National Audit Office

Report
by the Comptroller
and Auditor General

**Department for Communities and Local Government
and Department for Business, Innovation & Skills**

Progress report on the Regional Growth Fund

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National Audit Office

Department for Communities and Local Government
and Department for Business, Innovation & Skills

Progress report on the Regional Growth Fund

Report by the Comptroller and Auditor General

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Comptroller and Auditor General
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This report updates the Committee of Public Accounts on the Regional Growth Fund's progress since the Committee's report in September 2012. It also explains the Departments' actions in response.

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Contents

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This report can be found on the National Audit Office website at www.nao.org.uk/2014-regional-growth-fund

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Key facts

£2.6bn	£1.4bn	44,400	46%
of public money allocated to the Fund for rounds one to four	to be spent in 2014-15, nearly a threefold increase from the 2013-14 budget of £529 million	monitored jobs attributed to the Fund to end of December 2013, according to the Secretariat's management information system	of monitored jobs were from only 5 of 296 operational schemes allocated money under the Fund, to end of December 2013

72 per cent	increase in cost per net additional job from round one to round four (from £30,400 to £52,300)
£70 million	largest single award
77,700	net additional jobs expected from the selected bids in rounds one to four

Summary

1 The government established the Regional Growth Fund (the Fund) in June 2010 with two objectives:

- to encourage private-sector enterprise by providing support for projects with the significant potential for economic growth and additional sustainable private-sector employment; and
- to support in particular those areas and communities that currently depend on the public sector to make the transition to sustainable private-sector-led growth and prosperity.

2 The Department for Communities and Local Government and the Department for Business, Innovation & Skills (the Departments) are responsible for the Fund. A cross-government secretariat (the Secretariat) provides administration support, with additional support provided in the regions by growth delivery teams within the Department for Communities and Local Government.

3 Since October 2010, private-sector firms and public–private partnerships have bid, or will shortly be invited to bid for £1 million or more each, over six bidding rounds, from a total Fund of £3.2 billion.[1] Bidders have to set out how their proposed scheme supports the Fund's objectives and how they will support jobs and growth not otherwise possible. Each scheme is either:

- a project – where the Fund supports a specific contracted business activity, or a package of smaller projects; or
- a programme – where the Fund is awarded to a programme operator which identifies and contracts for projects. Programme operators include local authorities, Local Enterprise Partnerships and banks.

4 We published our first report on the Fund in May 2012.[2] We concluded that the schemes selected should deliver jobs more cost-effectively for the taxpayer than the schemes not selected, but value for money was not optimised because a significant proportion of the Fund was allocated to schemes that offered relatively few jobs for the public money invested.

1 Our report only considers the £2.6 billion allocated to the first four rounds of the Fund. A fifth bidding round was completed in January 2014, and a sixth bidding round is expected in summer 2014. The government announced an additional £600 million in the June 2013 spending round to fund these two rounds.

2 Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.

5 In its report on the Fund[3] in September 2012, the Committee of Public Accounts (the Committee) was disappointed that the Fund had started slowly and was concerned that:

- the threshold for the value for money offered by each bid had been set too low;
- not enough of the Fund had reached projects and was largely unspent or parked with programme operators; and
- plans for evaluating the Fund's long-term impact had not been developed.

Scope of our report

6 This report updates the Committee on the Fund's progress since its September 2012 report, and the key actions the Departments and the Secretariat took in response. We do not provide an updated conclusion on value for money of the Fund as a whole. We provide analysis and commentary on the Fund's performance since the Committee's last report. The Committee's full conclusions and recommendations, and the government's responses, are set out in Appendix One.

7 Our detailed findings on the Fund should be seen in the context of its key role in the government's wider programme of local growth initiatives. Our December 2013 report, *Funding and structures for local economic growth*,[4] set out this wider context and concluded that:

- progress by initiatives such as Local Enterprise Partnerships has been mixed, and job creation has been slow in Enterprise Zones and through the Growing Places Fund, as well as the Regional Growth Fund;
- the transition from the old to the new schemes has not been orderly and there has been a significant dip in growth spending;
- without sufficient transparency or a comparable picture of performance across schemes, the government's new structures for achieving local economic growth have not yet demonstrated that they are capable of delivering value for money;
- to secure value for money, central government needs to ensure that sufficient capacity is in place both centrally and locally to oversee initiatives, and make sure that timescales are realistic and that accountability is clear; and
- the Departments need to manage the range of local growth initiatives as a programme, and address how they intend to evaluate performance and monitor outcomes across the programme as a whole.

3 HC Committee of Public Accounts, *The Regional Growth Fund*, Fifth Report of Session 2012-13, HC 104, September 2012.
4 Comptroller and Auditor General, *Funding and structures for local economic growth*, Session 2013-14, HC 542, National Audit Office, December 2013.

Key findings on the Fund's progress since September 2012

Management, governance, and alignment with other growth initiatives

8 **The Fund's governance, accountability and links to other programmes have improved over time.** The Departments established a programme board in January 2012. This provided a much more effective and accountable tier of management between operational staff and Accounting Officers. In June 2012, the programme board also established formally a finance and investment subcommittee, which provides additional oversight and challenge including final sign-off on offers to bidders. More broadly, in June 2013, the government formed a local growth cabinet committee, chaired by the Deputy Prime Minister, to oversee initiatives affecting local economic growth. This committee's role includes deciding which bids are selected to receive awards from the Fund (paragraphs 2.4 to 2.8).

Choosing projects and agreeing terms

9 **The government has set expectations, in later bidding rounds, on the benefits of each project relative to its costs, but it is still not using the information it generates to maximise value for money.** At the time of the Committee's report, the Fund's Accounting Officers said that they would ask for direction from ministers on any project or programme where the overall net economic benefit was less than the cost to the Fund. Both we and the Committee concluded that this threshold was too low. Ministers and the Accounting Officers introduced a revised expectation that the ratio of benefits to costs should be 2:1 before final offer letters are signed. Ministers selected some bids that initially had a benefit–cost ratio of less than 2:1. The Secretariat worked to improve the value these bids offered through the detailed negotiation of each bid's terms and conditions and due diligence, which happens after the formal competition between bids has concluded (paragraphs 3.2 to 3.4 and 3.8 to 3.9).

10 **The average cost of each net additional job at the point of selection increased substantially in the third and fourth bidding rounds.** The Secretariat's estimate of the average cost per net additional job of bids selected in round four is £52,300. This compares with £30,400 in the first round, £33,500 in the second, and £39,700 in the third. The overall expected average cost per net additional job is now £37,400, which is 13 per cent higher than the £33,000 from rounds one and two that we reported in May 2012. The Secretariat does not consider that the quality of applications has decreased, and considers it more likely that their appraisal of later rounds is less optimistic and that applicants have submitted more realistic applications in the first place (paragraphs 3.5 to 3.7).

11 The Secretariat sped up the process of agreeing final offers with bidders for the Fund's third bidding round. In early 2012, there were only 12 full-time-equivalent (FTE) economists working on appraisal and processing bids. At December 2013, this had increased to 20 FTE economists and other specialists, supported by ten due diligence accountants and a state aid specialist. For the third round, the Secretariat also introduced a six-month deadline for issuing final offers as well as increasing the number of staff working on bids. Some 68 per cent of the selected bids received their final offer letters within the six-month deadline. This performance compares with 12 per cent of bids in the first round and 30 per cent in the second round. The process for the fourth round was not complete at the end of December 2013, with all funds allocated in July 2013 and subject to final offer by 17 January 2014 (paragraphs 4.4 to 4.12).

12 The Secretariat could have done more to reduce the risk that bidders with poor past performance receive further funding. In round four, the Secretariat included a summary of programme bidders' past performance on the appraisal information used to make decisions, and used this knowledge to adjust programme bidders' assumptions for risk. However, they did not formally consider project bidders' past performance. They could also have presented this information more clearly to ministers to help them select bids. Five of the bids selected in the fourth bidding round – worth a total of £34 million (7 per cent of the £506 million allocated) – were made by organisations that were already accountable for an existing project or programme that the Secretariat's review highlighted in particular as being behind its targets, at the time. For two of these bids, the Secretariat postponed signing final offer letters until performance on the existing programmes improved. We identified three further examples, however, where the Secretariat had not taken similar action (Paragraph 3.10).

