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Regional Growth Fund

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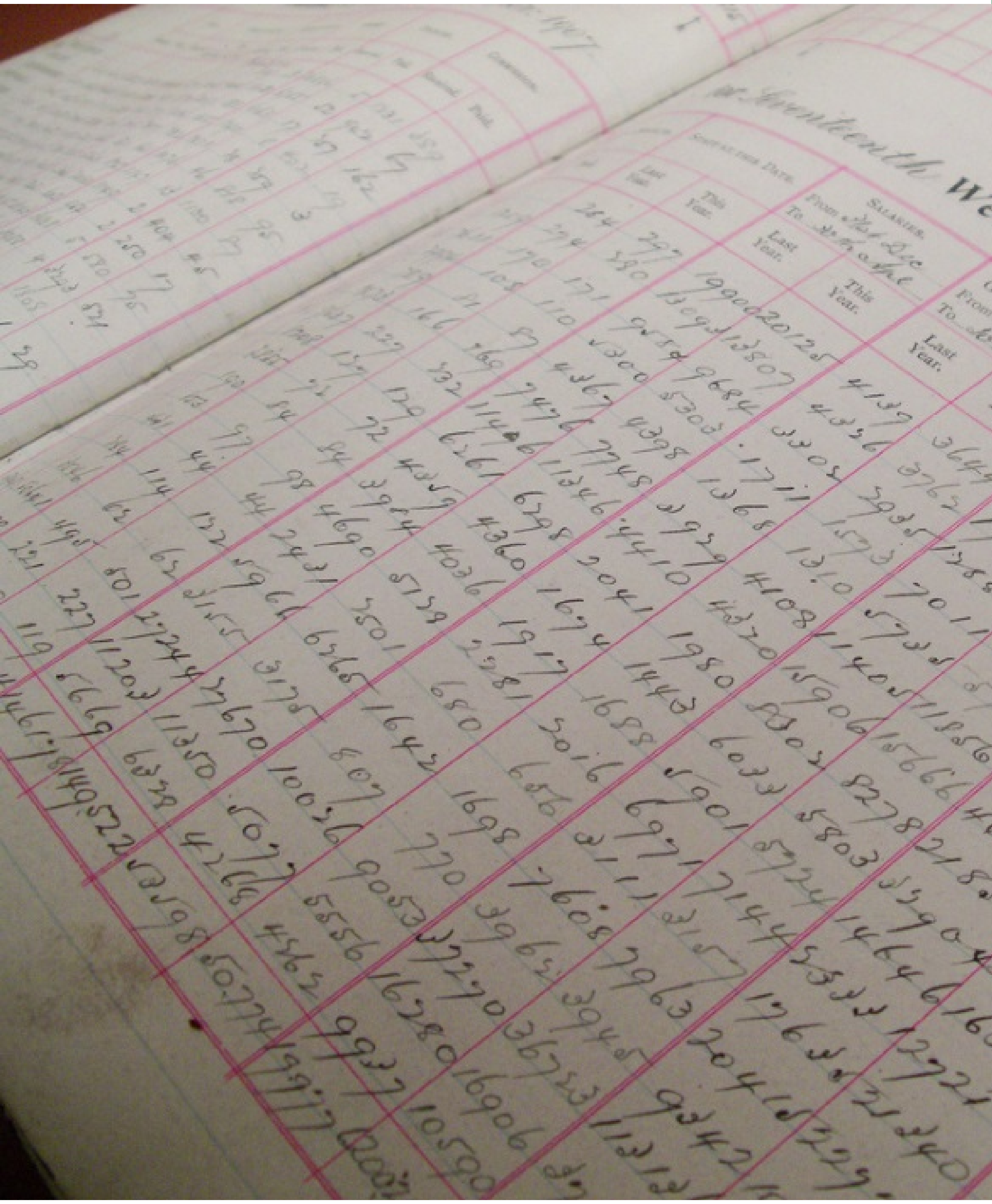

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Summary

The Regional Growth Fund (RGF) was created in June 2010 with the intention of promoting the private sector in areas in England most at risk to public sector cuts by providing financial support for private enterprises to leverage additional funding and create sustainable jobs. The RGF is expected to be worth over £3.2 billion over the period 2011-12 to 2016-17.

To date there have been six funding rounds. £2.9 billion was awarded in rounds 1 - 4; £450 million in the first round, £950 million in the second, £1.05 billion in the third and £506 million in the fourth.

