



Department for Business, Innovation and Skills
Communities and Local Government
HM Treasury

**CONSULTATION ON THE
REGIONAL GROWTH FUND**

JULY 2010

The Regional Growth Fund will operate in England only. Once the final detail of the fund is agreed, the Devolved Administrations will be encouraged to consider whether to undertake similar action.

This consultation document has been prepared jointly by the Department for Business, Innovation and Skills; Communities and Local Government, and HM Treasury.

Foreword

When the Cabinet met in Bradford in June, I outlined our plans for a £1bn Regional Growth Fund – money that will be used to support businesses and communities across England.

For too long prosperity has been confined to some areas at the expense of others. A small number of industries – like financial services – have accumulated more and more wealth, while many hardworking businesses have struggled to survive and expand.

The Coalition Government is determined to correct that imbalance. As we lift ourselves out of the economic downturn, our ambition must be to rebuild our economy so that it is sustainable and fair, with opportunities spread across all communities and all sectors too.



So the Government is putting in place reforms that will help private sector enterprise thrive in areas of greater need. Tackling our towering budget deficit means we must take action to reduce public spending – while of course prioritising the vital services people rely on – but, by supporting business investment and entrepreneurship in areas which have become overly reliant on public sector employment, we can create jobs and stimulate growth in a balanced way across the country.

Local enterprise partnerships will see business and local authorities come together and set out their priorities for their area, rather than being told what is best for them. The Regional Growth Fund will be important in providing access to the investment needed to make those priorities happen.

We are seeking your views on how the Regional Growth Fund should work. What kind of activities should we support? How should we judge which particular schemes are eligible for help? Is this something you think we should carry on in the future?

So please tell us how we can ensure this investment makes a difference – for your community and your business. It's your fund – you're best placed to design it.

A handwritten signature in black ink that reads "Nick Clegg". The signature is written in a cursive style with a long horizontal stroke at the end.

Nick Clegg
Deputy Prime Minister

Introduction

To encourage private sector enterprise, including social enterprise, and capacity, and in doing so create opportunities for people and places to adjust to reductions in public spending, we announced at Budget that Government will create a Regional Growth Fund in 2011/12 and 2012/13. On the 29th June we announced that the fund would be worth £1bn.

To help us to design the Regional Growth Fund in such a way that will best meet the needs of local areas and communities we are today publishing this paper, seeking your views. This paper sets out the objectives of the Regional Growth Fund, puts forward how we propose the fund will be designed in order to meet those objectives and poses questions on aspects of the fund where we would particularly value your input. We are asking for responses by the 6th September, in parallel with proposals to form local enterprise partnerships.

The forthcoming White Paper, to be published later this summer, will set out more details on local enterprise partnerships and the Growth Fund.

Growth throughout England

The Government is committed to ensuring that all parts of the country benefit from sustainable economic growth, and that the private sector recovery is particularly strong in areas that are reliant on public sector employment.

Coalition agreement

“We want to create a fairer and more balanced economy, where we are not so dependent on a narrow range of economic sectors, and where new businesses and economic opportunities are more evenly shared between regions and industries.”

Economic performance is not evenly balanced across England and there are significant disparities between places, both within and between regions. For example, Greater Manchester South has a gross value added (per head) of £22,172, while Greater Manchester North has a figure of £13,147.¹

After 1997, the gap in growth rates between London and the South East, and the rest of England widened from 0.3 to 0.9 percentage points, while public spending in the lagging regions has increased. Between 1997/8 and 2008/9, public spending increased more than twice as fast in the North East as London, with public spending in the North East now forming

¹Based on 2007 headline gross value added per head by NUTS3 area at current basic prices (ONS).

56.4 per cent of the economy compared to 30.4 per cent in London.² These differences in performance represent lost opportunities for individuals, communities and the country.

Sustainable economic growth in all areas needs to be based on private sector enterprise and increased capacity, and a growth in private sector jobs. Government will empower locally elected leaders and businesses to take more responsibility for local economic development, through strong local enterprise partnerships.

The Regional Growth Fund demonstrates that England is open for business to private sector enterprise and that the Government is serious about stimulating growth of the private sector share of the economy.

² The latest PESA data is for 2004/05 onwards. Small changes in methodology mean PSA data prior to this may not be entirely comparable so care should be taken when using these results.

Objectives

To ensure that the Regional Growth Fund is flexible enough to meet different needs in different places it will have two main objectives:

- To encourage private sector enterprise by providing support for projects with significant potential for economic growth and create additional sustainable private sector employment; and
- 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.