Funding to businesses and jobs resulting

13 Some £492 million has now reached projects but the majority of the Fund remains unspent. According to the Departments' management information, as of the end of December 2013 £917 million of the £2.6 billion funding allocated in the first four bidding rounds had been paid to projects or programmes. Of this amount, £425 million was being held by programme intermediaries (of which £10 million was for administration). Some £1,547 million was still with central government and had been allocated to schemes. A balance of £136 million was from projects or programmes that have withdrawn, and where the money had not yet been reallocated (paragraphs 6.1 to 6.4).

14 **The number of jobs created and safeguarded has increased by 22,100 since September 2012.** As of September 2012 projects and programmes had created or safeguarded 22,300 jobs. Following the Committee's recommendation, the government published an annual monitoring report in July 2013 that set out the number of jobs created and safeguarded as of March 2013. At that time, the Fund had created or safeguarded 32,000 jobs compared with a target of 31,500. However, this target did not include 5,300 expected jobs that will not be created or safeguarded because the project or programme had withdrawn. The Departments' latest data indicate that in the period since March 2013, projects and programmes have created or safeguarded another 12,400 jobs, bringing the total to 44,400. Just under half of the jobs to date, however, were created or safeguarded by just five schemes, and the other half were delivered by the remaining 291 operational schemes in rounds one to three (paragraphs 5.8 to 5.9).

15 **The Secretariat was slow to introduce a robust management information system to monitor the Fund's performance.** Until July 2013, the Departments relied on local records for basic statistics on expenditure, as well as jobs created and safeguarded. In July 2013 they introduced a web-based management information system but some of the data were input incorrectly. The Secretariat coordinated a major exercise to correct errors and accuracy has improved, but this was time-consuming and data issues have yet to be resolved entirely. The Secretariat acknowledges that some inaccuracies and risks to quality remain. The Secretariat currently relies on periodic manual checks to identify and correct errors. This is less efficient than preventing similar errors recurring in future through automatic checks. The Secretariat reports that, in response to our review, it intends to introduce more automatic checks into the system (paragraphs 5.5 to 5.7).

Financial management

16 **HM Treasury has revised and clarified its guidance on endowments, which funded some programmes operated by intermediary bodies in rounds one and two of the Fund.** The Committee was concerned that endowments, over which departments have little control, had been used to avoid a potential underspend in 2011-12. In July 2013, HM Treasury issued a revised version of *Managing Public Money*, which made clear that this form of funding is always novel and contentious, and that it must never be used to manage the risk of underspend. The Secretariat does not expect any further programmes to be funded via endowments (paragraphs 7.3 to 7.6).

Evaluating the Fund's impact

17 The Secretariat has made progress with its plans to evaluate the Fund's impact. In its report, the Committee said that it was unacceptable that the Departments did not yet have a clear plan for evaluating the Fund's impact. In May 2013, the Secretariat commissioned an external consultant to undertake a scoping study to identify a practical evaluation methodology. The Secretariat expects this work to be completed in early 2014, and will then use this study to begin a full evaluation of the Fund (paragraphs 8.3 to 8.5).

Conclusion

18 Since September 2012, the Departments have improved the Fund's governance and taken on more skilled staff. They have sped up the process of making final offers to bidders and made progress in commissioning a formal evaluation of the Fund's impact. Despite this, they face a significant challenge, particularly in 2014-15, to spend a budget of £1.4 billion, largely because they have not been able to spend money as quickly as originally expected. Their task of spending this budget will be made more difficult if they do not address the remaining risks to the quality of management information. Looking ahead, there is still a significant amount of public money to allocate through the Fund. As well as the £600 million allocated to rounds five and six, at least £136 million is available from projects that have now withdrawn from earlier rounds. Our review indicates that value for money depends on the Departments further tightening controls on the jobs and other benefits that bids offer, relative to their cost.

Recommendations

19 The Secretariat should introduce new targets, include more automatic checks and develop its evaluation processes. It should:

a Introduce more sophisticated targets on the value for money offered by projects and programmes across bidding rounds. The Secretariat has the information it needs to provide this analysis but is not using it as effectively as it could.

b Improve its management information system by including more automatic checks to reduce errors. Good-quality data are essential to managing the Fund and reporting on its progress. It is not efficient to rely on checks later in the process to identify errors that then need investigating and correcting, and not as effective as establishing controls within the system that prevent such errors.

c Develop its processes for evaluating previous performance of repeat bidders. The Secretariat needs to formalise the use of information in the appraisal process to minimise the risk that poor performance is rewarded.

Part One

Background to the Regional Growth Fund

Introduction

1.1 This part of the report sets out briefly the main features of the Regional Growth Fund (the Fund) and how it operates. Further details on how the Fund works and how it was set up can be found in our May 2012 report, *The Regional Growth Fund*.[5]

1.2 The government first established the Fund in June 2010 with two objectives:

- to encourage private-sector enterprise by providing support for projects with the significant potential for economic growth and additional sustainable private-sector employment; and
- to support in particular those areas and communities that currently depend on the public sector to make the transition to sustainable private-sector-led growth and prosperity.

1.3 Since October 2010, private-sector firms or public–private partnerships have been, or will be shortly invited to bid, over six bidding rounds, for a share of £3.2 billion for schemes that support the Fund's objectives and which would otherwise not go ahead.

1.4 Funding of £2.6 billion from rounds one to four has been allocated. Rounds one and two are expected to distribute allocated funding to businesses and programme operators by the end of March 2014. Round three payments have started, and the Secretariat was expecting to sign final offers from round four by the end of January 2014. A fifth round closed on 9 December 2013 (with results expected in spring 2014) and the government expects that a sixth round will launch in summer 2014. This report does not cover rounds five or six.

1.5 Each scheme the Fund supports is either:

- a project – where the Fund is awarded to support a contracted activity; or
- a programme – where the Fund is awarded to an intermediary who is accountable for identifying and contracting several projects that will meet the programme operator's contracted requirements. Programme operators include local authorities, Local Enterprise Partnerships and banks.

5 Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.

1.6 Applicants are required to bid for at least £1 million. Each bid may be a single project or programme, or a package of smaller projects. A cross-government secretariat (the Secretariat), which leads the Fund's administration, provides information and economic analysis on each bid. An independent advisory panel makes recommendations to ministers based on this analysis, and ministers then select projects and programmes to support.

1.7 The Secretariat makes provisional offers to bidders whose bids are successful at this initial stage. It then finalises these offers after a period of negotiation and due diligence, during which changes may be made to the appraised activity (and, therefore, value for money). After this, regionally based growth delivery teams, part of the Department for Communities and Local Government, monitor progress in delivering the schemes, with support from the Secretariat. Our May 2012 report, *The Regional Growth Fund*, sets out in more detail how ministers select which bids to support.[6]

Assessing progress since September 2012

1.8 This report provides more detail on developments in response to the Committee of Public Accounts' (the Committee's) conclusions and recommendations, which covered seven key areas of the Fund's operation:

- The Fund's alignment with other growth initiatives (Part Two).
- Choosing which projects and programmes to support (Part Three).
- Signing up to final offers with selected bidders, including changes to the Fund's management and governance, and the availability of sufficient, skilled resources (Part Four).
- Jobs created and safeguarded as of the end of December 2013, including the quality of management information used to monitor progress (Part Five).
- Progress in distributing funding to businesses (Part Six).
- Managing the Fund's budget (Part Seven).
- Evaluation of the Fund's overall impact and value for money in the longer term (Part Eight).

We provide further information, analysis and commentary on developments to support the Committee's examination of progress.

1.9 The Committee's full conclusions and recommendations and the government's formal responses are set out in Appendix One.

