Finance and Public Administration Committee

7th meeting 2022 (Session 6), Thursday 24 February

Replacing EU structural funds in Scotland

Purpose

1. The purpose of this paper is to provide background briefing to inform the evidence session with the Secretary of State for Levelling Up, Housing and Communities and Minister for Intergovernmental Relations, the Rt. Hon. Michael Gove, MP.

2. To inform this evidence session the Committee sought written evidence from Scottish Local Authorities and the Scottish Local Authorities Economic Development Group (SLAED) on:

    a. The Community Renewal Fund;
    b. The UK Shared Prosperity Fund; and
    c. The Levelling Up fund.

3. The responses received have been published on the Committee's webpage along with a SPICe summary of the key issues raised in these submissions.

4. On 8 December the Committee wrote to the Secretary of State seeking a response to some of the key issues raised in the written submissions. The Secretary of State's response was received on Monday 21 February and is attached in Annexe A.

Background

5. At its meeting on 28 September 2021 the Committee agreed to continue to undertake scrutiny of the replacement of EU Structural Funds now that the United Kingdom has left the European Union. This builds on the work of the Session 5 Finance and Constitution Committee, including its report published in October 2019.

6. Following the UK's exit from the EU, Scotland will not participate in the EU's 2021-2027 structural funding programmes but will still receive some funds - those that were allocated by the end of 2020, under the 2014-2020 programme. Under this arrangement, these Scottish projects can have up to a maximum of three years to spend and claim EU money.[1]

[1] SPICe Blog on "What will replace EU Structural Funds after Brexit", January 2021

7. A SPICe blog on the UK Government funding of economic development in Scotland notes that the UK Government has committed to "ramp up funding", to "at least match current EU receipts", calculated by the UK Government as meaning, on average reaching around £1.5 billion a year across the whole of the UK by 2024-25.

Community Renewal Funding and the UK Shared Prosperity Fund

Funding

8. On 31 March 2021, the UK Government announced a UK Community Renewal Fund (UKCRF) which "will provide £220 million additional funding to help places across the UK prepare for the introduction of the UK Shared Prosperity Fund". The UK Government states that "The UKSPF will be worth over £2.6 billion over the next 3 years."[2] It will provide a mix of revenue and capital funding.

9. The Scottish Government, in November 2020, called for what it states is "the full amount of funding due to Scotland" - at least £183 million per year, equating to a 7-year replacement programme of around £1.3 billion for Scotland. This calculation is based on the total amount initially allocated to Scotland in the 2014-20 programme, indexing for inflation, and adding in replacement funding for the European Territorial Cooperation and LEADER programmes.[3]

10. In evidence to the House of Commons Housing, Communities and Local Government Committee on 8 November 2021, the Secretary of State explained how the total of its funding will be calculated—

    "There is a tail of EU project funding, which for obvious reasons is winding down. We then layer UKSPF money on top of that. If you take the two together, what you get overall is matching, and in some cases exceeding, the amount that we would have got had we carried on being in the EU with spending at that level."[4]

11. This also includes commitments to support regional finance funds across the UK via the British Business Bank.[5]

12. The UK Government highlights that "whilst the UKCRF will help inform the design of the UKSPF through the funding of pilots, the funds are distinct in regard to design, eligibility, and duration."[6]

[2] UK Government, Community Renewal Fund Guidance: Frequently Asked Questions.
[3] Scottish Government: Scottish Replacement for EU Structural Funds
[4] Hansard of the Housing, Levelling up and Local Government Committee, House of Commons, 8 November 2021,
[5] UK Shared Prosperity Fund: Pre-launch guidance, 2 February 2022.
[6] UK Government, Community Renewal Fund Guidance: Frequently Asked Questions.