The Regional Growth Fund will also provide a means to bring together fragmented funding streams that all serve to support sub-national economic growth into one consolidated pot. This will enable more effective coordination and prioritisation of funding in order to maximise outcomes for businesses and communities. It will also enable private sector investors, business, the public sector and communities to come together with an overall strategy for their area with a clear understanding of what Government needs to do to increase confidence for all to invest in places. In addition, capital and assets pathfinders in 11 places are identifying opportunities to make better use of existing capital investment and assets to achieve better outcomes through joint governance and commissioning arrangements. To add most value, these pathfinders should consider maximising the links between public service capital and assets and growth investments.

Devolved administrations and London

The Growth Fund will operate in England only, though we will encourage the Devolved Administrations to undertake similar action.

For London where there are different arrangements we will be discussing with the Mayor and London Boroughs how this fund can be best accessed.

Designing the Regional Growth Fund

Allocation of funding

To maximise the flexibility of the fund in the future there may be a case for operating different elements of the fund in different ways, to reflect the fact that the money will be used to support different types of projects depending on the needs of the place. For example, elements of the fund could be allocated on a grant basis to local enterprise partnerships, potentially through a funding formula, that allows them to support priorities that they identify within their area. These could be complemented by elements that support capital investment both through bids and through loans and investment.

Consultation Question

1. Are there Are there benefits to be had from allocating different elements of the fund in different ways?

Type of activity

The Government has committed that £1bn, from within the existing spending envelope, will be made available to the Regional Growth Fund to support activity that has the greatest impact on sub-national growth. The fund will be spread over the years 2011-12 and 2012-13.

There are a number of different types of activity that currently support sub-national growth. We believe that the Fund will be most effective if it can coordinate as many of these activities as possible so that decisions can be considered alongside a coherent plan for the economic future of places and communities.

The needs and priorities of each place will be different and the fund should be flexible enough to respond to this. For example, some areas may prioritise investment to help bring people back into the labour market, improve skills or attract new employment opportunities. Other areas, particularly those where there are significant existing barriers to growth, may prioritise investments in transport or housing. And others may prioritise investment in low-carbon and environmental sectors.

We are therefore inviting views on what kind of activities the fund should support and how the fund can be designed to best facilitate this and provide appropriate support for areas overly dependent on public sector spending.

Consultation Question

2. What type of activities, that promote the objectives outlined above, should the fund support and how should the fund be best designed to facilitate this?

Eligibility and allocation of funding

All areas of England will be eligible to apply for funding. Funding will be allocated in a way to ensure that the objectives for the Fund are met. These are to:

- Encourage private sector enterprise by providing support for projects with significant potential for economic growth and create additional sustainable private sector employment; and
- 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.

A bid system

We propose allocating a proportion of the fund on a bid basis to provide strategic oversight and maximise the economic impact of projects. Proposals should meet the following criteria:

- Create additional sustainable private sector growth, including social enterprise. Bids will be required to demonstrate that they are creating additional private sector jobs and provide information on how people living in areas vulnerable to job losses as a result of public sector cuts will benefit. Although we are not specifying a time limit within which these benefits must be realised, bids will be required to set out a credible explanation of how and when the benefits will be delivered. This will provide assurance that the project will have a tangible impact but avoid overly focusing on short-term intervention and allow for long-term benefits to be realised.
- Demonstrate that the proposal fits with the economic priorities of the area as a whole, where possible linking to a wider economic vision which has private sector commitment and support from the community. The most successful bids are likely to include a range of projects submitted as a package that will lead to transformation for the area, providing confidence for all investors. Projects should set out how they will integrate with local planning policies, where appropriate, and any potential links with national infrastructure investment.

- Demonstrate that they have financial backing from the private sector – bids should demonstrate that they have significant private sector leverage, which will be a key consideration in assessing bids.
- Demonstrate, where appropriate, how they will contribute to green economic growth.
- In general we would expect bids to be for amounts of £1m or more – we should aim for projects that are transformational in nature and avoid spreading the money thinly across the country. Consideration will be given to smaller bids, including from rural areas, that can demonstrate significant private sector growth and/or leverage.
- Be clear on risks and how they will be mitigated.
- Bidders should satisfy themselves that their bid is State Aid compliant. The criteria will provide a link to the guidance.
- Address a clear market failure.

In addition to demonstrating how they meet the criteria set out above, project proposals will be appraised according to the framework set out in the Treasury Green Book.