6 See footnote 5.

Part Two

Alignment with other growth initiatives

Context

2.1 The government's 2010 local growth White Paper[7] and its 2011 *Plan for Growth*[8] set out a new approach based on three principles:

- shifting powers to local communities and businesses, principally through the closure of the Regional Development Agencies and the introduction of Local Enterprise Partnerships;
- promoting efficient and dynamic markets and increasing confidence to invest through, for example, reforms to the planning system; and
- focused investment – initially through the Fund, and subsequently through other schemes such as the Growing Places Fund, Enterprise Zones and City Deals.

These initiatives are each managed separately.

Committee of Public Accounts' recommendation[9]

2.2 The Committee said it was not clear how the Fund was aligned with other programmes promoting growth and recommended that "[t]he Department for Communities and Local Government and the Department for Business, Innovation & Skills should improve consultation with local bodies, such as Local Enterprise Partnerships, for future rounds of the Fund and clarify arrangements for oversight and coordination of local growth initiatives".

The Departments' response

2.3 The Department for Communities and Local Government and the Department for Business, Innovation & Skills (the Departments) agreed with the Committee's recommendation but disagreed that the Fund was not aligned with other growth programmes.

7 HM Government, *Local growth: realising every place's potential*, Cm 7961, October 2010.
8 HM Treasury and the Department for Business, Innovation & Skills, *The Plan for Growth*, March 2011.
9 Appendix One, Recommendation 7.

Key actions taken

2.4 In January 2012 the Departments established a cross-government programme board involving six departments to oversee the Fund.

2.5 As we described in our December 2013 report on *Funding and structures for local economic growth*, the government also established a Deputy Prime Minister-chaired local growth cabinet committee in June 2013 to oversee local growth initiatives.[10] This committee decides which bids are selected under the Fund, following technical appraisal by the Secretariat and recommendations from the independent panel. In addition, a cross-departmental local growth programme board has been meeting since summer 2012 to help design strategy and identify gaps.

Analysis and commentary

2.6 We reported in *Funding and structures for local economic growth* that the government's local economic growth initiatives covered in that report were not designed as a coordinated national programme with a common strategy, set of objectives, or implementation plan. The government has, however, made changes over time to help address this through the cross-government groups outlined in paragraphs 2.4 and 2.5 above.

2.7 In relation to the Fund, the formation of a programme board has provided a much more coherent and cross-departmental senior management structure. We have observed conversations at this board which indicate that links with other government initiatives, such as City Deals, feature more in decisions about which bids to support than at the time of our last report when these other initiatives were less mature. This strategic link, alongside other developments including the recruitment of more staff (paragraph 4.4), means that the Fund is generally better governed than at the time of our last report in May 2012.[11]

2.8 There is evidence that the government is using the Fund more strategically alongside other local growth programmes than at the time of our last report. Ministers selected a total of 33 Local Enterprise Partnership bids (worth £378 million) in round three of the Fund, and a further 30 Local Enterprise Partnership and local authority bids (worth £192 million) in round four (for context, there are 39 Local Enterprise Partnerships in England). Ministers have also allocated £32 million to Lancaster University to run a competitive programme inviting the 20 cities with Wave Two City Deals to establish business growth hubs, improve business growth and create jobs. They reported that 15 of the cities were successful in applying for funding through this programme. The government will transfer £100 million from the £600 million for the Fund's fifth and sixth bidding rounds to the Local Growth Fund, for use by Local Enterprise Partnerships. Local Enterprise Partnerships and local authorities will not, however, be entitled to apply to the Fund's fifth and sixth bidding rounds.

10 Comptroller and Auditor General, *Funding and structures for local economic growth*, Session 2013-14, HC 542, National Audit Office, December 2013.

11 Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.

Part Three

Choosing which projects and programmes to support

Context

3.1 In appraising the bids it receives, the Secretariat compiles information and analysis to help ministers make informed decisions. Using a number of measures to provide objective analysis of each bid is a positive feature of the appraisal process and represents good practice. The government did not, however, set targets for the cost per job of an individual bid, or as an average across each bidding round. The Fund's Accounting Officers said at the time of the Committee's report that they would ask ministers for direction on any project where the total economic benefit was less than the cost to the Fund. We concluded that there was scope to apply tighter controls over value for money to improve the Fund's cost-effectiveness.

Committee of Public Accounts' recommendation[12]

3.2 The Committee concluded that the Secretariat had "set far too low a threshold for acceptable value for money in the selection of projects and programmes". It recommended that the threshold for acceptable value for money should be set higher, and that the Secretariat should clearly record economic appraisals suggesting poor or marginal value for money for the taxpayer.

The Departments' response

3.3 The Departments disagreed with the Committee's recommendation and stated that "introducing an artificial value for money threshold at appraisal stage" would "increase the risk that good projects and programmes capable of delivering on the objectives of the fund in a cost-effective manner would be sifted out ahead of due-diligence and contracting".

12 Appendix One, Recommendation 5.

Key actions taken

3.4 The Departments did not introduce value-for-money targets for the bids selected in each round. The Fund's Accounting Officers have indicated, however, that they sought to ensure that bids achieved a benefit–cost ratio of at least 2:1, before they agreed final offers.

Analysis and commentary

3.5 The ratio of overall benefits to costs contains a number of factors including the value of job creation, and also the wider benefits such as the economic value of new infrastructure, training, and research and development. In our 2012 report, we focused on the cost per net additional job because creating and safeguarding jobs is the Fund's primary objective.

3.6 **Figure 1** shows, for each round, the number of net additional jobs the Secretariat expected at the appraisal phase, against the Fund awarded.[13] The Secretariat is expecting substantially fewer jobs per pound of the Fund awarded in later rounds, particularly round four, than in earlier rounds.[14] The Secretariat's estimated cost per net additional job of £52,300 in round four is 72 per cent higher than the £30,400 for round one, which was of a similar size. Taking all four rounds together, the average cost per net additional job expected from the Fund is now £37,400. This is 13 per cent higher than the £33,000 from the first two bidding rounds which we reported in May 2012.[15]

3.7 In response to our review, the Secretariat conducted an analysis of possible reasons why bids selected in the fourth round appear substantially less cost-effective than in rounds one to three. The Secretariat is unable to say definitively what the reasons are for this decrease. They consider that they made more realistic assessments of what bidders would achieve, based on experience from earlier rounds. They also consider that bidders were less optimistic in their bids in the first place. Logically, this would mean that cost per net additional job estimates were over-optimistic in previous rounds. The Secretariat and bidders make adjustments to bids during the contracting process, which can improve the value for money each bid offers, but this applies to all bidding rounds. Ultimately, cost-effectiveness will only become clear once proposals are implemented and evaluated.

3.8 Since the outset of the Fund, ministers have selected nine bids that had a benefit–cost ratio of less than 1:1, worth a total of £64.8 million, of which seven were selected in round four. The Secretariat has worked to improve the value for money on each of these bids through the contracting process and due diligence before signing a final offer, and Accounting Officers are not expecting to seek ministerial direction on bids which were due to agree final offer letters in January 2014.

13 Our 2012 analysis found that over 90 per cent of the net additional jobs could have been delivered for 75 per cent of the cost, and therefore that value for money was not optimised.

