challenges around unemployment, inequality, and deprivation in the capital.

The processes for allocating the Levelling Up Fund and Community Renewal Fund are a major step back from local areas making their own decisions. Devolution must be an integral part of the UK's economic recovery, with local areas defining their own funding priorities.

Looking forward to the delivery of the UK Shared Prosperity Fund, London local government strongly believes this must follow a devolved process – with decisions made locally, not by Whitehall. Given the disproportionate economic impact of the pandemic on the capital, London's share of the UK Shared Prosperity Fund must be at least equal to that seen under European Structural and Investment Funds.

The pandemic is exacerbating long-standing challenges around unemployment, inequality, and deprivation in the capital

London Councils
59½ Southwark Street
London SE1 0AL
www.londoncouncils.gov.uk

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