HM Government

REGIONAL GROWTH FUND

Government response to the consultation – October 2010

Department for Business, Innovation and Skills

Department for Communities and Local Government

HM Treasury

Department for Transport

Department for Food, Environment And Rural Affairs

BIS Department for Business Innovation & Skills

Communities and Local Government

HM TREASURY

Department for Transport

defra Department for Environment Food and Rural Affairs

Executive Summary

The Coalition Agreement committed the Government 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."

Part of the response to this challenge was set out in the emergency budget on the 22 June, when the Government committed to establishing a Regional Growth Fund (RGF).

This was launched by the Deputy Prime Minister as a £1 billion fund to "create the conditions for growth and enterprise in the regions by stimulating investment and create sustainable private sector jobs", and "The Regional Growth Fund is an innovative new mechanism to unleash the talent and drive that will help get the country back on its feet."

To help design the Fund, the Government asked the public to provide responses to a number of questions posed in the consultation, which was opened on 23 July 2010.

This document sets out information about how the consultation was conducted, provides a summary of responses received, and outlines the Government's response to the consultation. Details of the Government's response are broken down by the questions asked in the consultation. Key points of the Government's response are:

- The RGF will be flexible, with bidders able to submit bids either as a project; or a package of projects; or a programme.
- The RGF will not duplicate existing funds, and where appropriate it will align with other funds.
- The RGF will have a minimum bid threshold of £1 million.
- £1.4 billion will be made available through the RGF, over a three year period.
- Guidance will be published that will set the RGF's criteria and details around Green Book and EU State Aid compliance. The application form will be designed to capture information that satisfies the criteria and requirements.

Full details of the RGF, including eligibility and criteria, are set out in the Local Growth White Paper.

Bidding for the first round is now open, and closes on 21 January 2011

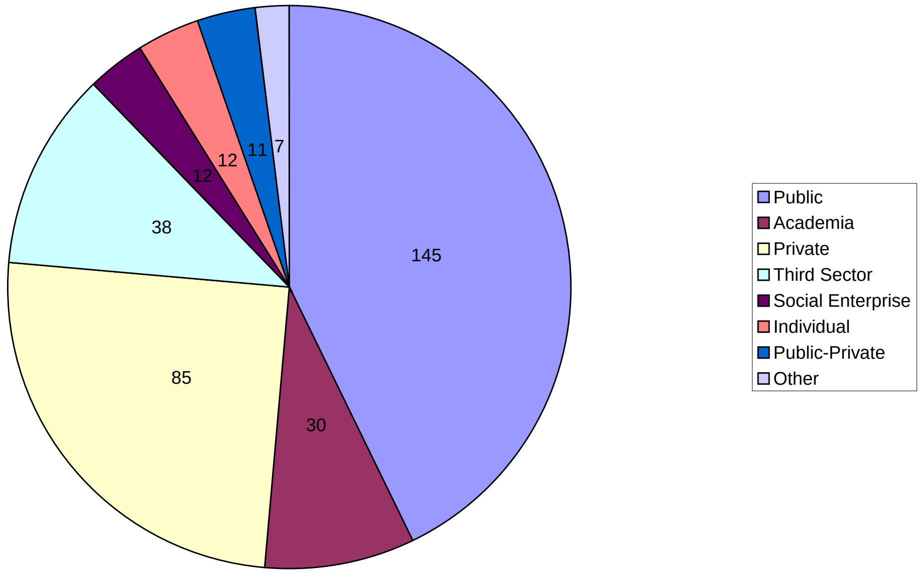
The Consultation Process

The national public consultation was conducted between 23 July 2010 and 6 September 2010. The consultation asked five questions:

- Question 1 – Are there benefits to be had from allocating different elements of the fund in different ways?
- 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?
- Question 3 – Do you think that these are the right criteria for assessing bids to the Regional Growth Fund?
- Question 4 – Do you think we should operate a two-stage bidding process?
- Question 5 – Should a Regional Growth Fund become a long-term means of funding activity that promotes growth?

A total of 340 responses to the consultation were received by the Government. The responses came from a variety of sources which the pie chart below illustrates. The categorisation of respondents was based on the best judgement of Government officials using the information supplied by respondents.

Chart 1: Split of responses by source



Total number of respondents: 340

The Government is grateful for all consultation responses received. These have been individually analysed by BIS and have been taken into account in the Government response. Some of the observations and comments made have been quoted in this document as representative of the thoughts and views expressed to the consultation. This paper seeks to reflect the views expressed, although it is not possible to describe all responses in detail.

