

Letter from the Secretary of State for Levelling Up, Housing and Communities and Minister for Intergovernmental Relations to the Convener of 21 February 2022

Dear Ken,

Thank you very much for your letter of 8 December 2021 in relation to replacing EU Structural Funds in Scotland. First, please can I apologise for the delay in responding.

I look forward to giving evidence to your Committee on Thursday 24 February on these very important matters.

In the meantime, please find attached the answers to your questions that you included in your correspondence of 8 December.

I hope you and the Committee find this response helpful.

With every good wish,

Rt Hon Michael Gove MP
Secretary of State for Levelling Up, Housing and Communities
and Minister for Intergovernmental Relations

Annex – Answers to Questions to Finance and Public Administration Committee Questions

How the UK Government assures itself that the criteria used to prioritise areas will, in turn, ensure that funding is awarded to those places most in need.

The Levelling Up Fund (LUF) index prioritises areas across three criteria – need for economic recovery, regeneration and improved connectivity - which are closely linked to the objectives of the fund: to invest in local transport, regeneration and growth in places in need and areas of low productivity and connectivity. The methodology note on gov.uk sets out in more detail our rationale for choosing the specific metrics that underpin these three criteria.

The role of the index is to identify places most in need of the type of investment offered through the LUF – including towns centre and high street regeneration, small scale transport projects, and investment in local culture and heritage assets. Places ranked higher on the index received higher scores on the ‘characteristics of place’ assessment criteria, therefore making sure that places identified as high priority in the index are also prioritised at the bid assessment stage. Further details of the bid assessment process can be found in the LUF technical note on gov.uk.

More than 60% of successful bids from Scotland in the first round came from category 1 places, which suggests that our efforts to award funding to those most in need were successful.

For Community Renewal Fund (CRF), 100 priority places were identified based on an index of economic resilience across Great Britain, these are listed on gov.uk. The index prioritised places that suffer from weak economic performance and are less equipped to resist and recover from shocks. The measure of factors contributes to economic resilience and/or are directly targeted by the local growth interventions in scope of the UK Community Renewal Fund. The methodology note on gov.uk sets out in more detail our rationale for the choice of metrics.

The extent to which you consider that the approach the UK Government chose to classifying priority areas under both the LUF and CRF adequately recognises rurality and connectivity challenges faced in areas such as the Highlands and Island or pockets of deprivation within local authorities.

Why transport connectivity was included in the methodology for the LUF for England but not for Scotland and Wales.

At the time of the LUF index's development, there was a lack of availability of GB-wide data to measure transport connectivity. To address this, an approach was taken to ensure that additional country-specific data on connectivity could be incorporated into the index without jeopardising the need to be consistent when comparing places across borders. This comprised a two-step method, where only GB-wide data was used to assign each nation a fixed number of category 1, 2 and 3 places. Hence, Scotland as a whole was not disadvantaged by the lack of a transport connectivity metric; only the relative categorisation of specific places within Scotland would have been affected by its inclusion.

The spatial scale of the index itself necessarily had to align with the spatial scale of bidding institutions – that is, local authorities. Below this level, as part of the LUF prospectus, we explicitly asked bidding authorities, with their expert local perspective, to spread their bids fairly across their geographies, targeting pockets of deprivation as appropriate. The prospectus also explicitly requested that bidding authorities should consider how to reach stakeholders from harder to reach rural communities in formulating their proposals for the Fund.

The CRF priority places index also recognises the particular challenges of rural areas; as set out in the methodology note, one of the metrics it uses to prioritise places is population density. Population density contributes to the economic resilience of a place, with denser areas experiencing the benefits of agglomeration economies such as deeper labour markets. As a result, places with low population density, e.g. rural areas, are considered less economically resilient, given a higher index score, and are thus prioritised. Rural Scottish areas in the CRF's '100 priority places' list include (non-exhaustively) Argyll and Bute, Na h-Eileanan Siar, Dumfries and Galloway, and the Scottish Borders.

The reasons for single year indicators being chosen to determine priority areas rather than multi year averages and, more generally, how the UK Government's approach has taken account of the impacts of the COVID pandemic.

The LUF and CRF priority areas used, for each of the indicators included, the latest data available at the time. As set out in the LUF prospectus, the Fund's focus on high streets, local infrastructure and restoring community pride is highly relevant to the challenges of today; as the country recovers from the unprecedented economic impacts of Covid-19, it is more important than ever to prioritise investment in these areas, that not only bring economic benefits, but also helps bind communities together.

How the bidding process addresses the differing sizes and inhouse capacity of local authorities to ensure that there equality of opportunity when it comes to bidding for funding.

In the first round of the LUF, guidance and webinars were offered to potential applicants to support bid development. Building on the feedback from round 1, this offer will be strengthened – for example through dedicated ‘teach in’ sessions, which will provide support on areas of the application process that places identified as being particularly complex or technical in the first round.