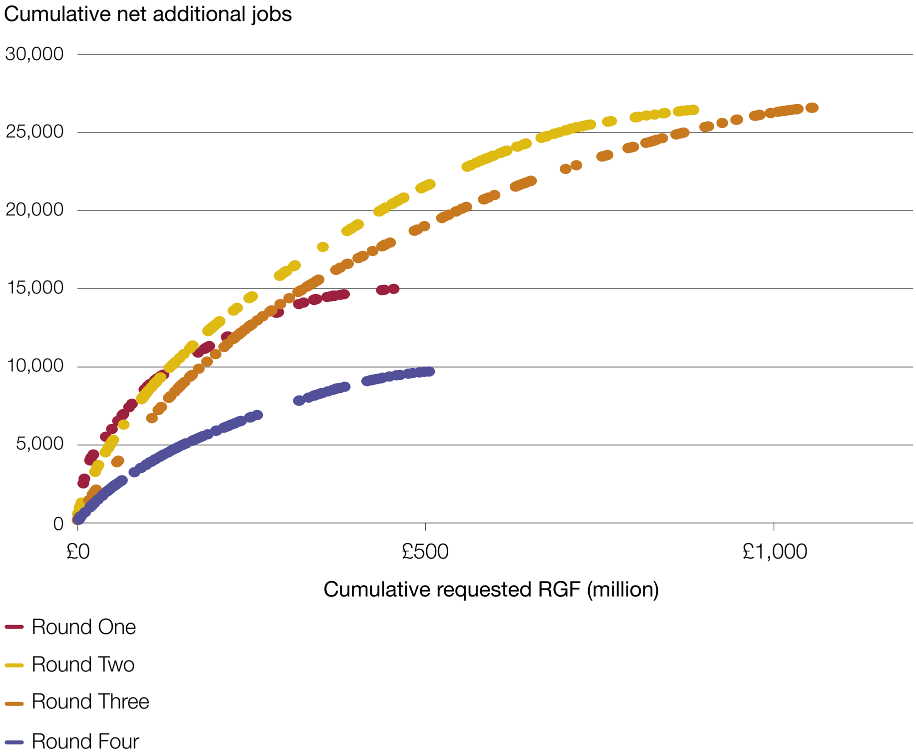
14 The definition of jobs in this case is 'net additional' jobs, which takes into account the Secretariat's estimates of how many of the jobs might have been created or safeguarded without the Fund and the risk that the projects or programmes might not perform as well as expected.

15 Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.

Figure 1

Relative cost-effectiveness of selected bids across rounds one to four

The average cost per job from bids selected in rounds 3 and 4 was higher at the initial appraisal phase than in rounds 1 and 2



Average cost per net additional job

Round	Average cost per net additional job (£)	Fund committed (£m)	Additional jobs	Percentage of Fund provisionally awarded to bids with a BCR of less than 2:1 (%)
One	30,400	454.6	15,000	28
Two	33,500	885.1	26,400	18
Three	39,700	1,056.1	26,600	22
Four	52,300	505.7	9,700	33
Overall	**37,400**	**2,901.6**	**77,700**	**24**

Notes

1 'Net additional' job – the number of jobs expected, adjusted by the Secretariat for an estimate of jobs that would be created anyway.

2 RGF: Regional Growth Fund and BCR: Benefit–cost ratio.

3 Figures are subject to rounding.

4 The total of Funds committed exceeds the £2.6 billion allocated to the first four rounds because some money committed to schemes in earlier rounds gets rolled forward into future rounds where schemes are withdrawn.

Source: National Audit Office analysis of Secretariat data

3.9 The Secretariat reports that it has worked towards a minimum target benefit–cost ratio of 2:1 for projects and programmes selected in the third and fourth bidding rounds. Ministers and the Accounting Officers introduced a revised expectation that the ratio of benefits to costs should be 2:1 before final offer letters are signed. Ministers selected some bids that initially had a benefit–cost ratio of less than 2:1. The Secretariat worked to improve the value these bids offered through the detailed negotiation of each bid's terms and conditions and due diligence, which happens after the formal competition between bids has concluded. Some 110 bids with a benefit–cost ratio of less than 2:1, worth a combined £586.7 million, have been selected across all four rounds.

3.10 In round four, the Secretariat included a summary of programme bidders' past performance on the appraisal information used to make decisions, and used this knowledge to adjust programme bidders' assumptions for risk. Five of the bids selected in round four, worth a total of £34 million (7 per cent of the £506 million allocated in that round), were proposed by organisations that were already accountable for an existing project or programme that the Secretariat's review highlighted in particular as being behind its targets, at the time. For two of these bids (Kent County Council and the Community Development Finance Association), the Secretariat postponed signing final letters until the performance of the earlier programme improves. As of the end of December 2013 the Community Development Finance Association had withdrawn their round four programme. The Departments have not implemented a similar approach for the other three bids as they do not consider that in these cases previous performance is a good indicator of future difficulties. The Secretariat could have presented the information on past performance more clearly to ministers to help them select bids.

Part Four

Signing up to final offers

Context

4.1 After ministers have selected which projects and programmes to support, the Secretariat makes bidders a conditional funding offer. They then conduct detailed discussions covering which business activities are eligible for public support and projects and programmes undergo due diligence. The Secretariat then issues a final offer letter, setting out the agreed terms and conditions for allocating money under the Fund. We reported in 2012 that this process took longer than expected in the first two rounds.

Committee of Public Accounts' recommendation[16]

4.2 On the process leading to the final offer letter, the Committee concluded that: "[i]t has taken far too long for the Regional Growth Fund to get off the ground" and that "[t]oo few staff with the necessary skills were available" to process bids. The Committee recommended that "the Fund's Accounting Officers should ensure sufficient staff are available to process bids promptly in future rounds and set targets to reduce the time taken to process final offers".

The Departments' response

4.3 The Departments agreed with the Committee's recommendation but disagreed with its conclusion that too few skilled staff were available to process bids. The Departments also noted that finalising awards depends on timescales set by beneficiaries.

16 Appendix One, Recommendation 1.

Key actions taken

4.4 The Secretariat has increased its staffing resource over time:

- In early 2012, the Secretariat advises that there were 12 full-time-equivalent (FTE) economists working on appraisal and processing of bids.
- In December 2013, 20 FTE economists and other specialists, supported by ten due diligence accountants and a state aid specialist, were working on the appraisal and processing of bids.
- Growth delivery teams recruited an additional 15 FTE staff in summer 2013, increasing their total to 32 (at January 2014).

4.5 The Departments introduced a time limit of six months for finalising contracts for rounds three and four. This comprised three months from the initial award to agreeing terms in the provisional offer letter, and a further three months to complete due diligence and issue the final offer letter. The Departments included applications from rounds one and two that had yet to contract on this timetable. This target was advertised externally, to speed up the contracting process.

4.6 The Departments and the Secretariat have a resource plan in place for the final quarter of 2013-14 and for the 2014-15 financial year – when appraisal, contracting and monitoring work is expected to peak. The Departments have yet to decide the monitoring and reporting responsibilities for the future rounds of the Fund, for which only the Department for Business, Innovation & Skills will be accountable.

4.7 The Departments established formally a finance and investment subcommittee to the Fund's programme board in June 2012 which:

- approves investment in individual projects and programmes;
- monitors and challenges progress and considers variations to grant offer letters; and
- advises the Secretariat on the effectiveness of financial controls and systems, and the Fund's budget.

4.8 The Departments also sponsored an internal audit review of the Fund's governance, which reviewed arrangements for managing the Fund once final offer letters have been issued. This review found that there was scope to clarify roles and responsibilities, address cultural differences and improve communication between the five regionally based growth delivery teams and the Secretariat.

4.9 Since then, the Secretariat and the two Departments have:

- updated a memorandum of understanding on operational monitoring and client management, as well as devising additional guidance;
- involved the growth delivery teams in designing an updated project and programme risk-assessment tool;
- consulted with local monitoring teams before signing final grant offer letters; and
- used growth delivery teams to support budget forecasting as part of regular performance and finance meetings between these teams and the Secretariat.

4.10 We recommended in our 2012 report that officials should explore ways to retain greater control of the due diligence process, where this could provide sufficient assurance more efficiently.[17] In the third and fourth bidding rounds, the Secretariat carried out an operational review, in lieu of due diligence, for programmes operated by intermediaries.

Analysis and commentary

4.11 In round three, the overall time taken from selecting the bidders to making final offers was reduced substantially, compared with rounds one and two. Some 68 per cent of the selected bids received their final offer letters within six months. This compares with 12 per cent of bids in the first round and 30 per cent in the second round, before the introduction of a formal deadline. The process for the fourth round was not complete at the end of December 2013: all funds had been allocated by July 2013 and were subject to final offer by 17 January 2014.

4.12 A total of 35 bids in the third round missed the six-month deadline. Of these, seven (worth a combined £87.8 million) still had not agreed full terms at the end of December 2013. These seven bids have been delayed because of ongoing discussions, involving the European Commission, on whether the funding is compliant with European rules on state aid.[18]

17 Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.