The analysis of responses for each question posed by the consultation document is set out below. Where percentages have been used, they have generally been calculated on the basis of the number of responses to that particular question. It should be noted, however, that the consultation process was a qualitative and not a quantitative exercise, so the data is necessarily based on officials' analysis of respondents' answers.

Responses to the Consultation

Question 1: Allocating the Fund

The majority of respondents were keen to see a flexible approach to the allocation of the Fund adopted, but equally did not want the fund to be spread too thinly across the country

There was widespread support that the allocation of the fund should be flexible. Many stressed the Government should not employ a ‘one size fits all’ approach, so that the fund could be used to best address local needs. A number of local authorities identified recently completed Local Economic Assessments and Local Investment Plans as a useful resource which could be used to identify these local needs.

There was a moderate degree of support, predominantly among public sector respondents, for funding to be allocated to LEPs on a formula basis with local accountability for that expenditure. However, several respondents reserved judgement on this matter noting that, as the scope and operation of LEPs are as yet undefined, it would be better if the first round of funding were allocated simply on a bidding basis with consideration of the role of LEPs in the second or subsequent rounds once there is greater clarity on their range and scope.

A number of responses from industrial clusters, sector associations and universities in particular wished to ensure that a significant proportion of the fund is made available to bids proposing projects which provide benefits across LEPs. These institutions expressed concern that bids of this type would not be brought forward by an individual LEP, or could lead to cross-LEP bidding wars which would result in sub-optimal outcomes from a national perspective. It was therefore suggested that these bids should be appraised by Central Government to prevent competing bids being supported or valuable projects from a national perspective missing out on funding.

A few respondents were of the view that the fund should be channelled through existing funding mechanisms or bodies which have been shown to be successful at supporting local needs. Examples of possible mechanisms included: the CDFA, which represents Community Development Financial Institutions; iNet, which provides innovation support to businesses; and publicly run bodies such as Business Link. This was deemed to be a cost effective approach to allocating the fund, with one respondent outlining that there was no requirement to ‘re-invent wheels’.

However, respondents frequently expressed concern that allocating the Fund using a number of different mechanisms could lead to the Fund being spread too thinly across the country which would constrain its transformational impact. One individual highlighted that allocating to too many activities is likely to increase resource costs and therefore dampen the value for money of the Fund. To counter this, some suggested that the minimum bid threshold should be increased from the level of £1m proposed in the consultation document.

A range of views were offered on the possible funding instruments which could be used to allocate funding. Respondents highlighted that the advantages of allocating the Fund through grants is that they encourage risk taking which can promote innovation, and that grants are generally more attractive to bidders than loans. Others, supporting the use of loans, emphasised that they could be used to create a sustainable revolving fund, and that payment holidays and low interest rates could be used to make them more attractive to bidders. There was little direct support for other funding instruments, but it is recognised that this may have been a result of the way in which the question in the consultation document was posed.

Finally, there were a number of views offered for the revenue, capital and resource split of the fund. A few, predominantly public sector respondents, felt that a proportion of the fund should be allocated towards administrative costs of the LEPs. Such a proposal was, however, dismissed by others who felt it would dilute the impact of the fund. In terms of the capital and revenue split of the Fund, the majority of respondents believed that it should remain undetermined to avoid constricting the flexibility of the Fund.

Government Response

The Government recognises that a ‘one size fits all’ approach to bidding for the fund could act as a barrier, precluding certain areas or sectors. In response to this, the RGF has been designed to be flexible, with no ring fences or preferential status attached to any one type of bidder. The fund will be run as a challenge fund, with bidders able to submit bids in three forms: stand-alone projects; project packages; and programme proposals:

Projects: Bids that will comprise individual projects that make a specific and significant contribution to the core aims of the RGF. These bids will individually need to meet the minimum bidding threshold.

Project packages: Bids that will be presented as a coherent package, bringing together a number of projects that make a specific and significant contribution to the core aims of the RGF. Collectively, each package must meet the minimum bidding threshold.

Programmes: Bids from individual bodies or partnerships for strategic capital investment, whose collective aim meets the criteria of the RGF. This form of proposal is likely to be most workable for partnerships involving social enterprises, such as groups of Community Development Finance Institutions. Collectively, each package must meet the minimum bidding threshold

The Government also recognises that a flexible approach in terms of how funds are made available to bids will need to vary according to the needs of the project. To accommodate the potential diversity of project designs, the offer of funding will be in the form of grants or repayable loans. This position will be reviewed on an on-going basis by the Advisory Group.