Community Renewal Fund

13. The Community Renewal Fund is being disbursed in 2021-22 by the UK Government as “a competitive process that all places in Great Britain are eligible to apply for. Bids for the UK Community Renewal Fund will be managed by ‘lead authorities’. In Scotland, lead authorities are local authorities.”[7]

14. To ensure the funding reaches those areas most in need, the UK Government has identified 100 priority places for investment based on an index of economic resilience across Great Britain, which measures productivity, household income, unemployment, skills and population density. Lead authorities had until 18 June to submit their bids, with the successful bids then announced on 3 November. Those projects must be delivered by June 2022. If the UK Community Renewal Fund is used to provide a subsidy, “expenditure must be compliant with the UK’s obligations on subsidy control”.

15. Nine percent of the funding was awarded to Scottish bids (this equates to £18,428,681). The UK Government explains that projects were assessed and ranked by score and UK Ministers were able to apply a number of considerations to the funding list. These considerations have been applied to ensure:
    a. a reasonable thematic split of approved projects
    b. a balanced spread of approved projects across the United Kingdom
    c. that the balance of approved projects between those focused on priority and non-priority places give appropriate regard to priority places.[8]

16. In order to evaluate the effectiveness of the Community Renewal Funding, all bidders were required to set out the intended impact of the bid using the indicators in the May 2021 technical note. In Scotland, all projects will be required to submit evidence to the relevant Scottish Local Authority demonstrating progress towards achievement of project targets and investment profiles at regular intervals.

17. Applicants, if successful, must also develop an evaluation plan with between 1-2% of their award to be dedicated to that evaluation with a minimum threshold of £10,000. In November 2021 further monitoring and evaluation guidance was provided which included a national evaluation the UK Government will undertake. It explains that in undertaking its evaluation it will look to “build on the Towns Fund Evaluation Framework ensuring synergies are achieved where practical. In addition, the work undertaken will, where timescales allow, inform the development and implementation of the UK Shared Prosperity Fund.”

UK Shared Prosperity Fund – pre-launch guidance

18. On the 2 February 2022, the UK Government published UK Shared Prosperity Fund: pre-launch guidance, which confirms that the Department for Levelling Up,

[7] UK Government, Community Renewal Fund prospectus, 11 May 2021

[8] UK Community Renewal Fund: explanatory note on the assessment and decision-making process, 3 November 2021

Housing and Communities will oversee the Fund at UK level, working with other departments. That guidance explains that the UKSPF forms part of a suite of complementary Levelling Up funding, with its primary goal to “build pride in place and increase life chances across the UK.” There are three overall objectives for the UKSPF:

a. Communities and place: “Strengthening our social fabric and fostering a sense of local pride and belonging” and building resilient and safe neighbourhoods;
b. Local Businesses: Creating jobs and boosting community cohesion, promoting networking and collaboration, and increasing private sector investment in growth-enhancing activities.
c. People and skills: Boost core skills and support adults to progress in work, support disadvantaged people to access the skills they need to progress in life and into work, support local areas to fund local skills needs and supplement local adult skills provision, and reduce levels of economic inactivity and move those furthest from the labour market closer to employment.

19. The guidance also sets out how the UKPSF will operate including that:

a. all areas of the UK will receive an allocation from the Fund via a funding formula, yet to be announced. In Scotland local government will be responsible for planning and delivery and will need to take account of other local and national policies and priorities and complement other UK, national or local provision. Local Government will receive an area’s allocation to manage, including assessing and approving project applications, processing payments and day-to-day monitoring.
b. In Scotland, the UK Government will look to support delivery across strategic regional areas, such as the City and Growth Deal geographies. Where strategic regional areas overlap, it will seek local views on the appropriate geography, how funds should be allocated and what the lead authority should be. Where City and Growth Deals do not cover multiple local authorities, it will support collaborative proposals with other areas if they wish to do so.
c. To access their allocation, each place 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. These will be submitted in summer 2022 for UK Government approval. Lead authorities should involve MPs in every stage of UKSPF planning and delivery with requirements set out later.