While rounds 1 - 4 were open to both private and public sector organisations, rounds 5 and 6 were only open to the private sector. £306 million was allocated in round 5 and £297 million in round 6. Successful bidders from round 6 were announced in February 2015. Successful bidders from rounds 5 and 6 have until March 2017 to draw down their allocated funding.

In October 2016, it was confirmed that no future rounds of the Regional Growth Fund were planned.

1. Background

The Coalition Government's commitment to the creation of "a Regional Growth Fund" was announced in the June 2010 Budget, describing the purpose of fund as:

> To help areas and communities particularly affected by reductions in public spending make the transition to private sector-led growth and prosperity.[1]

The creation of the Regional Growth Fund (RGF) was announced by the then Deputy Prime Minister, Nick Clegg on 29 June 2010, alongside proposals for Local Enterprise Partnerships (LEPs). Both initiatives cover England only.

1.1 Objectives

Following a consultation during summer 2010, the RGF was formally launched in the October 2010 Local Growth White Paper. This outlined the dual objectives of the RGF as:

- To stimulate enterprise by providing support for projects and programmes with significant potential for economic growth and create additional sustainable private sector employment;
- To support in particular those areas and communities that are currently dependent on the public sector make the transition to sustainable private sector-led growth and prosperity.[2]

1.2 Funding

While the original announcement was of a £1 billion RGF covering the financial years 2011/12 and 2012/13, the Local Growth White Paper announced a fund worth £1.4 billion and envisaged the RGF would run for three rounds over three years. This was confirmed in the 2010 Spending Review.[3] The 2011 Autumn Statement gave the RGF an extra £1 billion in capital spending (the original allocation was a mix of current and capital spending), and extended it to 2014/15.[4]

The June 2013 Spending Review included a commitment to the establishment of a Single Local Fund by 2015/16 as well as allocating £300 million funding a year to the RGF in 2015/16 and 2016/17.

1.3 Relationship with LEPs

The RGF and LEPs were both part of the Coalition Government's agenda for replacing Regional Development Agencies (RDAs) and promoting growth in the private sector. LEPs were eligible to apply for funding from the first four funding rounds, but did not receive preferential

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[1] HM Treasury Budget 2010, June 2010, HC 61 pg. 30
[2] HM Government Local Growth: Realising Every Place's Potential, October 2010, Cm 7961 pg. 32
[3] HM Treasury, Spending Review 2010, Cm 7942, October 2010, table 1
[4] HM Treasury, Autumn Statement 2011, Cm 8231, November 2011, table 2.3

treatment in the bidding process.[5] LEPs were barred from bidding in round 5 and 6.

LEPs submitted 56 successful bids in rounds 1-4; 1 in round 2, 22 in round 3 and 23 in round 4.[6] The largest single awards to LEPs were made to the West of England LEP (£39 million) and the Greater Manchester LEP (£35 million) – these were the seventh and ninth largest of all awards made in rounds 1-4.

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[5] BIS, Local growth: realising every place's potential, Cm 7961, 28 October 2010, pg. 15

[6] HC Deb 10 April 2014 c347W

2. Bidding Process

2.1 Criteria

The RGF funded both projects and programmes:

- A project was defined as direct support for a business with a grant of £1 million or more as part of a wider investment to create or safeguard jobs.
- A programme was defined as an allocation of funding to a local or national intermediary to support smaller investments in a number of locations.

To qualify for support from the RGF, projects were required to demonstrate that they could:

- create additional sustainable private sector growth;
- rebalance the economy in those areas currently dependent on the public sector;
- would not otherwise go ahead without support from the RGF;
- offer value for money; and
- comply with state aid rules.

The RGF provided funding in the form of grants, loans and/or loan guarantees.

Rounds 5 and 6 were only open to private sector companies seeking a minimum investment of £1 million. Universities and Higher Education institutions were regarded as private sector bodies for the purposes of bidding.

2.2 Assessment process

Following submission, applications were appraised by a team of economists, before going before an independent advisory panel chaired by Lord Heseltine, which made recommendations for support. BIS published a spreadsheet of statistics used in the assessment of the needs of particular locations.

The advisory panel made recommendations to the Local Growth Ministerial Committee, which was chaired by the then Deputy Prime Minister, Nick Clegg, which made final funding decisions.[7]

All awards were conditional on satisfactory due diligence being performed by an independent third party; this was mostly undertaken by accountancy firms. The Industrial Development Advisory Board, an advisory non-departmental body of the Department for Business, Innovation and Skills, retains the right to review the outcomes of all due diligence in relation to the use of RGF funds, and to provide Ministers with independent advice.[8]

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[7] BIS, Local growth: realising every place's potential, Cm 7961, 28 October 2010, paras 4.26-4.29

[8] HC Deb 1 July 2013 c522W

RGF payments only begin once secured private investment has commenced. After funding has been awarded, a monitoring officer will meet with the recipients quarterly to discuss the progress of the project against job creation and investment targets.