18 State aid is a European Commission term which refers to assistance given by a public body or publicly funded body, to economic or commercial activity on a selective basis, which has the potential to distort competition and affect trade between member states of the European Union. State aid rules aim to ensure fair competition and a single common market and are monitored and controlled by the European Commission. The Department for Business, Innovation & Skills is responsible for coordination and development of UK state aid policy.

Part Five

Jobs created or safeguarded as of the end of December 2013

Context

5.1 Creating and safeguarding jobs is a key objective for the government's local growth initiatives.[19] The Fund has a particular focus on creating private-sector employment in areas that have historically relied on the public sector. The Fund's main performance indicator is the number of jobs that projects and programmes create and safeguard.

Committee of Public Accounts' recommendation[20]

5.2 The Committee concluded that "[o]nly a small number of the jobs expected had actually been delivered", and recommended that the Departments should "report publicly on the amount of money spent and the number of jobs actually created and the number safeguarded by businesses in receipt of funds".

The Departments' response

5.3 The Departments agreed with the Committee's recommendation but disagreed with its conclusion on jobs and said that job creation was on track. The Departments agreed, however, to publish an annual monitoring report in spring 2013.

Key actions taken

5.4 The Secretariat published its first annual monitoring report in July 2013. The report summarised delivery progress to the end of March 2013 and covered the first two bidding rounds.

19 Comptroller and Auditor General, *Funding and structures for local economic growth*, Session 2013-14, HC 542, National Audit Office, December 2013.
20 Appendix One, Recommendation 3.

5.5 Generating the first annual monitoring report was time-consuming, because existing management information systems did not allow the Secretariat to easily assess the progress of each project and programme at a particular date. Instead, the Secretariat had to compile information manually from the monitoring returns that the projects and programmes submitted to growth delivery teams each quarter. The Secretariat introduced an online management information system in July 2013, which should reduce these difficulties in future. The shared system allows the five growth delivery teams to submit performance and financial information electronically to the Departments for aggregation, review, and quarterly reporting.

Analysis and commentary

5.6 When the management information system was set up, growth delivery teams had to input most of the data manually. The Secretariat's own review, and our review of a sample, found that this had not always been done correctly. The Fund's programme board also commissioned an internal audit report in autumn 2013, the results of which have yet to be reported formally. Our review of the management information system found that:[21]

- Growth delivery teams are required to manually enter claimant returns, rather than uploading and validating the information. This increases the scope for error because the same information is entered multiple times.
- There are few built-in checks, such as 'outlier' reporting arrangements, to prevent or detect errors at an early stage – these are currently carried out manually.
- 'Job target' data – an important measure of contract progress – are not readily available from the shared management information system.

5.7 The Departments completed a significant, three-month data-cleansing exercise on the management information system in December 2013 but this was time consuming and data issues have yet to be resolved entirely. The Secretariat acknowledges that some inaccuracies and risks to quality remain. The Secretariat currently relies on periodic manual checks to identify and correct errors. This is less efficient than preventing similar errors recurring in future through automatic checks. The Secretariat reports that, in response to our review, it intends to introduce more automatic checks into the system.

21 Our review did not incorporate an extensive audit of individual entries, but our assessment of the system as a whole supports the Departments' view that further improvements to the data are necessary.

5.8 The Secretariat reported that the total number of jobs created and safeguarded in the first two rounds of the Fund was 32,000 at 31 March 2013, compared with the total contracted target of 31,500 for the same projects. This contracted target did not include 5,300 jobs that will no longer be created or safeguarded because the relevant project or programme had withdrawn from the Fund. This is a substantial number worth reporting in future annual reports. To the end of December 2013, some 24 per cent of bids selected in the first and second bidding rounds (18 per cent by value) had withdrawn their bids. Half of the jobs created or safeguarded were reported by three recipients: the Royal Bank of Scotland's Asset Finance Scheme (a programme), and projects operated by BMW and Jaguar Land Rover. In the case of Jaguar Land Rover these jobs were created and safeguarded through leveraged private-sector funding, as none of the Fund allocated to this recipient had been paid out at that point. Some 30 projects and programmes had yet to create or safeguard any jobs by March 2013, against a combined target of 3,900.

5.9 Since then, the Secretariat's management information system indicates that projects and programmes have created or safeguarded a further 12,400 jobs, bringing the total to 44,400.[22] **Figure 2** shows, to the end of December 2013, the number of jobs created and safeguarded for rounds one to three compared with the contracted profile. Similar to the position in March 2013, 5 out of the 296 operational projects and programmes had contributed 46 per cent of all jobs created or safeguarded to the end of December 2013. This includes the three recipients noted in paragraph 5.8, as well as projects operated by Alstom Grid UK Ltd and VisitEngland.

Figure 2
Progress in delivering jobs expected by March 2014

Round	Contracted jobs (at 31 March 2014)	Actual jobs (at 31 December 2013)	Percentage achieved
One	17,500	22,300	128
Two	26,800	18,000	67
Three	26,800	4,100	15
Total	71,100	44,400	62

Notes

1 Most of the round three projects and programmes have been in receipt of funding since April 2013 and have yet to create or safeguard jobs.

2 The jobs figures include only those which the Secretariat is able to monitor. It does not include jobs in the wider economy that may result from the Fund, as these cannot be measured reliably.

3 Job figures are taken from the Secretariat's management information system which is subject to ongoing improvements as described in paragraph 5.7. In addition all job numbers reported by schemes in 2013-14 are, at the time of reporting, still subject to end-of-financial-year checking by an independent accountant as part of normal Fund payment procedures.

Source: National Audit Office analysis of Secretariat data

22 Figures are taken from the Secretariat's management information system which is subject to ongoing improvement as reported in paragraph 5.7.

Part Six

Progress in distributing funding to businesses

Context

6.1 The government pays grants directly to projects supported under the Fund. Projects are cases where the government supports a contracted activity, usually by a single business. Grants are generally paid in arrears and on proof of delivery (of jobs targets, or of project milestones such as the completion of a building).

6.2 In common with other government local growth programmes, not all of the Fund goes directly to end-beneficiaries. In some cases, the government funds an intermediary programme operator to provide grants, loans or venture capital to local businesses. Programmes are either national or local and are run by both private and public bodies.

6.3 **Figure 3** overleaf summarises the location of funding for the £2.6 billion allocated in the first four bidding rounds and shows that:

