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Introduction

The authors are conducting a research project – Public Expenditure Planning and Control in Complex Times: A Study of Whitehall Departments' Relationship to the Treasury (1993-Present) – funded by the Nuffield Foundation that seeks to explore a key paradox in the British system of government over recent decades; an approach of centralised financial [Treasury] control in an era of fragmentation within the wider governing process.

Evidence:

How can the Government ensure that all areas that need funding for Levelling Up receive adequate support with the bidding process and subsequently receive adequate funding?

- The challenge to the current government in ensuring funding for levelling up goes where it is most required and is adequate to meet the needs is a sizeable one. The current approach is bureaucratic and inefficient, while the funding available for levelling up is wholly inadequate. The Centre for Cities estimates that between 1990 and 2014, the post-German reunification 'levelling up' efforts cost the equivalent of around £71 billion per year.[1] The total Levelling Up Fund, by contrast, is £4.8 billion.
- By focusing resource allocation on competitive bidding, Government interventions have been ad hoc, inconsistent and inadequately resourced. They have had minimal impact on the uneven pattern of regional development or spatial inequalities. Successive governments, supported by the Treasury, have targeted public funding at favoured sectors in high productivity regions, where the direct economic returns on investment appear highest. Recent allocations through various 'levelling up' funds have failed to meaningfully address this imbalance.

- The process has led local authorities to deploy often scarce resources in the pursuit of massively oversubscribed pots of money. West Midlands Mayor Andy Street's description of a 'begging bowl culture' is telling and is also reminiscent of earlier comments by his Greater Manchester counterpart Andy Burnham reflecting the same sentiment. This situation risks undermining the development of strong and productive central-local relations.
- This approach to resource allocation is inefficient, especially given the harsh fiscal context. The Local Government Association estimates that the average bid cost is around £30,000. The process can also involve hundreds of officer days to prepare the associated paperwork. It costs each local authority on average £2.25 million per year to track and target the various pots of money on offer.[2] Given the number of submissions totalled 529 across the UK of which only 111 were successful, this points to considerable waste and questionable value for money. Given the prevalence of competitive bidding to allocate funding, this is reflective of a much wider problem regarding the financing of sub-national government.
- The lack of transparency surrounding DLUHC's prioritisation criteria following Round 1 led to numerous local authorities embarking on the costly process of devising a bid despite subsequently being ruled out on grounds of geography. This has aroused anger across the sector. Notwithstanding our overarching criticisms of a competitive process, it cannot be right to rule out entire regions after bids have already been submitted. This does not speak to an open and supportive process.
- The decision-making process is not sufficiently place-sensitive and cannot be meaningfully so when distant DLUHC civil servants act as ultimate arbiters for local initiatives. The criteria for Round 2 of the Levelling Up Fund included strategic fit, deliverability and the economic case, but it is highly questionable that officials and politicians in Whitehall are best placed to judge the merits of each case. Centralisation through enhanced Treasury oversight of any new capital expenditure commitments initiated by DLUHC does not address this fundamental problem.
- The competitive dimension is intended to drive local cooperation between stakeholders and with it innovation. However, the dependency culture this system engenders – coupled with centrally prescribed criteria – has the effect of driving conformance in the design of

bids rather than innovation in potential programmes. Further centralisation only exacerbates this fact.

- Local leaders – including metro mayors – have become figureheads of 'grant coalitions' in a funding context where sub-national government is increasingly reliant on centrally managed funds to deliver programmes that extend beyond core statutory functions. Consolidation of funds – the argument of the Government's Levelling Up White Paper – does little to end the dependency of local government on Whitehall.
- The large number of unaligned funding pots to address levelling up over recent years highlights the continuation of a Treasury dominated 'command and control' approach to distribute what is ultimately inadequate funding. The Treasury has effectively shaped the nature of networks from the centre by controlling resources, reinforcing centrally defined priorities and setting the 'rules of the game'.[3]

What are the challenges of competitive bidding and will this impact areas with limited resources and capabilities for bidding? How does levelling up funding integrate with other funding streams such as the Towns Fund, the High St Fund, the Sustainable Transport Fund etc?