Each Scottish local authority was awarded £125,000 capacity funding to support the development of bids for later rounds of the Levelling Up Fund. Local authorities were also able to submit joint bids where projects crossed boundaries, allowing for capacity to be pooled across authorities.

The mixed capacity and capability to deliver across different Local Authorities is recognised. We are developing a capacity offer to support places capitalise on the transformational investment we are making a, building on the successful experience of the Towns Fund Delivery Partner model.

Why the UK Government considered that a competitive bidding approach would deliver the most effective use of public money particularly given the cost and time required to put together bids (not all of which would then be successful) – for example how does this approach ‘deliver quicker funding’ and cut ‘burdensome EU bureaucracy’ as described in the CRF Prospectus.

The CRF and LUF are providing over £5 billion of additional funding to help the UK move smoothly away from the EU structural fund programme. The CRF helps to prepare for the UK Shared Prosperity Fund by piloting new approaches and programmes. A competitive approach was used for both CRF and LUF to support innovative responses to local challenges and local need across the UK, spanning urban, rural and coastal areas.

The UK Government wants to use the CRF to test greater integration of types of interventions and greater flexibility between investment themes than under EU structural funds. The LUF is a new fund focused on supporting distinct, high-visibility local infrastructure. It doesn’t replace an existing funding stream and exists in parallel to places’ baseline funding.

The UK Government’s approach to notifying unsuccessful applicants of this outcome and to providing feedback to

unsuccessful applicants (either CRF or LUF) on why they had been unsuccessful.

Letters were sent to all bidding authorities informing them of the outcome of their application to the first round of the Levelling Up Fund on 27 and 28 October 2021. All unsuccessful applicants, whose applications passed the initial gateway stage and were fully assessed, were offered the opportunity to participate in a dedicated feedback meeting. Officials provided feedback on the strengths of the bid and areas where assessors felt applications could have been improved. Feedback meetings for all unsuccessful Levelling Up Fund bids, which passed the gateway, in Scotland have now taken place, and a number of authorities have fed back that these meetings were useful. Officials have sought feedback on the competitive process, which will help to inform the design of future rounds.

Letters were sent to all bidding lead authorities in Scotland that applied, informing them of the outcome of their applications to the CRF on 3 November 2021. The CRF was a one-off funding round so some high-level feedback was provided; whilst CRF will help inform the design of the UKSPF through the funding of pilots, the funds are distinct in regard to design, eligibility, and duration.

In relation to the LUF, what discussions the UK Government had with the Scottish Government over which bids should be successful?

The approach to decision making is set out in the LUF Prospectus / Technical Note and Explanatory Memorandum. Officials in the devolved administrations were invited to contribute to the assessment of bids from their respective nations. Funding decisions were made by UK Government Ministers from the Department for Levelling Up Housing and Communities (DLUHC), HM Treasury, and the Department for Transport (DfT).

When the supplementary guidance on evaluating the LUF will be published and what role it envisages the Scottish Parliament will have in scrutinising the effectiveness of the LUF in devolved policy areas.

The LUF Monitoring & Evaluation strategy will be published in spring 2022. This will set out the detail of the evaluation processes which will be used to measure the effectiveness of outcomes delivered by projects funded through the Levelling Up Fund.

Individual projects will be subject to quarterly reporting on delivery milestones, spend and risk, and six-monthly reporting on outputs and outcomes. This will be complemented by a regular ongoing dialogue that the responsible

departments (DfT and DLUHC) will have with places on delivery. Places are also expected to undertake local evaluation of their projects.

Given the UK Government chose to ascribe a role to MPs in supporting LUF bids and determining the number of bids, what role it sees for MSPs in relation to the LUF, given they represent the interests of constituents in devolved areas?

Both MPs and MSPs have a unique local perspective on priorities in their area. MPs had a specific position in light of the fact that this is a UK-wide fund and that they have a consistent role in every nation. However, as the round 1 prospectus sets out, in addition to MPs, bidding authorities were asked to consult a range of local stakeholders across the full geography of their place in developing proposals and were asked to demonstrate evidence of this overall local engagement as part of their strategic case as part of their bids. This includes MSPs.

What are the consequences of successful bids not spending all their funding within the set deadlines (particularly in relation the timescales for the CRF) or of funds subsequently proving to be insufficient to deliver the bid for other external reasons such as supply chain issues or inflationary impacts on costs?

With regards to the CRF, the delivery timeline has been extended to the end of June 2022, to provide successful applicants with the same delivery window that was set out in the CRF prospectus. This will ensure that successful bidders will have an 8-month period in which to deliver their programme/project activities and spend the grant funding.

In March 2022 DLUHC will be working with Lead Authorities in undertaking a midterm review on the performance of successful CRF projects including assessing delivery risks. With regards to LUF, through the regular reporting cycle and ongoing conversation with projects, officials will be proactive with places in identifying delivery issues early so that any necessary adjustments to projects can be made. Work is underway on a comprehensive support package to help troubleshoot delivery issues when they are identified.