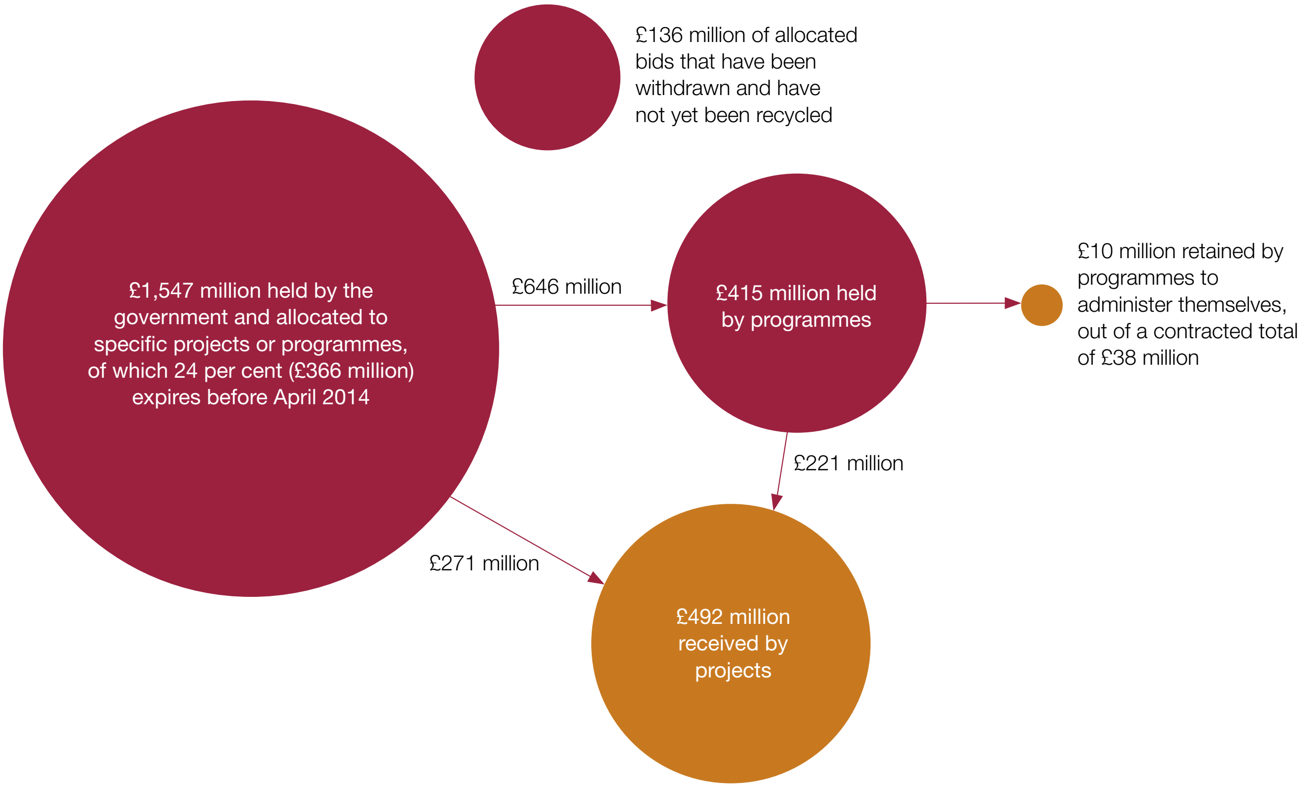
- £917 million has been paid to projects directly or transferred to programmes. Of this, £492 million has now reached businesses; £415 million remains to be spent by programmes operated by intermediary bodies; and £10 million has been retained by programme operators for administration costs.
- Some £1,547 million is still with central government (see also Figure 5 which shows that £1.4 billion is budgeted to be spent in 2014-15).[23]
- The balance of £136 million relates to the portion of the £464 million of withdrawn projects or programmes that has not yet been awarded to alternative bids.

6.4 Taking all four rounds of the Fund together, programmes delivered by intermediary bodies are expected to manage £1,481 million, some 60 per cent of the £2,464 million allocated to date. Of the £1,481 million, 40 per cent is allocated to private organisations (for example, banks) and 60 per cent to public or public–private partnerships (for example, Local Enterprise Partnerships).

23 At the end of December 2013 a total of £67.1 million allocated to projects in the Fund's first bidding round had yet to be paid out. The payment deadline for these awards is the end of March 2014.

Figure 3
Location of the money for rounds one to four

The majority of the £2.6 billion allocated in rounds one to four has yet to reach projects



Notes

1 The £221 million paid by programmes to projects is the maximum possible value as the Secretariat's management information system does not distinguish between the Fund or leveraged private money when payments are made by programmes.

2 The £1,547 million held by government includes £433 million allocated to round four schemes that have yet to commence.

Source: National Audit Office analysis of Secretariat data

Committee of Public Accounts' recommendation[24]

6.5 The Committee noted that only £12.5 million of £421 million paid to intermediary bodies had reached frontline projects, and it recommended that "the Fund's Accounting Officers should clarify the management arrangements for programmes operated by intermediaries and the mechanisms they have put in place to provide assurance that management charges are kept to a minimum and that resources are allocated to projects as speedily as is consistent with good stewardship".

The Departments' response

6.6 The Departments agreed with the Committee's recommendation but disagreed with its conclusion that the management arrangements for programmes were unclear and that there were no mechanisms in place to ensure that management charges were kept to a minimum.

6.7 The Departments stated that "[e]ach programme has a specific delivery plan that includes milestones" which monitoring officers use to "benchmark programme delivery" and "take necessary measures to bring programmes back on track if they fall behind". The Departments acknowledged that they had "supported some intermediaries by providing administration costs to run their programme" but that "administrative charges to manage the funds are kept to a minimum".

Key actions taken

6.8 The Departments recognise that a number of programmes have progressed more slowly than had been anticipated in bidding documents. The Secretariat reviewed the reasons for this, focusing on Local Enterprise Partnership-led and local authority-led programmes. It concluded that some of these programme operators:

- had underestimated the administrative resources they would need to generate, appraise, contract, and monitor projects;
- had not done enough to meet the requirements of 'operational reviews' (the equivalent of due diligence for publicly operated programmes); and
- lacked clear governance and lines of responsibility.

6.9 The Secretariat has conducted workshops and allocated additional funding for programme administration. In total, £38 million has been allocated for programme administration, of which £10 million had been paid out to programmes at the end of November 2013.

24 Appendix One, Recommendation 2.

Analysis and commentary

6.10 **Figure 4** shows the ten programmes that received the largest awards over the first three rounds.[25] It also shows the amount paid to intermediaries and the amount paid, in turn, to end-beneficiaries to the end of December 2013, together with the proportion allocated to administration. This shows that both progress, and the costs charged to the Fund for administration, continue to vary substantially.

Figure 4
The Fund's ten highest-value programmes

Programme operator (E: endowment)	Round	Fund allocated (£m)	Fund paid to programme (£m)	Fund distributed by programme to projects (£m)	Proportion of allocated Fund to be used by programme for administration costs (%)
Royal Bank of Scotland (E)	1	70.0	70.0	69.8	0
Birmingham City Council (E)	2	70.0	70.0	7.6	4
Santander UK	2	53.5	53.5	2.3	9
Business Angel Co-investment Fund (E)	1	50.0	50.0	10.2	1
Sharing in Growth UK Ltd	3	50.0	12.3	1.0	9
Derby Employment Taskforce	2	40.0	7.6	1.9	3
West of England LEP (E)	2	39.8	39.8	1.3	4
University of Sheffield	3	38.0	1.5	1.4	6
Greater Manchester LEP	3	35.0	10.9	1.8	1
East Kent Employment Taskforce (E)	2	35.0	35.0	7.2	0
Total of ten largest programmes		**481.3**	**350.6**	**104.5**	
Proportion of all programmes (rounds one to four) (%)		**32**	**54**	**47**	

Notes

1 Figures as of end of December 2013.

2 LEP = Local Enterprise Partnership.

Source: National Audit Office analysis of Secretariat data

25 Round four is not included because no payments had been made as of the end of December 2013.

6.11 The Secretariat relies on programme operators to monitor and then provide evidence on the jobs being created and safeguarded by projects. We found that the Secretariat has identified the key risks to programme delivery and that they have introduced measures to improve the way programmes are monitored to reduce the risk of underperformance. In addition to issues referred to in paragraph 6.8, the Secretariat has identified, as part of its operational reviews of programmes in the fourth bidding round, a risk that some of the jobs claimed may not meet the criteria set out in offer letters, and a further risk that European state aid rules are not being followed closely. The Secretariat is considering additional compliance checks of programme end-beneficiaries to strengthen its routine monitoring.

Part Seven

Managing the Fund's budget

Context

7.1 The Fund has had, from the outset, a very ambitious spending profile. This has become more challenging over time because new money has been allocated to the Fund faster than it has been spent. The Departments spent nearly the entire Fund available in 2011-12, largely through the payment of endowments to programmes at the end of the financial year. In late 2012, the Departments moved much of the planned spending for 2012-13 into later years. **Figure 5** shows the Fund's budget profile at the time of our first report in 2012, and at the end of December 2013.[26] The position at December 2013 includes the additional £200 million allocated to the fourth bidding round.

7.2 There is no built-in end-of-year flexibility to transfer the Fund's budget between years, meaning that any within-year underspend could be returned to HM Treasury and lost from the Fund. The Departments should be able to manage the risk of overspending, but if total claims exceed the budget within any year, the Departments might have to defer entering into commitments to avoid breaching the spending limit set by Parliament.

