Written evidence submitted by Greater Manchester Combined Authority [FFL 47]

This written evidence supports and supplements the oral evidence which was provided by the Mayor of Greater Manchester to the Committee on 12 December. It focuses on the key questions set out in the Committee's Terms of Reference for the Inquiry.

THE ROLE OF COMPETITIVE BIDDING

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?

What are the challenges of competitive bidding and will this impact areas with limited resources and capabilities for bidding?

The route to ensuring that all areas that need funding for Levelling Up receive it is to move away from multiple, short-term funding pots and an over reliance on competitive bidding. Such processes waste time and money, inappropriately centralise decision-making, and risk areas with lower capacity or fewer resources (usually due to funding cuts over the last decade) failing to be successful. International examples (for example in East Germany post-reunification) suggest a pivot toward a smaller number of larger funding streams, ideally allocated rather than run via competition, would be more successful.

Competitive bidding is a widespread challenge for both Mayoral Combined Authorities (MCAs) and Local Authorities (LAs) across the country. For example, a recent Local Government Association report into Local Government Funding[1] found that a third of grants flowing into the sector were partly or entirely allocated using competitive bidding. Competitive bidding presents a range of challenges.

- Capacity and capability. Bidding processes are often complex with short timescales and can require a high degree of bid writing skill. The Government's recent (ill fated) bidding process for Investment Zones was a good example of this – with only 9.5 working days from announcement to deadline. Many MCAs and LAs find that they lack the institutional capacity and/or expertise to respond to such competitions – especially given their frequency and often short deadlines.
- Over-reliance on consultants. Uncertainty over future funding causes challenges for the sector in recruitment and staffing, as last-minute funding announcements are often made too late to allow for proper incorporation into budget planning. This has resulted in an over-reliance on consultants to put together bids. University of Sheffield[2] analysis from 2022 found that across local government, 90% of bids for competitive funds were prepared by consultants.
- More expensive delivery. In addition, the competitive process can create unnecessary expense by making providers mobilise at short notice in response to multiple competitions. Annual allocations skew commissioning towards larger providers with the capacity to

[1] Local Government Association, 2020, *Fragmented Funding: The Complex Local Authority Funding Landscape,* https://www.local.gov.uk/publications/fragmented-funding-report.

[2] Tait, Malcom, et al. University of Sheffield, 2022, *Fair Funding? The Role of Combined and Local Authorities in Regenerating Their Areas.*

respond to multiple competitions rather than smaller organisations that might be better placed to genuinely respond to need. They also favour providers who can deliver high volumes at pace rather than high-quality in response to needs.

- Over-use of complex contractual arrangements. The LGA report also found evidence of a high turnover of grants, both for day-to-day revenue spending and for longer-term capital investment assets. The short notice of these bids means that MCAs and LAs need to be able to suddenly accommodate their capacity. This leads to a high use of multi-level subcontracting models, which can be turned on and off at speed. This is costly, as each part of the value chain adds a margin, and there is no incentive for companies to train their workforce due to sub-contracting arrangements. In addition, in increased capacity periods, mini localized booms are created so the workforce is not incentivized to take time to upskill.
- Delivery of sub-optimal outcomes. The fragmented bidding processes often have a rigid separation of competitions for individual projects, with their own evaluation processes, value-for-money criteria, and a narrow and opaque funding criterion. This can make it very difficult for MCAs and LAs to manage on a strategic programmatic basis. Where individual projects measured in isolation would not perform well under a benefit-cost ratio, a strategic programme, made up of multiple projects can demonstrate a positive benefit-cost ratio. Consequently, the inability to act on a strategic programmatic basis means that MCAs and LAs are unable to optimize outcomes. The recent experience of the Innovation Accelerator programmes has been an example of this.

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

As argued in the Levelling Up White Paper, the Government needs to pursue funding consolidation by bringing together existing funding streams where possible, while taking action to try to ensure streams do not proliferate again over time. This will require action across Government, as the multiple relevant funding streams for the local government sector sit outside the direct remit of the Levelling Up Department (DLUHC).