- Local government has, since 2010, suffered considerable fiscal constraints. Not only does the scale of the Levelling Up Fund and Shared Prosperity Fund (among others) fail to meaningfully address local government's funding shortfall, but competitive bidding processes exacerbate funding uncertainty while local authorities with the highest needs have limited capacity to put together the most competitive bids on the basis of metrics devised by civil servants in Whitehall. This has long-been understood to be a consequence of this approach to funding.[4]
- Additional financial support is being provided to assist with the production of high-quality submissions – £125,000 of capacity funding for eligible local authorities – but this simply serves to illustrate the differentials in capacity and the extent to which local authorities have in some cases been hollowed out. Our research highlights the strain placed on local authorities across the board by near constant resource intensive bidding wars. Short-term, centralised support funding is not a meaningful long-term solution to address capacity and expertise differentials.

- Understandably, the Levelling Up Fund criteria place an emphasis on value for money and successful bids will be monitored on a six-monthly basis against agreed deliverables. Whilst we appreciate DLUHC's oversight function is a feature of a competitive process like this, the combination of short-term funding and associated metrics brings into question whether long-term value for money is adequately understood. This moreover reflects another external pressure on administratively and financially stretched local authorities.
- Alongside more devolved fiscal powers, there is a case for moving beyond simply providing short term external support for sub-national government and instead investing in building local capacity and expertise to enhance local strategic planning and place-specific evaluation of interventions. Resources currently diverted to the bidding process would be better deployed in this way to support building local policy design and implementation skills and cross-sectoral learning.

How can the Government achieve its aim of streamlining funding for Levelling Up?

- Levelling up funding – and, indeed, local government funding generally – is poorly integrated, short term, and fails to provide the space for sub-national actors to plan strategically for the long-term. This adds to challenges at the local level, as local actors must manage multiple separate funds, with different timescales and monitoring requirements.
- To the extent that effective targeting and coordination occurs, it runs through the Treasury's firm grip on budgets. The Treasury, as the key coordinating department, holds a unique and commanding position, not only in Whitehall, but across the governance landscape of the UK through its control of public expenditure and influence over public sector budgetary and financial management practices.
- Integrating and streamlining the plethora of existing funds would be a welcome step but will be difficult without continuing Treasury support. Reducing uncertainty in financial planning for sub-national actors is critical but it will require more than the mere amalgamation of funds if counterproductive unfunded mandates are to be avoided.
- Without effective devolution of power, including greater fiscal autonomy and downwards accountability, streamlining of funding will not break Whitehall's dominance over policy priorities. A complete change of attitude is required. We favour an approach that allows

local governments to take informed risks, make mistakes and to be responsive to their voters, not to ministers and departments (not unlike the situation in the devolved administrations of Scotland, Wales and Northern Ireland).

- Meaningful reform requires the Treasury recalibrating its approach to control and relinquishing its veto power over funding destined for projects delivered by sub-national government. Instead, spending would be required to be controlled through devolved authorities and not Whitehall departments. Economic development needs to reflect and respond to local needs. Local decision-makers should be accountable to their voters and not to Whitehall and the Treasury.
- By focusing on streamlining disparate funding pots, the Committee should not lose sight of the need for a meaningful debate on how fiscal devolution might work. Indeed, this is long overdue. Sub-national government in the UK has some of the most limited fiscal powers among OECD nations. In 2016, out of 35 OECD countries, the UK was 29th in terms of the local revenue raising powers of sub-national government and 26th regarding sub-national control of investment.[5] Streamlining funding should be seen as a first step towards opening up the space to seriously explore alternative funding models.

How can funding focus on both wider regions, as well as individual towns?

- The Government has promised that any region can negotiate a devolution deal by 2030. But the problems of geography and scale are a concern. There is tension between the size of local government and accountability. Too small, and local government does not have the capacity or economic resources to make real change. Too large, and it becomes remote from local people and their concerns.
- The proposed landscape in the Levelling Up White Paper is incoherent. Some areas are large economic conglomerations with clear regional identities, like Greater Manchester. Others are more fragmented, like York and North Yorkshire and Hull and East Yorkshire.
- Smaller regions do not have the economic capacity to make real changes. Much of their economic activity is going to be affected by the pull of nearby, larger, economic centres.
- Meanwhile, even sizeable urban centres like Birmingham, Leeds and Manchester, are not going to have the resources to integrate health, education, housing, planning and transport in ways that can overcome many decades of neglect and decline. In this sense,

real devolution of financial resources really does matter when tackling regional inequalities.

- Strengthening local institutions is a necessary but not sufficient condition of balancing funding more appropriately between regions and towns. It will be inadequate if regions are not given meaningful decision-making power and control of resources. Crucially, in the current strategy, Whitehall's direction of policy from London and the Treasury's control of financial priorities are left untouched. For example, the Shared Prosperity Fund, 'aimed at reducing inequalities between communities', calls for local investment plans to be approved by UK government. Without reform in Whitehall, this top-down culture, where central government controls key policy areas and targets favoured regions, will continue.