Committee of Public Accounts' recommendation[27]

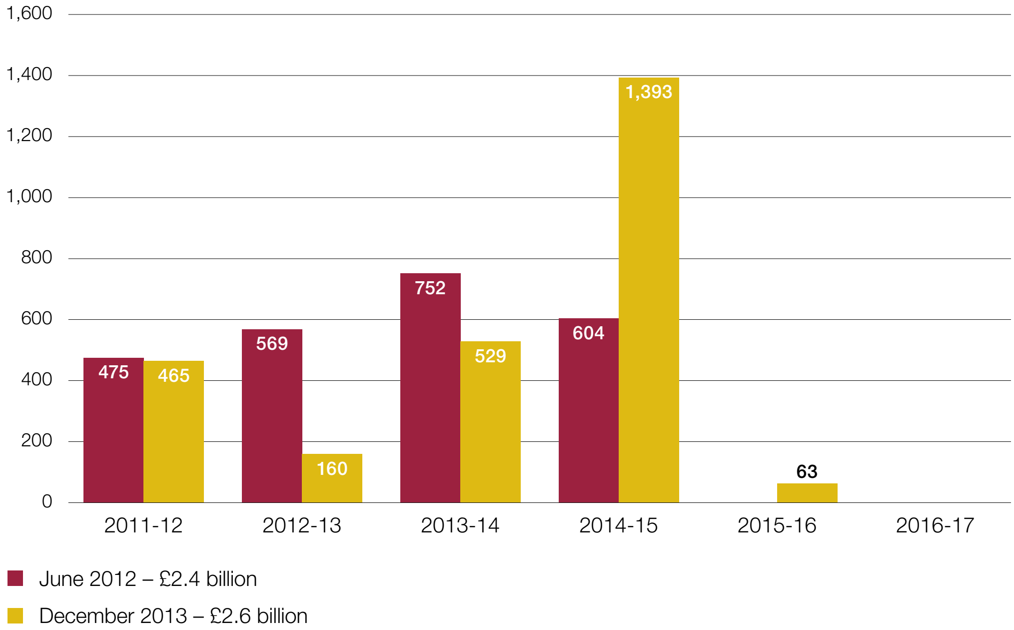
7.3 In its report on the Fund, the Committee concluded that the "Treasury's decision to allow the departments to use endowments to avoid surrendering unspent funds at the end of the year risk[ed] value for money" and recommended that it "should define more clearly the circumstances under which endowments can be used so that value for money is not put at risk".

26 Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.
27 Appendix One, Recommendation 4.

Figure 5
Fund budget by financial year

The budget profile has become more challenging because money has been allocated to the Fund faster than it has been spent

Regional Growth Fund budget (rounds one to four, £m)



Notes

1 The December 2013 budget includes actuals for 2011-12 and 2012-13.

2 The Departments had spent £290 million of the £529 million budget for 2013-14 as of the end of December 2013.

Source: National Audit Office analysis of Secretariat data

The Departments' response

7.4 The government agreed with the Committee's recommendation and noted that *Managing Public Money*, HM Treasury's guidance on ethics in the use of public funds, "will make clearer that endowments should not be used to avoid underspends at the end of the year".[28]

Key actions taken

7.5 HM Treasury issued a new edition of *Managing Public Money* in July 2013 and Accounting Officers have been advised. In the new edition, and in response to the Committee's findings, HM Treasury makes clear that endowments are always novel and contentious and "should never be used as a way of bringing expenditure forward to avoid an underspend".[29]

Analysis and commentary

7.6 The Departments have updated their position on the Fund's use of endowments since the Committee's report was published. Since the Committee's hearing, one further programme with a value of £5 million has been funded via endowment. The total paid out via this route is £399 million. To the end of December 2013, no more than around a third of money paid by endowment to intermediaries in 2011-12 had been paid to end-beneficiaries.

7.7 We found that in 2013-14, the Departments paid £12.7 million to three programmes under Section 31 of the Local Government Act 2003.[30] These programmes have been allocated £60 million in total. While it is possible under the legislation for departments to impose conditions on Section 31 grants, the Department for Communities and Local Government has taken a general policy decision not to do so. Under these circumstances, the Departments cannot guarantee that the money will be spent on the activities the bidders set out in their bids. The Secretariat has indicated, however, that it will monitor these bidders' performance to their agreed final offers.

7.8 In 2012-13 and 2013-14 the Departments and the Secretariat used a range of measures to manage the risk of under- or overspending:

- In 2012-13, with the agreement of HM Treasury, the Department for Communities and Local Government took £384 million out of its 2012-13 budget and put it into later years to address an underspend risk for that year.

28 HM Treasury, *Managing Public Money*, July 2013, available at: www.gov.uk/government/publications/managing-public-money
29 See footnote 28.
30 Local Government Act 2003, available at: www.legislation.gov.uk/ukpga/2003/26/contents

- In the same year (2012-13) and again to address an underspend risk, £155 million was transferred from the Fund's 2013-14 budget to 2014-15 as part of the HM Treasury Budget Exchange mechanism in which alternative expenditure plans were brought forward.
- For the financial year 2013-14, and to address a risk of *overspend*, the Department for Communities and Local Government provided additional revenue funding of £50 million.

7.9 Taken together, these factors mean that in 2014-15 the Departments and the Secretariat face a combined challenge of:

- spending £1.4 billion in one year; and
- spending 82 per cent of the 2014-15 budget on capital schemes, where progress tends to be harder to predict than proposals for spending revenue money.

7.10 Balancing capital and revenue funding requirements in any given year can be complicated. The Secretariat and HM Treasury have recently agreed a £147 million budget switch from capital to revenue. As a result, the Fund's finance and investment subcommittee to the programme board has not had to delay the signing of some round four final offer letters. The programme board considered this option in November 2013 because of the lack of revenue budget.

7.11 The Departments can also manage the risk of underspend by making awards through the 'exceptional Regional Growth Fund' mechanism, which is designed to enable ministers to respond quickly to economic shocks and opportunities. These awards are made outside of the competitive rounds but are subject to the same level of appraisal and scrutiny. As of the end of December 2013, eight bids (worth a total of £42.4 million) had entered into contracting, one bid (worth £2.9 million) had agreed final offer letter terms, and no money had been paid out.

Part Eight

Evaluating the Fund's impact

Context

8.1 A robust evaluation of the Fund, as a key part of the new local growth landscape, is essential to assessing value for money overall. At the time of our 2012 report, work on the Fund's evaluation strategy was at an early stage.[31]

Committee of Public Accounts' recommendation[32]

8.2 The Committee concluded that it was unacceptable that the Departments did not have a clear plan for evaluating the Fund's impact. The Committee recommended that the Departments "should accelerate work on the Fund's plans to evaluate impact" and that they should set out in detail how they intend to do so.

The Departments' response

8.3 The Departments agreed with the Committee's recommendation stating that the Secretariat was developing an "economic evaluation model" using "expert third parties such as the London School of Economics (LSE)" and expected this work to be complete by November 2013. This arrangement was outlined in a letter to the Committee received in June 2012.

Key actions taken

8.4 In May 2013, and in a development of its plans, the Secretariat commissioned a team led by Ipsos Mori to undertake a scoping study to identify a practical evaluation methodology. The Departments report that the evaluation team presented the proposals for the core impact and economic evaluation work for review by an independent academic panel in late October 2013. The Departments wrote to the Committee in December 2013 to update them on progress. The Fund's evaluation working group plans to meet in March 2014 to decide how to proceed with any evaluation of the Fund. The Departments had spent £31,000 on this process to the end of December 2013.

31 Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.
32 Appendix One, Recommendation 6.

Analysis and commentary

8.5 We concluded in our report *Funding and structures for local economic growth* that, without sufficient transparency or a comparable picture of performance across its schemes, the government would not be able to demonstrate that its structures for achieving local economic growth are capable of delivering value for money.[33] It is important that the Fund's evaluation is able to identify the Fund's impact as a key part of these structures including, as far as possible, its impact over and above the government's other programmes and wider economic factors.