20. Each area will also be required to invest a ring-fenced amount of the LUF in local Multiply interventions. This £559m adult numeracy will be managed by the Department for Education across the UK and alongside a national digital numeracy platform which will use control trials and evaluation to test innovative approaches. Currently, the Scottish Government approach to digital numeracy includes the Big Plus delivered by Skills Development Scotland, alongside the work of local authority community learning and development teams. Around £100

million was spent on community learning by councils in 2019/20 (of which adult numeracy is a part).

21. A House of Common's briefing on the UK Shared Prosperity Fund, from November 2021, details the issues to be considered in setting up the Fund including the potential impact of the UK Government's new subsidy control regime -the Legislation Consent Memorandum for which is being considered by the Scottish Parliament. The briefing notes that "subsidies from the future Shared Prosperity Fund will have to respect these rules" – rules which also require to reflect the UK Government commitments under the Trade and Co-operation Agreement.

22. The pre-launch guidance explains that the Fund will be managed through a UK-wide ministerial forum, with the responsibility to oversee its delivery, monitor investment and overall performance, and ensure coherence with wider UK Government and devolved administration provision.

23. The UK Government explains in its guidance that it "remains committed to working with devolved administration Ministers in Scotland, Wales and Northern Ireland in the implementation of the Fund." It states that it is undertaking further engagement including with the Scottish Government "to inform the most appropriate mix of interventions for each nation, for publication in the full Prospectus later this spring."

24. On 5 February 2022, the Scottish Government called for clarity on EU replacement funds stating "the reality is the Scottish Government has not been consulted, nor have Scottish Ministers had any role in investment proposals or decisions that are devolved to the Scottish Parliament. New guidance on the SPF offers no evidence of respecting devolution or acknowledging the Scottish Government as an equal partner."[9]

Levelling Up Fund (LUF)

25. On 2 February 2022, the UK Government published its Levelling Up White Paper alongside a 'Delivering for all parts of the UK paper.' It also published a technical annex: missions and metrics which it explains "provides more detail on the underpinning analytical framework for explaining UK economic geographies in the Levelling Up White Paper."

26. The UK Government outlines that "in England, Scotland and Wales, funding will be delivered through local authorities" and that "the Scottish and Welsh Territorial Offices will be consulted in the assessment of relevant bids". In its prospectus, the UK Government explains that the LUF will focus on capital investment in local infrastructure and it will sit within the wider context of capital infrastructure spend announced by the UK. It further identifies that the Fund will deliver as part of a broad package of complementary UK-wide interventions such as the UK

[9] Scottish Government, news release, 5 February 2022

Community Ownership Fund; the Plan for Jobs; the Freeports programme[10]; the UK Infrastructure Bank; the Towns Fund, the UK Community Renewal Fund and UKSPF (as mentioned above).

27. The White Paper explains that levelling up is not about making every part of the UK the same or pitting one part of the country against another, rather it will require "us to:

    a. boost productivity, pay, jobs and living standards by growing the private sector, especially in those places where they are lagging.
    b. spread opportunities and improve public services, especially in those places where they are weakest;
    c. restore a sense of community, local pride and belonging, especially in those places where they have been lost; and
    d. empower local leaders and communities, especially in those places lacking local agency."

28. It explains that levelling up will require a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity (or geographical differences). These drivers are then set out in six mutually reinforcing "capitals".

    - Physical capital – infrastructure, machines and housing.
    - Human capital – the skills, health and experience of the workforce.
    - Intangible capital – innovation, ideas and patents.
    - Financial capital – resources supporting the financing of companies.
    - Social capital – the strength of communities, relationships and trust.
    - Institutional capital – local leadership, capacity and capability.

29. The LUF will, the White Paper explains, address issues such as short-term approaches, scale and co-ordination, lack of data and effective oversight at a local level which have previously held back efforts to close widening geographical disparities. It also provides a "a renewed and coordinated focus" towards greater local empowerment and will begin to have visible effects, on high streets and in local communities, in the next few years. To be effective "root and branch reform of government and governance of the UK" is required based on the following five mutually reinforcing pillars:

    a. 12 clear and ambitious medium-term missions[11] (to 2030) set by the UK Government to provide consistency and clarity over levelling up policy objectives. These are ambitions for all parts of the UK and delivering on them, "while being fully respectful of the devolution settlements, will require close and collaborative work with the devolved administrations".