For Mayoral Combined Authorities specifically, GMCA believe that we need to move toward a model with a clearer core funding settlement for a set of agreed devolved functions which remain stable over time. We support the Government's commitment in the 2022 Autumn Budget to explore the potential to provide 'single departmental-style settlements at the next Spending Review'[3].

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

Certain investments inherently make logistical and financial sense when deployed at a functional economic area level – for example transport or skills. As a result, the Levelling Up White Paper's commitment to extending and deepening the MCA model (or equivalent County Deals) across the country is the right step. MCAs empower local leaders to make effective decisions at a local level to deliver better outcomes and more joined up public services. By bringing local leaders together across a functional economic area, they allow places themselves to make decisions about where decisions best sit and allow local leaders to reach collective agreements which work for their

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[3] HM Treasury (2022). *Autumn Statement 2022*. [online] Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1118417/CCS1022065440-001_SECURE_HMT_Autumn_Statement_November_2022_Web_accessible__1_.pdf.

individual places. A strong and entrenched MCA model across more of England would enable an effective and cohesive relationship between individual towns, regions and national government.

How can the Government ensure that spending across all departmental budgets can be adjusted accordingly to ensure all of government is focused on achieving levelling up and that resources are directed to the areas most in need?

Hard-wiring Levelling Up into the machinery of government will be a huge undertaking but is crucial in ensuring the whole of Government is pulling in the same direction. There are at least four key ingredients needed here, many of them signalled in the White Paper itself.

- <u>Giving the Missions greater force.</u> We agreed with the proposal in the Levelling Up White Paper that the Levelling Up missions should be reflected in the day to day running of UK Government Departments and public bodies and that the Missions should have clear statutory force. As the former Permanent Secretary for Levelling Up argued at the time, a good indication this has been successful would be if future fiscal events set out how spending decisions are expected to impact on the Missions.
- <u>Stronger central-local relationships.</u> The White Paper also proposed appointing high-profile Levelling Up Directors to create a more joined up relationship between national and local government. As far as we know, they have not yet been appointed. Similarly, clearer and formalised mechanisms for engagement are needed between local and national leaders – for example a within-England equivalent to the Joint Ministerial Council to bring together Mayors and Ministers.
- <u>Richer, more timely, and more granular subnational data.</u> Data in too many important policy areas – including innovation, transport and skills policy – is either unavailable or unhelpful (because it is lagged, at too high a spatial level, or too sparse). Used well, subnational data can help areas to understand the complex local economic geography and tailor policy to suit the needs of their area. We therefore welcomed commitments in the White Paper to improve the gaps in subnational data through the creation of a Subnational Data Strategy, a new Spatial Data Unit and a new ONS interactive subnational data explorer. We would be interested to know the progress of these initiatives.
- <u>Less ‘place blind’ national policy and funding decisions.</u> The spatial pattern of government spending is often unclear - meaning government policy sometimes acts in a “place-blind” way and can entrench inequalities it is seeking to address. Better data about the spatial distribution of public spending would help here, as the White Paper argued.

How are Levelling Up projects being measured in terms of value for money and for their contribution to Levelling Up?

Most bids for ‘Levelling Up projects’ (defined roughly as projects funded by Government funding pots like the Levelling Up Fund, Towns Funds, Shared Prosperity Fund etc) are subject to strenuous – often excessive - central assessment on criteria like value-for-money and deliverability. Alongside this, local authorities and their partners are also assessing projects for their alignment with broader local strategies and economic plans. For example, while central bidding processes often focus more narrowly on what would be considered in Green Book terms as the ‘economic’ or ‘financial’ case, Local Authorities also focus on the ‘strategic case’ when deciding what to put forward. However, this often has to be balanced against an understanding that Government will heavily weight projects with clear, short-term deliverability plans. As a result, the choice of projects can reflect a trade-off between the highest strategic priority projects locally and those which are deemed to have a high chance of success in national competitions.

This can also be seen in the way funding streams or initiatives often assess value-for-money at the project level rather than permitting the aggregation of several distinct projects into a wider strategic programme which is ‘more than the sum of its parts’ (e.g., aligning housing, transport, and land remediation). This can result in funding opportunities being missed as siloed funds don’t factor in opportunities beyond individual projects.

How does levelling up funding integrate with other funding streams such as the Towns Fund, the High St Fund, the Sustainable Transport Fund etc?