By being flexible, the fund will be able to respond to economic growth needs, driven by local business and communities, which support the Government’s localism agenda.

Question 2: Activities

There was a wide range of activities which were supported by respondents, the majority of which were closely aligned with the individual interests of the respondent

The responses to question two of the consultation document were varied, and appeared to be heavily influenced by the individual interests of the respondents.

Many highlighted though that the appropriate activities to support will be those that best address the headline criteria of the fund. That is, the activities must:

- create additional sustainable private sector growth; and,
- demonstrate the proposal fits with the economic priorities of the areas as a whole.

The activities which respondents felt would best meet these criteria included: direct support to businesses; business support services; access to finance for SMEs; R&D expenditure and co-working; improving skills; graduate retention; support to those with greatest difficulty accessing the labour market; regeneration; transport infrastructure; ICT infrastructure such as broadband; housing; low carbon initiatives; social enterprise; tourism; and promoting inward investment.

There were a small proportion of responses that suggested the fund could be segmented into smaller funds, each directed specifically at one activity. One suggested the benefit of doing this would be that projects could be compared on a like-for-like basis, which was expected to make the appraisal process less burdensome. It was not always clear for those that supported this idea whether they supported segmentation unconditionally, or if their support was conditional on the basis that the activities they proposed were supported.

Many respondents, however, expressed concerns that supporting a wide range of activities could lead to the duplication of current public funded schemes which would limit the transformational nature of the Fund. In particular, clarity was sought on how Business Link services, Highways Agency funding, Housing & Communities funding and the Technology Strategy Board funding would fit with the Regional Growth Fund. Others sought clarification on the role of ERDF funding, suggesting it could be used to lever in extra money for the activities the Fund will support.

A number of responses, predominantly from the third sector and social enterprises, suggested that activities should also align with the ‘Big Society’ agenda. On this aspect, the majority of voluntary organisations expressed their disappointment that they had not been referred to in the consultation document, and sought an explanation from the Government on what their role would be as part of the Fund.

Government Response

The Government acknowledges there was a desire to see many different activities supported by the fund. In designing the fund, the Government has deliberately avoided an approach that is overly prescriptive in terms of what sorts of bids will be accepted. This will encourage a wide range of project and programme proposals to come forward.

The flexibility of the fund, as set in the Government's response to question 1, will further facilitate the diversity of bids, allowing smaller projects to come together as either a package of projects, or a programme.

The programme approach is expected to attract bids from partnerships that represent social enterprises, rural groups and SMEs. The aims of the programme proposal need to meet the objectives of the RGF and the criteria set out in the Local Growth White Paper. Similarly the aims of individual projects seeking support from such programmes will need to individually deliver the objectives of the RGF, albeit on a smaller more collaborative scale.

The Government does not want to duplicate current activity, or other funds, and has designed the RGF to complement other rebalancing interventions; such as access to finance and banking structural reform, and other mechanisms to promote sustainable growth, including the Green Investment Bank. Bidders will be encouraged to include within proposals identified sources of match funding that may include ERDF funding.

Question 3: Criteria

98% agreed in principle with the criteria outlined in the consultation document

Of those who agreed, 84% suggested the criteria would need to be further refined, or put forward other criteria which could be included in the assessment

A large proportion of respondents agreed that the criteria listed in the consultation were sensible. Several respondents did, however, bring to light the fact that they viewed the two criteria of increasing private sector growth and demonstrating the proposal fits with the economic priorities of the area as contradictory, particularly in areas with a weak private sector base.

Many respondents agreed that private sector job creation was the most important activity which the fund could support. Several respondents suggested that this should include both jobs created and jobs genuinely safeguarded, and that these should be treated equally. Others highlighted that the Fund should be targeted at areas indirectly affected by public sector cuts, and that the criterion could be expanded to consider the quality of the jobs created and safeguarded.

Although many respondents supported including private sector leverage in the criteria, they also called for clarity on what constituted private sector investment e.g. would in-kind contributions, section 106, NI contributions or lottery funding count towards private sector leverage. A few respondents, mainly from the public sector, suggested the Government should focus on potential private sector leverage, as opposed to currently committed private sector leverage, supporting ‘pump priming’.

There were some reservations around demanding significant private sector leverage from all bids amongst respondents. In particular, there was widespread concern that rural areas would not be able to meet this criterion, and therefore the fund would predominantly have an urban focus. Several suggested allocating a proportion of the fund to rural areas to alleviate this concern.