[10] Letter from the Cabinet Secretary for Finance and the Economy on the introduction of green freeports in Scotland, 15 February 2022.

[11] See table 2.1 on Page 120-121 of the Levelling Up White Paper for the 12 missions which the UK Government explain will "guide the UK's approach to levelling up over the next decade."

b. Central UK Government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall. This will require greater transparency around the geographic allocation of funding and simplification of local growth funding.
c. Decision-makers in local areas will be empowered with a new framework to extend, deepen and simplify local devolution in England whilst ongoing support will be provided to existing City and Growth deal areas such as in Scotland.
d. The UK Government will transform its approach to data and evaluation to improve local decision-making. Alongside the Office for National Statistics' Subnational Data Strategy, the UK Government will make available interactive tools and maps to facilitate this process. It will also encourage innovative uses of real-time data at the local level.
e. The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council. The annual report will update the public on progress against the missions so that levelling up is subject to external scrutiny, including by Parliament.

Specific Funding Decisions

30. In its Budget 2022-23 report, the Committee recognised that, taken together, the new EU replacement and levelling up funds represent "a significant level of funding which has already been committed to being spent in Scotland and which is not allocated as part of the usual Scottish budget process."

31. As part of the one-year Spending Review in March 2021, the UK Government committed an initial £4 billion for the LUF for England over the next four years (up to 2024-25) and set aside at least £800 million for Scotland, Wales and Northern Ireland. In order to ensure that the funding is targeted at the areas in most need, a UK Government index has categorised local authorities across the UK into three categories with places marked as "1" being in most need. Need has been informed by:

   a. need for economic recovery and growth;
   b. need for improved transport connectivity; and
   c. need for regeneration.[12]

32. In the first round of funds awarded under the LUF, eight projects led by Scottish local authorities received funding, worth just under £172 million (around 10% of the total value of all awards). In this first round, five of the eight projects were in Priority 1 areas (accounting for around two thirds of the value of the awards). The UK Government expects all funding provided to be spent by 31 March 2024 although larger schemes may take until 2024-25.

[12] Based on this approach the following Scottish local authorities have been categorised as 1 for the Levelling Up Fund: Dumfries and Galloway, Dundee City, East Ayrshire, Falkirk, Glasgow City, Inverclyde, North Ayrshire, North Lanarkshire, Renfrewshire, Scottish Borders, South Ayrshire, South Lanarkshire, West Dunbartonshire.

33. MPs are expected to be consulted by local authorities as bids are developed and can provide formal written support for one bid which they see as a priority. Local authorities can submit one bid for every MP whose constituency lies wholly within their boundary. Where an MP's constituency crosses more than one local authority, one local authority must take responsibility as the lead bidder. There are limits on the number of successful bids each local authority can have over the lifecycle of the Fund.

34. As confirmed by the Parliamentary Under Secretary of State, Iain Stewart, UK Government funding under City Region and Growth deals "is part of £1.7 billion we are investing right across Scotland to level up communities and build back better from the pandemic."[13] In August 2014, the UK Government and the Scottish Government jointly announced the first City Region Deal in Scotland for the Glasgow City Region. From then a total of £1.7 billion has been committed by the UK Government - £1.5 billion City Region and Growth Deals and £200m of Levelling up fund strategy comprising of £18 million of Community Renewal funding, £172 million of Levelling up funding and £1 million from the Community Ownership Fund (see this Spice blog for details). The UK Government funding for City Region and Growth deals sits alongside City Region and Growth deal funding of £1.6 billion from the Scottish Government and £2.5 billion from Scottish Local Authorities and other partners.