Our local authorities have worked hard to ensure that Levelling Up Fund-related projects have been integrated with other funding streams – for example by using bids to enhance the schemes which also have other funds attached to them. This can be seen in Rochdale, where the local authority has allocated a significant share of its successful £22.6 million Towns Fund grant to the Advanced Machinery and Productivity Institute (AMPI). This Institute is an anchor investment in the wider Atom Valley Growth Location programme, and supplements existing funding via the UKRI Strength in Places Fund. More broadly, the council and Combined Authority are aligning a range of wider investments to bring Atom Valley forward – including former Local Growth Fund funding, funding via the GM City Region Sustainable Transport Settlement (CRSTS).

However, some Local Authorities believe that guidance for the LUF could have been clearer about how integration and alignment should work in practice and what was, and was not, permissible. As mentioned elsewhere in this response, Local Authorities also expressed concern over inconsistency in the bidding processes between different funds (e.g., different timelines, bidding periods, eligibility etc) as this stretches already limited resources locally. Similarly, different funding grants are delivered to Local Authorities at different times of the year, which makes aligning the funds for a specific scheme very difficult. For example, there are examples where our Local Authorities have had to use only one funding grant and reduce the scope of a project to meet fund deadlines.

What is your assessment of the Levelling Up Fund, and what improvements could be made, with reference to:

- **The bidding process**
- **Feedback on unsuccessful and successful applications**
- **Transparency**
- **The impact of inflation**

Apart from a single transport-related bid, GMCA itself is not eligible to apply to the Levelling Up Fund. However, many of our local authorities have now put in bids (with mixed success) over the two rounds of the LUF and have identified a range of improvements which could be made:

- The bidding process. The competitive bidding process for the Levelling Up Fund is identified as placing a strain on already limited resources and staffing – both in terms of capacity and capability. As a result, some local authorities have had to rely on external consultants – putting even more strain on local budgets (this is an issue identified more widely in the local government sector, as set out earlier). Local authorities who have experienced the process believe that it could be improved by streamlining the material required; greater use of long-term block funding alongside one-off grants to support Local Authorities to build up their capacity and skills; locally led tailored investment and delivery; and a proportionate share of administrative resource and funding.

- Feedback on applications. Local Authorities who have been unsuccessful feel that feedback was 'scant' and 'not constructive.' They found that feedback often came from regional growth offices, and not from the core DLUHC officials responsible for bid assessment. This meant it was too high-level and unhelpful in supporting them to make successful bids in future.
- Transparency. Similarly, they found that transparency during the bidding process was not sufficient - with communication from Government about the allocation and distribution of funding to be vague. This has been exacerbated by significant delays in announcing the results of Round 2 – despite holding councils themselves to tight timelines last year when inviting bids. However, they did find that local area teams from DHLUC were supportive and transparent throughout the process.
- The impact of inflation. According to an IPPR report[4], inflation is expected to reduce the Levelling Up Fund by £340 million by 2025/26. Further costs will be lost due to inflation due to the rising cost of construction materials. The Levelling Up Fund does not accommodate for the rise in inflation and therefore forces Local Authorities to downsize or pause their infrastructure projects. So far, we have not had a case of a project being put entirely on hold in GM – though neighbouring Calerdale Council has had to put on hold plans for a new leisure centre after inflation increased the project cost by £4m.

[4] IPPR (2022) Where next for the Shared Prosperity Fund? Where next for the Shared Prosperity Fund? | IPPR

How will the proposed Investment Zones contribute towards the key objectives of Levelling Up? And is this different approach the right approach?

GMCA engaged with the DLUHC on including sites in GM as part of the previous 'Investment Zones' proposal, despite some concerns about displacement risks and the (then) proposed planning flexibilities. We have experience in GM of designing and implementing place-based growth initiatives, including enterprise zones, our neighbourhood model of public service delivery, and our 'Growth Locations' programme. We therefore stand ready to work with the Government on place-based growth initiatives – including any future iteration of Investment Zones.