3. Funding Rounds 1-4

3.1 Round 1

Bidding for the first round of the RGF closed on 21 January 2011. 464 bids were received with a total value of £2.78 billion.

In April 2011, 50 bidders were awarded funding of £450 million. The 50 successful bids equated to 67 separate projects and programmes. Following the due diligence process, 49 awards were allocated funding totalling £374 million.[9] This was expected to leverage more than £2.5 billion of private investment.

Original expectation had been to allocate £250-£300 million in the first round, though this was extended given "the large number of high quality bids submitted."[10] This decision did not affect the overall value of the RGF.

3.2 Round 2

The second round of bidding to the RGF opened on 12 April 2011 and closed on 1 July 2011. There were a total of 414 bids in the second round, requesting a total of £3.3 billion. A list of 126 successful bidders to the second round was announced in October 2011; this equated to 172 separate projects and programmes.

The Government aimed to commit £950 million of RGF funding in this round. The successful bids are also expected to include approximately £6 billion of private sector investment alongside this public funding. The successful projects are expected to "directly support the creation or safeguarding of more than 37,000 jobs" and create or safeguard "a further 164,000 jobs in related supply chains and local economies". These figures are based on information given by bidders and are not independently verified.

3.3 Round 3

The Deputy Prime Minister encouraged the manufacturing industry to bid for funding through the third round, urging those in the industry who "either participated in the Regional Growth Fund so far, or still want to, (to) take the opportunity between now and June, when the deadline closes, to apply for this third round."[11] Despite the focus on the manufacturing industry, bids were not restricted to it.

A total of 414 bids requesting over £2.7 billion were received and 130 were selected for funding.

[9] HC Deb 6 March 2013 c 1057
[10] BIS, More than £450m investment for regional jobs and growth 12 April 2011
[11] Cabinet Office, Deputy Prime Minister's Office, Deputy Prime Minister speech to the National Manufacturing Summit, 23 February 2012

3.4 Round 4

The fourth round of bidding to the RGF opened in January 2013 and closed in March 2013.

A total of 309 bids requesting £1.9 billion were received; 102 bids were successful in receiving offers for £506 million in funding. 8% of bidders had applied for funding in previous rounds; 36% had received funding in previous rounds.

The selected bidders will be investing £2.8 billion of private sector cash for the projects and programmes. This is expected to create or safeguard 77,000 jobs. Again, these figures are based on information given by bidders and are not independently verified.

3.5 Summary, Rounds 1-4

Total funding awarded by round and percentage of funding by region in rounds 1-4 are shown in the tables below.

RGF awards, rounds 1 - 4 (£ million)

Round 1	455
Round 2	885
Round 3	1,056
Round 4	506
Total	2,902

Source: National Audit Office

% of RGF awards by region, rounds 1-4

North West	20%
West Midlands	16%
North East	14%
Yorkshire and Humber	14%
South West	10%
East Midlands	8%
South East and London	6%
East of England	5%
Nationwide*	7%

Source: BIS and HC Deb 21 May 2013 c WS76

* Nationwide refers to programmes that are anticipated to create employment in more than one region

The 2014 National Audit Office report Progress report on the Regional Growth Fund examined the impact and value for money of the first four rounds of the RGF. This concluded:

- 77,700 net additional jobs were expected to be created as a result of funding awarded in the first four rounds.
- The cost of each net additional job over the four rounds was £37,400, though this increased between rounds; the estimated

cost per additional job created through funding awarded in round 1 was £30,400, rising to £52,300 in round 4.

- Just under half of the net additional jobs created were through five schemes.

4. Rounds 5 and 6

4.1 Round 5

Applications for round 5 opened on 11 October 2013 and closed on 9 December 2013.

This round made funds available to bidders from the private sector seeking a minimum of £1 million for schemes intended to generate private sector investment and create sustainable jobs. Local Enterprise Partnerships or public sector bodies were not eligible to apply for funding independently.

Despite the £1 million minimum threshold, applications were also accepted from small and medium sized businesses seeking funding from existing RGF programmes. Depending on region, these schemes will have minimum bids of £5,000 in some areas, and up to £1 million in others.