Leading on from this, numerous respondents welcomed the relaxation of the £1m bid threshold for rural areas. A number of respondents suggested that flexibility should be given to both SMEs and rural areas. However, in principle the majority agreed that funding should not be spread too thinly and that transformational projects should be supported. As noted above, a number of respondents were of the view that a higher bid threshold should be used to ensure bids are appropriately transformational.

Many of the respondents supported the inclusion in the criteria that bids should show how they will contribute to both green and sustainable economic growth. However, many recommended that these should be defined to avoid confusion, and offered a wide variety of interpretations of these criteria. Respondents also sought clarification from government on the expression that a bid’s contribution to green economic growth would be considered ‘where appropriate’.

A range of concerns were raised with the idea of bids being subject to a HMT Green Book appraisal. Several felt this would place a time and cost burden on bidders when providing bid information to officials. They also felt that this would favour areas which could write the best bids, but many also recognised the trade off between public accountability and assessment simplicity. There was strong support therefore for proportionate assessments of bids. Support was also given to officials taking a national view of projects during appraisal, and incorporating a social return on investment for bids, both of which are standard practice in Green Book appraisals.

The criterion that bidders should satisfy themselves that their bids are State Aid compliant was met with unease as those that commented on the criterion believed that it would not be possible to do so. This is expected to be a particular problem for private sector companies with no experience in assessing State Aid. There was therefore large support for simple guidance on State Aid to be released when the first round opens.

Government Response

The Government recognises the breadth of views expressed on the fund's criteria, and has decided not to weight individual criteria, which are set out in the Local Growth White Paper. The independent Advisory Panel, and Ministers will look at the totality of the benefits offered by a bid, alongside the degree to which bids satisfy each of the criteria. Bids will be appraised on the basis of meeting the core criteria, the terms of the Green Book, and also on the basis that they do not breach the terms of State Aid rules.

Guidance for bidders will be made available on the RGF website:
http://www.bis.gov.uk/policies/regional-economic-development/regional-growth-fund

This will set out details of each the criteria, and provide advice on State Aid and Green Book compliance. The bidding form is purposefully designed to request information from bidders in a way that will satisfy the needs of the Green Book appraisal framework. It is important therefore that bidders respond to these questions as fully as possible, further advice is available on the RGF website.

In addition to these core criteria, bidders are encouraged to demonstrate, where possible, how their proposal will contribute to green economic growth. This is not a strict requirement, but bidders are encouraged to seek ways to deliver green economic growth.

Several respondents asked about private sector leverage, the Government has provided guidance on this, in the Local Growth White Paper.

The Government has decided, on balance, to operate the Fund on the basis of a minimum threshold of £1m. This will ensure that the Fund is set at a level that is accessible to SMEs, which should encourage a wide diversity of bids, harnessing innovation from all sectors. It does not rule out micro projects, which could be presented as a coherent package, collectively meeting the needs of local economic strategies, or that could be managed through investment bodies operating Regional Growth Fund programmes.

As set out in the response to questions 1 and 2, programme proposals are seen as an accessible route for those bidding for support for micro projects, including rural projects and those put forward by social enterprises. There will be a separate bidding form and guidance for programme proposals, which will be made available in early 2011. Programme proposals are therefore not included within the first bidding round that closes in January 2011.

Question 4: Bidding Process

95% agreed with the notion of having a two stage process, with 58% of those respondents clarifying that using such a process should be dependent on how it is set up

5% disagreed with the idea of having a two stage bidding process

There was broad agreement that a two stage process would be preferable to a one stage process. However, 58% of respondents who supported a two stage process suggested it should only be pursued if:

- the process is simple and does not delay the offering of funding to successful bidders;
- feedback is provided as part of the first stage to allow bidders to return in future rounds with an improved bid;
- the first stage has sufficient 'teeth', and is used to actively sort bids; or,
- it is used to identify where two bids overlap, or compete with one another.

A number of the respondents who raised the first point also questioned the ability to run a two stage process for the first bidding round. They highlighted that, given the first round deadline of December 2010, the ability to run a two stage process would be extremely challenging and may prohibit successful bids being announced by the end of February 2010. Several highlighted that the functions and coverage of LEPs may not be confirmed before the launch of the Fund which would further increase the challenge of running a two stage process for the first round.

The reasons given by the 14 respondents that disagreed entirely with the idea of a two stage process were focussed mainly on the additional time and costs that the process would introduce to the delivery of outcomes. Some felt that a two stage process would be unnecessary if the criteria are transparent and clearly defined.