What is your assessment of the Levelling Up Fund, and what improvements could be made.

- We have commented above on various aspects of the process that relate to this question, so we reserve our comments here to matters of transparency.
- The second tranche of Levelling Up Fund allocations has, like previous rounds, been rightly criticised for a lack of transparency. This has resulted in some of the inefficiency already outlined, not least regarding bids from localities that received funding in the previous round. DLUHC criteria must be clearer to ensure this does not happen again if, as seems likely, competitive bidding remains the preferred method of allocating funding for Round 3.
- This method of funding is always open to accusations of pork barrel politics, as was the case with the Towns Fund and Round 1 of the Levelling Up Fund. In the case of the former, the evidence suggests that Conservative-held parliamentary seats, especially marginals, were prioritized in this centralized process.[6]
- The PAC also acknowledged this issue when criticising the DLUHC for unsatisfactory procedures underpinning awards from the Levelling Up Fund, including retrofitting criteria to justify pre-existing decisions and the lack of a transparent, thematic and distributional analysis to evaluate allocative efficiency.[7]
- If the government is serious about levelling up being more than a rhetorical exercise it will have to be more open early in the process about how decisions will be made. For

example, why was the decision taken to not use the Indices of Multiple Deprivation, as was the case in Wales?

Will the Government's approach to funding for levelling up achieve its objective of levelling up the country?

- Recent evidence suggests that levelling up has stalled, and disparities between regions may even be worsening.[8] We are sceptical therefore as to whether the Government's current approach will achieve its objective of levelling up without a significant rethink of both funding mechanisms and accountability arrangements.
- The current top-down and restrictive approach to allocating and raising funding remains complex, messy and short-term. This is a significant obstacle to the Government achieving its objectives on levelling up.
- The Government's analysis in the Feb 2022 White Paper was correct in concluding that a long-term approach to regional economic development requires a policy agenda devised using local knowledge, enhanced local capacity and adequate sub-national funding arrangements.
- The current strategy to tackle regional inequality promises a 'revolution in local democracy' and an end to 'endemic policy churn' resulting in a 'patchwork of policies and ever-changing organisational structures'. It seeks to do this largely through regional devolution for England – setting up more localised governments with their own mayors to give greater autonomy and power to the 'left behind' regions.
- But the proposed solutions do not match the scale of the challenge set out in the White Paper and downplay the constitutional and economic reorganisation required to break away from the highly centralised Westminster model of government. It seems unlikely that levelling up can achieve its objectives without a wider economic strategy focussing on rebalancing the UK's spatial inequalities. In addition, there is a further need for political reform which rebalances in a meaningful way the relationship between the centre and localities.
- In contrast to the UK's top-down and sceptical approach to regional and industrial policies, successful fast growth economies in Asia, or Germany following reunification, have

encouraged: bottom-up initiatives; co-ordination across ministries and localities; combined with a mechanism for evaluation to mitigate against failures.

- The White Paper recognised that the hallmark of the UK's levelling up agenda is British exceptionalism, but the present Government is again falling into the trap of ignoring its own lesson learning from industrial strategy success stories elsewhere, by pursing a partial approach to reform. Despite substantial evidence suggesting that centralised government and high spatial inequalities in the UK have contributed toward sluggish productivity and economic growth, meaningful reform of Whitehall's power base remains off the agenda. Until local authorities have been granted a set of consistent powers that enable them to set their own priorities in a strategic way, progress is unlikely.
- As we have argued in our responses above, addressing the UK's geographical inequalities requires a meaningful transfer of political and fiscal powers downwards. But 'unfunded mandates'—whereby sub-national governments gain political responsibility, despite lacking adequate resources—have been a longstanding feature of decentralisation in the UK, despite being widely cautioned against. There is increasing evidence that unfunded mandates can undermine the positive economic effects of political decentralisation.[9]
- Simplifying existing fragmented funding arrangements based on a wide range of different schemes controlled by central government would be welcome, but the Treasury's control of financial priorities remains untouched as things stand. The UK retains its position as having one of the most centralised approaches to tax and spend of all OECD nations and with it the perpetuation of Treasury dominance.
- A radical strategy that moves away from the current 'top down' model of economic policy-making and centralised governance arrangements has been widely called for. Yet, the current approach advances incremental reform predominantly focused beyond Whitehall and is set to become another example of ad hoc policy churn without concrete policies to enhance local fiscal autonomy and eschew top-down accountability.

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