133 bids seeking £650 million were submitted to round five of the RGF of which 129 were assessed; 3 of the original bids were withdrawn and 1 was found to be below the £1 million minimum threshold.[12] 50 bids were originally announced as being a successful, of which 13 were programmes and 37 were projects. These awarded are expected to secure a total of £1.9 billion worth of private investment.

A regional summary of finalised bids can be seen in the table below.

RGF funding awarded by region, round 5

	Amount (£ millions)	% of total
North East	57	19%
West Midlands	31	10%
East Midlands/East of England	26	9%
North West	23	8%
South West	18	6%
London and South East	17	6%
Yorkshire and Humber	15	5%
Nationwide*	115	38%
Total	302	100%

Source: BIS, RGF Annual Monitoring Report 2014

* Nationwide refers to programmes that are anticipated to create employment in more than one region

4.2 Round 6

Round 6, opened on 19 June 2014 and closed on 30 September 2014, operating under the same conditions as Round 5, with a minimum bid threshold of £1 million. 174 bids requesting a total of £818 million were received.

12 HC Deb 12 May 2014 c 313W

In February 2015, 63 successful bidders were announced, receiving £297 million. This number includes some successful bidders to the Exceptional Regional Growth Fund.

Successful bidders from rounds 5 and 6 have until March 2017 to draw funding.

A summary successful bids by region is shown in the table below.

RGF funding awarded by region, round 6

	Amount (£ millions)	% of total
West Midlands	54.9	18%
North West	50.4	17%
South West	47.0	16%
North East	21.9	7%
Yorkshire and Humber	20.7	7%
East Midlands	9.0	3%
East of England	8.6	3%
South East and London	5.7	2%
Nationwide*	78.6	26%
Total	296.8	100%

Source: BIS

* Nationwide refers to programmes that are anticipated to create employment in more than one region

4.3 Future rounds

In October 2016, a PQ response confirmed that no future rounds of the RGF were proposed, with Margot James, a Parliamentary Under Secretary in the Department for Business, Energy and Industrial Strategy stating "the economic context has changed since 2011" and "the RGF is already achieving its task to deliver jobs and sustainable private sector led growth to areas previously dependent on the public sector."[13]

[13] Regional Growth Fund: Written question – 48163, 18 October 2016

5. Exceptional Regional Growth Fund (eRGF)

In January 2013, the Coalition Government announced that it was reserving "the option to use RGF funding flexibly in order to respond quickly to economic shocks" to ensure that major projects are not cancelled because of shortfalls in funding and would open applications for the Exceptional Regional Growth Fund (eRGF).

Applications for funding from the eRGF must satisfy the existing criteria for round 5 and 6 namely that funding will lead to job creation in the private sector, all bids must be State Aid compliant and meet the minimum threshold of £1 million. Applicants must also demonstrate that they could not apply to an open round of RGF, that they have exhausted all other potential sources of public and private funding and that their application is necessitated by exceptional local economic circumstances. In urgent, exceptional cases, funds may be allocated from the existing RGF.

Exceptional RGF (eRGF) will take place outside the normal bidding process and will be funded through money recycled back into the RGF due to programmes or projects withdrawing or being "reduced in scope". A list of withdrawn bids was published in May 2013.

eRGF projects can be allocated RGF money at any time if bids are considered to "support credible proposals for growth". Bids for eRGF will be 'benchmarked' against similar bids from previous rounds, and independent advice will be sought by Ministers before approving support. All bids will have to complete a process of due diligence before being able to access funds.

The third annual RGF Annual Monitoring Report states that as of 31 March 2015 12 eRGF awards have been made, which have drawn down £40.8 million of funding

At 31 March 2015, there were 12 Exceptional RGF awards. They had drawn down £40.8 million of support in total. The Exceptional RGF had created 18,000 jobs and leveraged £158 million by 31 March 2015.[14]

[14] BIS, Regional Growth Fund: Annual Monitoring Report, 2014-15, September 2015, pg. 7

6. Evaluations, reports and comments

6.1 National Audit Office, May 2012

In May 2012, the National Audit Office (NAO) published a report looking at rounds one and two of the RGF to assess "whether it will be spent cost-effectively, meeting the Fund's objectives".[15] It suggested that up to 41,000 full-time-equivalent jobs will be created or safeguarded in the economy for seven years "over and above what might have happened without the fund" in areas that are reliant on the public sector.[16] The report also found that the selected bids offered "substantially better returns that those that were not selected" but that value for money was not optimised because of funding allocations to projects "that offered relatively few jobs for the public money invested."[17]