A few respondents suggested that the initial information submitted for each bid in the first stage should be published, and that the public should be invited to identify projects which it felt would be most appropriate to progress to the second round.

Government Response

To begin projects that deliver benefits to local economies at the earliest opportunity, the Government recognises the need to start the bidding process as soon as practical. To facilitate this, the first round is designed to be one stage bidding process, with the aim of announcing offers when they are known. To allow more time, the deadline for first round bids has been extended from the date set out in the consultation (the end of December) to 21 January 2011.

Subsequent bidding rounds will involve a two stage process, this will allow bidders to submit an expression of interest, ahead of a full bid, so that bidders can receive early feedback on the quality of their bid. Depending on that feedback a bidder may decide to proceed, or delay their bid to a subsequent bidding round, or not proceed with a bid.

Due to potential issues of commercial confidence, the Government does not intend to publish details of bids that are received. However, successful bids will be announced by Ministers.

Question 5: Long-term View

72% agreed that a Regional Growth Fund should become a long term means of funding activity that promotes growth

23% explained that they could not provide a definitive answer to this question until the Fund has been implemented or evaluated

5% interpreted the question as one of extending the funding period for projects supported by the Fund, suggesting this should be extended

Interestingly, this question was interpreted in two different ways. Respondents considered it a question of either:

- do you think the government should set up a similar fund from 2013 onwards?; or,
- do you think that funding should be defrayed to successful projects past 2013?

There was strong agreement amongst respondents that answered the first of these two points. The majority highlighted that spatial rebalancing will not be achieved in two years and that support to vulnerable and lagging areas should always be provided by Government. Others noted that extending the Fund would provide greater certainty to private sector prospective bidders, thereby increasing the number of transformational projects to invest in. Several respondents suggested the government should draw on experience from Neighbourhood Renewal Funds in which a short term fund led to short term outcomes.

Around a quarter of respondents, all of whom supported the principles of the Regional Growth Fund, chose to reserve judgement on this question until the fund has been implemented or evaluated. In particular, these respondents wanted to see how the LEPs functioned and if the criteria and assessment process delivered the desired outcomes prior to supporting the extension of the Fund. A number of these respondents therefore viewed the two year fund as a pilot.

Several respondents suggested the fund could be artificially extended past 2013 by operating a revolving fund, re-investing returns made from providing loans to successful projects. A few respondents from the public sector pointed towards the JESSICA and JERIME funds as successful mechanisms the government could adopt. Others suggested the government should look at other countries' experiences of operating revolving funds to increase the evidence base upon which a decision to implement a revolving fund can be made.

There was widespread agreement amongst respondents who answered the second point that funding to successful bids should be defrayed past 2013, particularly for projects supported in the second round of bidding. The consensus amongst these respondents was that transformational projects require funding for 3-7 years, and therefore restricting defrayal to a maximum of two years would restrict the number of transformational projects to support.

In total, only two responses disagreed with extending the Fund in the long run. One respondent felt that the Fund was too centralist, and that in the long run a more localist fund should replace it. The other believed continuing the Fund would lead to vulnerable areas becoming reliant on public sector subsidies, and therefore suggested it should be gradually wound down.

Government response

Public finances over the lifetime of the Spending Review face an unprecedented challenge. This will mean that Government will only be involved where it makes strategic sense for Government to invest in to tackle market failures and enable enterprise. This will result in a new economic landscape in which growth is driven by enterprise and the private sector, rather than by the central Government.

Throughout the life of this Parliament the Government will continue to support localism, but at this juncture the Government can not commit to the continuation of the fund beyond 2014. However, the Government, through the Spending Review, has been able to make an extra £420 million available to the RGF.

The Government acknowledges that the reality of capital spend points to revision of the timeframe for operation of the RGF. The Fund will still operate from April 2011, as originally stated, with £1bn available in the first two years, but an extra £420 million has been found for the third year to ensure strategic management of the Fund.

The Government recognises the need to monitor and evaluate the fund, each bid will be required to provide evidence that agreed outcomes have been achieved before funds will be released. This will help ensure that the RGF bids remain focused on achieving the core criteria and objectives. Further to this, the overall effectiveness of the Regional Growth Fund will be reviewed after two years, with a full review after four years.

This publication is also available on our website at http://www.bis.gov.uk

Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills
1 Victoria Street
London SW1H 0ET

Tel: 020 7215 5000

If you require this publication in an alternative format, email enquiries@bis.gsi.gov.uk, or call 020 7215 5000

URN 10/1232