Consultation Question

3. Do you think that these are the right criteria for assessing bids to the Regional Growth Fund?

Bidding process

There should be at least two rounds of bidding for the Fund. The deadline for the first round of bids should be end December 2010, with a view to decisions on successful bids being announced by the end of February 2011.

We will hold a second round of bidding before the start of the 2012-13 financial year.

To ensure that the bidding rounds are as efficient as possible it may be preferable to operate a two-stage process so that, following initial outline bids, only projects with significant potential will be invited to make a full bid.

Consultation Question

4. Do you think we should operate a two-stage bidding process?

The role of local enterprise partnerships

The Government has written to local authorities and business leaders, inviting proposals to form new local enterprise partnerships. We have asked for outline proposals by 6 September.

We anticipate that local enterprise partnerships will wish to provide the strategic leadership and long-term vision for the private sector-led economic renewal of their area. To be effective, it will be crucial for partnerships to achieve strong business engagement. We would anticipate a private sector chair in most instances, although will consider variants, such as elected Mayors, if that is the clear wish of business and civic leaders in the partnership area. Partnerships will see business working in equal partnership with civic leaders to drive real change in local public service delivery to create a better business environment in their area.

We are keen to understand how you envisage local enterprise partnerships interacting with local authority-led decisions, particularly where they impact significantly on the economy, for example on planning, transport, housing and local asset management. We are also keen to hear how partnerships see themselves providing a local role in relation to nationally led economic development functions in their area.

We wish to see local enterprise partnerships form that have significant economic weight and match the real economic geography on the ground. The Government will be keen to engage with strong, effective partnerships on a range of issues, including priorities for public sector action and investment.

We are mindful that there are critical issues to resolve, including responsibility for statutory functions, the strategy for RDA-owned assets, responsibility for European funding and staff who may be affected. The forthcoming White Paper will set out further details of the transition from RDAs to local enterprise partnerships. Arrangements will be made to ensure that critical functions and projects can continue through the transition period, including ensuring access to European funding through to 2011/12.

Given this, we expect local enterprise partnerships will play an important role in bringing together bids for the areas that they cover, working with key partners in their area, such as universities and social enterprises. To help ensure that bids received form a coherent plan for economic growth for that area, proposals that have the backing of the local enterprise partnership will be looked upon favourably, particularly where they are put forward as a holistic package on behalf of the area and demonstrate that they have the support of the local community. Taken as a package, the proposal will be expected to have significant private sector leverage.

This does not mean that access to the fund is restricted to local enterprise partnerships. Private sector companies and other public-private partnerships will be invited to bid for the fund independently by submitting a proposal directly to the Independent Approval Panel (see below). Where separate proposals are received, we will wherever possible seek the view of the local enterprise partnership for the area.

We firmly believe that tasking local enterprise partnerships with a lead role in coordinating

funding through the Regional Growth Fund demonstrates Government's commitment to decentralisation and will encourage local authorities and businesses to form effective partnerships across England.

Approval process

To provide assurance that the Regional Growth Fund is being put to best use, we will establish an Independent Approval Panel to advise Ministers on allocations of the Fund. The panel will also set the strategic direction to maximise the benefit of the Fund.

The Independent Approval Panel will be chaired by Lord Heseltine, with Sir Ian Wrigglesworth as deputy chair, and will have members representing a cross-section of the private sector. The Panel will be selected to include expertise in economic development, corporate finance and experience of scrutinising the value for money of project proposals. A secretariat team, drawn from within Government, will support the panel.

The Independent Approval Panel will consider proposals against the criteria set out above. They will then put forward recommendations to Ministers as to which proposals should be taken forward. Once appointed, we will work with the panel to ensure that the process is as transparent as possible.

The final decision on bids will be made jointly by the Secretary of State for Business, Innovation and Skills, the Secretary of State for Communities and Local Government, and the Chief Secretary to the Treasury under the Chairmanship of the Deputy Prime Minister, and drawing in relevant Ministerial colleagues where they have an interest.

Longer term potential

There may also be benefits to creating a model that does not favour short-termism. The Regional Growth Fund could be a sustained and radical change in the way that capital and resource is allocated to places – we are asking for views on whether this could be the start of something bigger rather than a measure of alleviation.

Consultation Question

5. Should a Regional Growth Fund become a long-term means of funding activity that promotes growth?

How to respond

We would welcome your views on the questions raised in this paper.

When responding please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents and, where applicable, how the views of members were assembled.

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The deadline for responses is the 6th September 2010.

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5. Should a Regional Growth Fund become a long-term means of funding activity that promotes growth?

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