35. The LUF White Paper also confirms that the UK Government will target £100m of investment in three new Innovation Accelerators, private-public-academic partnerships which aim to replicate US models of clustering research excellence and its direct adoption by allied industries. These pilots will be centred on Greater Manchester, the West Midlands and Glasgow City-Region. Under the existing Glasgow City Region Deal, £72.14 million has been committed to innovation and business growth to support three specific projects which aim to support the life sciences industry across the region.

36. The Community Ownership Fund also comes under the umbrella of LUF. It is valued at £150 million) is focused on "local facilities, community assets and amenities". The Fund will run until 2024/25 and there will be at least 8 bidding rounds and bids are assessed against a framework, with the final decision taken by the Department for Levelling Up, Housing and Communities (DLUHC)[14] In the first round of bidding five Scottish projects were successful with a value of £1.07 million.

37. The LUF also sets out that a digital education service, the UK National Academy, will be created to support pupils from all backgrounds and areas of the UK. In 2016, the Scottish Government published its Digital learning and teaching strategy setting out a series of "national actions and local expectations" which seek to ensure that "all learners and educators are able to benefit from digital technology in their education".

[13] Herald Scotland article, 21 December 2021,

[14] UK Government, Community Ownership Fund Prospectus, 15 July 2021.

38. The prospectus for the LUF published in March 2021, explained that “Once funding awards are decided, relevant local institutions are responsible for their delivery. Further contributions from the Fund will not be provided to meet cost overruns after funding has been agreed.” As the Committee heard during its budget scrutiny, inflation is expected to increase during 2022 impacting on the costs of Government spending. On 3 February 2022, the Bank of England stated that inflation is expected “to reach over 7% by spring 2022 and then start to come down after that” with the expectation that inflation will be nearer the Bank’s 2% target by 2024.

Intergovernmental Relations

39. In its pre-budget report published in November 2021, the Committee recognised that greater communication and sharing of information between the UK and Scottish governments is needed to enable effective public spending in areas where there may be a shared interest.

40. The UK Government explains that “Levelling up can only succeed as a shared national project” and that the six capitals listed earlier in this paper “straddle areas of responsibility and tiers of government across the UK.” The White Paper observes that, whilst the devolved governments are best placed to deliver certain services, like health and education, outcomes are a shared UK-wide interests.

41. It adds that, given the UK Government already funds public services across the UK through its wide tax base “In practice, this means all layers of government need to come together with a common purpose. The UK Government is committed to facilitating collaboration and engagement with the devolved governments and stakeholders in Scotland, Wales and Northern Ireland.” The UK Government explains that it will seek agreement with the devolved administrations in relation to the best way forward in sharing learning and comparing progress with the 12 missions.[15]

42. In terms of how the UK Government will work when delivering in devolved nations, it has “established 3 new Cities and Local Growth teams who are based in Wales, Scotland, and Northern Ireland, which are working with the territorial offices as well as local partners to support effective delivery of the new funds.”[16] It notes in its White Paper that, where local partners also need to consider funds led by devolved administrations, effective collaboration on UK-wide policies is important to maximise impact and minimise complexity. To maximise simplification across the country, the UK Government will share lessons from its efforts to streamline funding with devolved administrations.

43. During pre-budget 2022-23 scrutiny, the Scottish Government argued that it was “extremely difficult to determine how to use our limited capital funding as far as we can for hospital projects, roads and schools when the UK Government is making decisions about capital spend that we are not sighted on”. Another

[15] UK Government, Levelling up the United Kingdom, 2 February 2022
[16] UK Government, Community Renewal Fund Guidance: Frequently Asked Questions.

concern was whether capital allocated under the LUF will be additional to the Scottish Government's capital budget or whether there will be a net decrease in its budget as it is redeployed to the LUF or UKSPF.[17]

44. In its LUF frequently asked questions, the UK Government explain that, "Where appropriate, MHCLG and DfT will seek advice from the relevant devolved administrations at the shortlisting stage on projects that will be delivered in their geographical areas, including on deliverability and alignment with existing provision."