The NAO estimate that the average cost of each additional job created or safeguarded will be £33,000, this cost is similar to that of "additional (jobs) achieved by programmes with comparable objectives". However, the report estimates that 90 per cent of these jobs could have been "delivered for 75 per cent of the cost" with the cost being £26,000 per job. The report also found that the cost per net additional job created by the RGF and "supported by the Fund varies from under £4,000 to over £200,000".[18] On job creation, it concludes that "the 27 least cost-effective awards – totalling some £160 million – will cost the Fund £106,000 per net additional job".[19]

The report suggests that that to optimise value for money from the first two rounds, as "many jobs as reasonably possible (should have been created) in vulnerable areas". However, a large portion of the £1.4 billion from the first two rounds was allocated to projects that "create or safeguard relatively few jobs for the money invested".

The NAO recommended that to improve cost effectiveness and faster delivery, tighter controls should be applied to the value of money offered from individual bids and bidders should "develop more challenging targets for the number of jobs projects should generate relative to their cost."[20]

6.2 National Audit Office, December 2013

In December, 2013, the NAO again reported on regional development, in a report titled Funding and structures for local economic growth, examining how effective the Department for Communities and Local

[15] NAO, The Regional Growth Fund, HC 17, 11 May 2012, pg. 4
[16] NAO, Ibid, p4
[17] NAO, Ibid, p 8-10
[18] NAO, Ibid, p8
[19] NAO, Ibid, p9
[20] NAO, Ibid, p9

Government and the Department for Business, Innovation and Skills have been in supporting economic growth and providing value for money.

The report concludes that the number of jobs created by the Regional Growth Fund, reported in the July 2013 Monitoring Report was as a result of the disproportionate success of a small number of schemes exceeding original estimates. The report goes on to state that 51% of all schemes funded by the RGF failed to meet job creation targets.[21]

6.3 Public Accounts Committee

In July 2012, the Public Accounts Committee published a report into the effectiveness of the Regional Growth Fund. The report stated the PAC was disappointed "to find that so few final approvals had been given and so few projects had actually started" and much of the funding awarded to that point had been "parked with intermediary bodies via endowments."[22]

The report was also critical of both the Departments of Business Innovation and Skills and Communities and Local Government, stating both did not know "what works best in fostering private sector growth" and had not prepared plans on how they will evaluate "whether the Fund actually delivers the jobs and growth predicted."[23]

Based on the evidence received, the report made seven recommendations to improve the effectiveness of the Regional Growth Fund, including the DCLG and BIS should report publicly on the amount of money spent and the number of jobs created and safeguarded by businesses in receipt of funds, Fund's Accounting Officers should set the threshold for acceptable value for money higher and record clearly where economic appraisals suggest poor or marginal value for money for the taxpayer and the DCLG and BIS should improve consultation with local bodies, such as LEPs, and clarify arrangements for oversight and coordination of local growth initiatives.[24]

The Public Accounts Committee published a further report in May 2014 on the subject of the government's regional development agenda titled Promoting Economic Growth Locally.[25] This reports that the total number of jobs created or safeguarded directly by the Regional Growth Fund came to 44,000 to the end of December 2013. This is an increase of 12,000 on the figure of 32,000 in 2012/13 reported in the December, 2013 NAO report Funding and structures for local economic growth.

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[21] NAO, Funding and structures for local economic growth, HC 542, December 2013, pg. 33

[22] House of Commons Committee of Public Accounts, The Regional Growth Fund: Fifth Report of the 2012/13 Session, HC 104, September 2012 pg. 3

[23] House of Commons Committee of Public Accounts, Ibid pg. 3

[24] House of Commons Committee of Public Accounts, Ibid pg. 5-6.

[25] House of Commons Committee of Public Accounts, Promoting Economic Growth Locally, HC 1110, May 2014

The report cites evidence from the Department for Communities and Local Government that the RGF has created or safeguarded 65,000 jobs, as well as a predicted total of 78,000 by 2013/14. This places the cost per net additional job at £52,300 for the duration of rounds 1 to 4.[26]

The report goes on to state that £1 billion of total funding remains parked with intermediary bodies, including local authorities, LEPs and banks, recommending an "early warning system" to identify projects that are not sufficiently advanced to receive funds to provide support or relocate funding more quickly.[27]

[26] House of Commons Committee of Public Accounts, Ibid, May 2014 pg. 6
[27] House of Commons Committee of Public Accounts, Ibid, May 2014 pg. 5.

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