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Changes in monitoring achievement of productivity targets in Selective Finance for Investment in England (SFIE) and Grant for Business Investment (GBI) offer letters

Explanatory note

This note sets out an important change to the way in which projects for which a grant offer letter was issued before 30 June 2009 are monitored. It should be read in conjunction with the GBI Guidelines.

1 Background – the productivity target

1.1 Most SFIE and GBI grant offer letters contain a requirement that the beneficiary meets a productivity target (the GVA target) as a condition of claiming the final instalment of grant.

1.2 Productivity growth has been a feature of these schemes since 2004 when it was introduced as part of a number of changes following a report on regional grants in England from the Public Accounts Committee. Reducing the gap between productivity in the South East and other parts of England has been a priority for Government throughout the intervening period.

1.3 In order to obtain regional aid an applicant needs to show that a project will deliver a real productivity increase (ie pass a productivity test) while the subsequent grant offer letter contains a requirement to ensure that the projected increase is realised in practice (the GVA target).

1.4 The productivity test calculates projected productivity growth for an undertaking plus the planned project, and compares it with average growth observed nationally in the same industry and in the wider economy. The objective of the test is to ensure that projects improve the rate of growth in productivity both in the region and in the country as a whole.

1.5 For the purposes of both the productivity test and the GVA target, productivity is expressed in terms of Gross Value Added (GVA) per Full Time Equivalent (FTE) employee.

1.6 More detail on the productivity test and the way in which it is applied is at Annex G of the Guidelines.

2 Reason for the change

2.1 The GVA target included in grant offer letters is based on forecast data provided by companies with their applications. With the onset of the economic downturn in 2008 it has become clear that in some cases these forecasts, particularly sales and turnover, have proved to be unachievable.

2.2 The Guidelines (paragraphs 267-8) indicate that there should be a presumption that the total grant payment will be reduced if a beneficiary fails to meet the GVA target set out in the offer letter. While delivering productivity growth remains an important part of the scheme, we do not want to penalise beneficiaries solely because of the impact the downturn has had on their business.

3 Revised approach

3.1. Thus in relevant cases (see paragraph 4.1 below) where a grant recipient has failed to meet the productivity target specified in the offer letter, but has met all other conditions for payment of the final instalment of support we will calculate the actual GVA per full time equivalent employee growth rate over the life of the project and compare it to the equivalent actual growth rate in the most detailed UK sectoral comparator available, taking into account how that sector performed in comparison with the national average, as set out in paragraph 1.4 above.[1]

3.2. The result of this comparison will determine what can be considered poor or strong growth relative to the average. The performance of the beneficiary over the life of the project will be classified as either “fail”, “qualified pass”, “pass” or “good pass”, depending on where it sits in relation to the sectoral comparator, in the same way as applications for support are assessed, as set out in Annex G.

3.3. This analysis will be applied to the entire period of the project, ie from the date of the offer letter to completion. Where a project is a start-up and has shown a negative return in the first couple of years, the results in the early years may be ignored. Equally, calculating growth in GVA per FTE from year 1 of a start-up project can falsely inflate growth rates and result in the beneficiary appearing to achieve a GVA per FTE growth rate that does not represent a real improvement in productivity. Conversely, front loaded expenditure by a start-up can give rise to a negative growth rate, which can cause the project to fail the test unfairly. Therefore, when dealing with investment projects by start-ups case we will be willing to allow some ``lead-time'' and use year 2 or 3 of the project as the first year in the post facto GVA calculation.

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[1] Changes to the Standard Industrial Classification codes have resulted in a break in the data series used to provide comparative performance levels in 2008. This break means that comparisons at the detailed sector level will not be possible in all cases. Where this occurs comparisons will be made to the nearest relevant aggregated sector level available.

3.4. In undertaking this post-project completion assessment of GVA we will also have regard to the points made on data issues in Annex G of the Guidelines.

3.5 Where the growth rate GVA per FTE across the undertaking and project delivers a "pass" or "good pass" the beneficiary will be eligible for the full amount of grant.

3.6 If the growth rate GVA per FTE across the undertaking and project equates to a "qualified pass", we will check how the growth rate compares to the average for the relevant broader sectors (2-digit or 3-digit) and/or the average rate across the industry group, in line with the approach set out in Annex G of the Guidelines. If the beneficiary growth rate is above either of these then it will be eligible for the full amount of grant.

3.7 If the growth rate is not comparable, or if it demonstrates a clear "fail", the presumption is that the amount of total grant payable will be reduced in accordance with paragraphs 267-268 of the Guidelines, though only after any other relevant factors, including the overall benefits of the project to the economy, cost per job and cost-benefit ratio of the aid awarded, are taken into account.

3.8 As is clear from the Guidelines we will display some flexibility in addressing underperformance, though we will always ensure that the value to the economy from the public money awarded is properly protected and compliance with State aid rules is maintained.

3.9 Where a beneficiary has failed to meet the GVA target in the grant offer letter and we adopt the approach set out in this note, it will be necessary to revise the offer letter accordingly before a final payment, either in full or in part, can be made.

4 Which cases are covered?

4.1 This note applies to cases that fail to meet the GVA target in the grant offer letter where that letter was issued on **30 June 2009 or earlier**. Cases contracted after that date would have been able to take the effect of the economic downturn into account in the forecasts included in their grant applications.

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