Transparency, scrutiny and accountability

45. Given EU funding continues to be spent in Scotland, the Scottish Government will remain responsible for managing funding under the two European Structural and Investment Funds for the period 2014 to 2020; the European Social Fund (ESF) and the European Regional Development Fund (ERDF). Under the Withdrawal Agreement, the UK continues to participate in the current Multiannual Financial Framework programmes, including ESF, until they end in 2023.

46. As a result, the Scottish Government is formally designated by the European Commission (EC) as the Managing Authority for these funds and it therefore requires to apply a management control system determined by the EC. This includes documentation and verification procedures aimed at ensuring European rules operating across all 28 member states on how funds are spent are followed. The Scottish Government's Directorate for Internal Audit and Assurance is the 'audit authority' for these funds in Scotland. It reports to the EC annually on compliance with the relevant rules, following an audit approach determined by the EC.

47. All European Structural and Investment Funds expenditure and associated EU funding is included in the Scottish Government's consolidated accounts. As such, this is subject to the remit of the Auditor General for Scotland. Reports on the annual accounts and performance audits undertaken by the Auditor General for Scotland (or jointly with the Accounts Commission for Scotland) relating to Scottish Government expenditure are laid in the Scottish Parliament for consideration by the relevant Parliamentary Committees. Audits of Scottish local authorities are undertaken by the Accounts Commission.

48. In its Budget 2022-23 report published in January 2022, the Committee recognised that "ensuring that public funds are used effectively is essential given the scale of the challenges that Scotland faces" and that therefore "transparency and clarity over the purpose and outcome that each funding stream is intended to achieve is vital".

49. In assessing the value for money of bids, the UK Government explain that four main criteria will be used: Strategic fit, Value for Money (VfM), deliverability and place characteristics. The LUF White Paper then sets out how the UK Government plans to provide good quality data, monitoring and evaluation. This

[17] Finance and Public Administration Committee, Official Report, 31 August 2021.

includes a data analysis strategy at subnational level, including making subnational data publicly available through ONS and creating a spatial data unit for data transformation in central government.

50. The UK Government also explains that it “wants to foster a spirit of collaboration and will invite the devolved administrations and local leaders from across the UK to work with them to find new ways to learn about “what works” across a range of policy areas.” This could include whether a new body should co-ordinate this work. Also highlighted is the UK concordat on statistics, which sets out a framework for cooperation between the UK Government and the devolved administrations, recently refreshed in 2021 and which “provides a strong basis for data sharing.”

51. The White Paper also sets out that a new accountability regime will be put in place by the UK Government for the design and delivery of levelling up. This regime has two key features:

    a. a statutory obligation to report annually on progress towards meeting the Levelling Up missions drawing on the metrics in the White Paper;
    b. the creation of a Levelling Up Advisory Council charged with providing “independent expert advice on matters relating to the design and delivery of levelling up. Its analysis will be commissioned and published, at the discretion of the Levelling Up Cabinet Committee, chaired by the Secretary of State for Levelling Up, working with other ministers.” A number of appointments from industry, academia and civil society have been made to the Council (and are listed on page 157).

52. The National Audit Office has recently considered the lessons learned from previous local growth policies and how they have been applied to the above funds, reporting its views on Supporting local economic growth in February 2022. This work was informed by discussions with representatives of Audit Scotland.

Next Steps

53. In relation to the UKSPF, the UK Government explains that using the information set out in its Pre-Launch Guidance, each lead local authority is now encouraged to start identifying the diverse range of local stakeholders, appropriate groups and organisations to represent cross-sector voices.

54. The LUF White Paper explains that UK Government is to embark on a “process of sustained and systematic engagement and consultation with a wide range of stakeholders, including devolved administrations, on the White Paper. We will be setting out further detail on a number of these policy commitments in future publications. In addition, we will introduce legislation to Parliament to underpin in statute the changes fundamental to levelling up, alongside wider planning measures.”

55. The Committee is invited to consider this briefing when taking evidence from the Secretary of State.

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 in-house 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 mid-term 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.