However, the process of bidding for potential Investment Zones typified many of the problems set out in this submission. Mayoral Combined Authorities were given just nine and a half working days to assemble and submit bids which required both large amounts of technical work and analysis and sensitive local discussions about the location of potential sites. In many ways GM was well-placed for this process – with existing identified 'Growth Locations' and much detail already assembled through the work required to deliver our Places for Everyone strategic spatial plan. Nevertheless, the process took several officials away from other urgent priorities full time for a fortnight and absorbed much discussion time amongst senior officers and politicians, only to be promptly discarded by Government.

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

No. There are key issues Government will need to address, many of which were acknowledged in the Levelling Up White Paper but have not yet been addressed in practice. For example:

- <u>Moving away from many, small competitive funding streams toward larger block grant funding models for local government.</u> For reasons set out elsewhere in this submission, Government will need to make real progress on funding consolidation if it is to unlock the local capacity and leadership needed to drive levelling up.
- <u>Making the rest of Government spending and policymaking less place blind.</u> Spending which is directly associated with the levelling up agenda will only ever be a fraction of total public spending. If it is being counteracted by decisions elsewhere in Government which entrench or extend regional divides, then it will not be successful. This means action on issues identified elsewhere in this submission, like how Levelling Up Missions are embedded in fiscal events and on improving subnational data on public spending.
- <u>Greater devolution.</u> The UK (and especially England) is uniquely centralised amongst developed economies. As the Levelling Up White Paper itself argues, devolution is a necessary (if not sufficient) condition for tackling regional inequality.
- <u>Greater levels of investment.</u> International examples of countries who have tackled entrenched regional disparities (e.g., Germany) suggest that we will need to invest much more than the Levelling Up agenda currently attracts.

How should the success of Levelling Up funding be measured against the Government's desired outcomes for Levelling Up?

The success of the Levelling Up Fund should be measured by overarching, outcomes-based measures over multiple years instead of short-term, output-based measures. These measures should reflect both local priorities and strategies and the missions-led approach to policy set out in the Levelling Up White Paper.

Is the UKSP a sufficient replacement of the European Structural Investment Fund?

Overall, UKSPF is not a sufficient replacement of the European Structural Investment Fund (ESIF) for several reasons.

- Shorter duration. Although the funding for UKSPF is multi-year (2022-25), it is considerably shorter than the seven-year funding programme period for ESIF. Furthermore, there will also be less notice of likely funding levels in future rounds of UKSPF than was the case under ESIF – with indicative allocations unlikely before the 2024 Spending Review.
- Mismatched timescales. Certain ESIF funding streams on skills and employment support finish months and/or years before equivalent UKSPF funding begins. This will leave a gap in much needed provision and may hamper future delivery as it will impact on providers with potential redundancies and loss of expertise in their workforce.
- Less flexibility. Although the scale of UKSPF investment in the final year of UKSPF -2024/5 is comparable with an annualised 2014/2020 ESIF allocation, it does not have the flexibility of moving spend between years to achieve longer term strategic outcomes – with the UKSPF Prospectus setting out funding levels year-by-year.
- A broader scope. The scope of UKSPF is wider than ESIF, with a significant focus on Communities and Place, alongside the more usual ESIF elements of business support, skills and employment support. However, we are concerned that this will result in Government reducing other funding sources which would previously have supported this activity. In effect this would mean that the comparable scale of UKSPF investment would need to 'stretch' over a broader scope of activity, reducing the funding available to activities previously supported by ESIF (like innovation, low carbon, business support and skills and employment support).
- Less incentive for national government match funding. ESIF required a minimum of 50% match funding. This doubled the scale of investment, but also could limit the type of activity and providers if 50% match funding was not available. Much of this match funding came from a range of national and local public sector funding sources. UKSPF does not require match funding - although it is encouraged within the Prospectus it is likely that match-funding will be the exception rather than the norm. Within GMCA we are looking for projects and programmes to align UKSPF spend against other investment e.g., Levelling Up Funds. But we will not make 50% match funding a requirement, not least because doing this would make GM an outlier with other areas. As well as reducing the quantum of investment leveraged overall, this will reduce the requirement and incentive for national public sector investment to align with agreed strategic priorities locally. For example, we had examples within the GM ESIF programme where national Research Council's match funded ERDF investment in large capital schemes in our universities (e.g., Salford University's Robotics Centre).

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