33 Comptroller and Auditor General, *Funding and structures for local economic growth*, Session 2013-14, HC 542, December 2013.

Appendix One

Committee of Public Accounts' September 2012 recommendations and Departments' responses

Committee recommendations[1]	Departments' response[2]	
1 It has taken far too long for the Regional Growth Fund to get off the ground. The Government intended to act quickly to support private sector enterprise to create additional sustainable employment particularly in areas that were dependent on the public sector. But it did not deploy sufficient administrative resources to deliver support quickly. Too few staff with the necessary skills were available to process bids and finalise contracts. After two years, only around a third of the expected 236 offers of funding have been finalised. For future bidding rounds, the Fund's Accounting Officers should ensure sufficient staff are available to process bids promptly and set targets to reduce the time taken to process final offers.	The Government agrees with the Committee's recommendation. Recommendation implemented.	The Government disagrees with the Government's conclusion that too few staff with the necessary skills were available. The Accounting Officer ensured that sufficient skilled staff were available to process bids quickly. The Government disagrees with the Committee's conclusion that the contracting process has taken two years. Finalising contracts is generally driven by the timetables set by beneficiaries. Round 2 was heavily subscribed showing that it was successful. As a result, the Secretariat's contracting resources were stretched. The Accounting Officer responded quickly to ensure that additional skilled staff were deployed. Resources will continue to be monitored to ensure that successful delivery of the Fund is not hindered. The RGF Round 1 selected bidders were announced in April 2011 and Round 2 selected bidders were announced in October 2011. Those milestones were already in place at the time of the Committee's hearing. To date, 174 out of the 239 selected bidders have signed final agreements – this is over half of the selected bidders, with 89 per cent of projects or programmes already started. For the remaining Round 1 and 2 bids, arrangements have been put in place to ensure that they are concluded by the end of 2012. Building on experience from Rounds 1 and 2, the Department for Business Innovation and Skills (BIS) introduced time limits for finalising contracts for Regional Growth Fund (RGF) Round 3. Selected applicants were announced on 19 October 2012. They were given a new three month time limit to move from announcement to agreeing the terms in the conditional offer letter (until 19 January 2013) and a further three month time limit (until 19 April 2013) to complete due diligence (equivalent to a term sheet in a commercial transaction). This will help mitigate the risk that beneficiaries will not progress offers.

Committee recommendations[1]	Departments' response[2]	
2 Most of the money authorised by the Departments, including some £364 million of endowments, has been parked in intermediary bodies, over which the departments have limited control. Some £222 million was paid to set up intermediary programmes, which are run by 'private / public partnerships' where the accountable body is in the public sector. Only £60 million has actually reached front-line projects, comprising £47.5 million paid directly by the departments and £12.5 million paid out by the various intermediary bodies. The Committee was also surprised that the Accounting Officers could not say how or where intermediaries are holding cash or how much of the Fund could be used up on intermediaries' management charges. Information provided subsequently by the departments shows that management fees vary significantly between programmes indicating that the departments do not have a firm grip on this issue. In its response to this report, the Fund's Accounting Officers should clarify the management arrangements for programmes operated by intermediaries and the mechanisms they have put in place to provide assurance that management charges are kept to a minimum and that resources are allocated to projects as speedily as is consistent with good stewardship.	The Government agrees with the Committee's recommendation. Recommendation implemented.	The Government disagrees with the Committee's conclusion that the management arrangements for programmes are unclear and that mechanisms are not in place to provide assurance that management charges are kept to a minimum. Each programme has a specific delivery plan that includes milestones. Monitoring officers benchmark programme delivery against milestones and take necessary measures to bring programmes back on track if they fall behind. The early months of programmes, which involve planning and some capacity building, are unlikely to deliver the level of RGF outlay that they will in later months when individual projects are fully up and running. Projects and programmes will be audited annually by an independent third party. The Government has supported some intermediaries by providing administration costs to run their programme. The administrative charges to manage the funds are kept to a minimum. In cases where Ministers have concluded that the provision of administrative support is necessary to ensure the successful delivery of a programme, a schedule listing permissible expenditure is included in the final offer letter. Administrative costs are examined during due diligence and reduced where necessary. Administrative charges are monitored quarterly, together with the overall governance of the programme by the Programme Delivery Teams (PDT) in the Department for Communities and Local Government (DCLG). In 2011-12, thirteen programmes received funding via endowments. This gives the intermediary the flexibility to support the best projects as and when they come forward, which provides better value for money than being locked into an artificial budget profile with rigid quarterly drawdown structures. In Rounds 1 and 2, the total amount awarded through the endowment process was £452 million of which £70 million, representing 40 per cent of forecast draw down for the financial year April 2012 to March 2013, has now reached front line projects, typically in Small and Medium-sized Enterprises (SMEs). This draw down is on target for this financial year. Endowment programmes are an important mechanism for empowering local decision making. For the avoidance of doubt the small number of RGF awards that were structured as endowments complied with the rules set out in Managing Public Money. In particular, the Treasury considered the value for money case for each endowment and concluded that an endowment would offer better value for money than alternative structures, rather than being a mechanism to avoid under spending.

Committee recommendations[1]	Departments' response[2]	
3 Only a small number of the jobs expected have actually been delivered. Witnesses were unable to tell the Committee how many jobs had been created or safeguarded as a result of money spent to date. The departments subsequently reported that 2,442 new jobs had been created and 2,762 existing jobs had been safeguarded, so far, in the 88 projects where offers had been finalised, against a target of 36,779 jobs being created or safeguarded over the economic life of these projects. On 12 June 2012, the department told the Committee that in addition there are 73 projects where the offer letter has not been finalised (and therefore where the Job Target has not been agreed) but where the beneficiary has stated that they are already directly safeguarding employment as a result of being allocated RGF funding. The aggregate amount of employment being directly safeguarded by these 73 projects at that time was 17,133. The Department for Communities and Local Government and the Department for Business Innovation and Skills should report publicly on the amount of money spent and the number of jobs actually created and the number safeguarded by businesses in receipt of funds.	The Government agrees with the Committee's recommendation. Recommendation implemented.	The Government disagrees with the Committee's conclusion on jobs. From Quarterly Monitoring Reports (QMR) in relation to the 162 projects and programmes, job creation is on track with around 10,000 directly monitorable jobs created so far. These 10,000 jobs relate to £77 million of RGF funds awarded directly to projects and via programmes to final beneficiaries (£70 million). BIS expects to create or protect approximately 300,000 gross jobs as a result of Rounds 1 and 2, with the majority being delivered in the first five years. Approximately 30,000 gross jobs were associated with withdrawn projects and programmes. It is anticipated that an additional 240,000 gross jobs will be created or protected in the future as a result of Round 3. The Government will be publishing an annual monitoring report on progress with the fund, including examples of the projects that the RGF has supported and the jobs that have been created and safeguarded to date. The first report will be in Spring 2013. The current figures are: 239 offers made; of which 174 offers finalised; 17 conditional offers agreed; 37 withdrawn; and 180 projects started. The total number of jobs unlocked (created or protected) was 198,000 in September 2012 and had reached 240,000 by end November 2012. This figure refers to the proportion of jobs (from the 300,000) that bidders promised, where bidders have agreed the final offer and are now able to access RGF funds. BIS has reported publicly since May 2012, using a variety of external communications to report progress. There have been regular Written Ministerial Statements to the House of Commons and House of Lords as well as annual reports to Parliament on support provided in accordance with the Industrial Development Act 1982 and the Banking Act 2009.

Committee recommendations[1]	Departments' response[2]	
4 The Treasury's decision to allow the departments to use endowments to avoid surrendering unspent funds at the end of the year risks value for money. The Committee was concerned that the use of endowments was not planned and that this approach was simply a device to avoid funding being taken back by the Treasury at the end of the financial year. The Committee was surprised that the Treasury supported this mechanism when its own guidance says endowments should only be used in exceptional circumstances. The Treasury should define more clearly the circumstances under which endowments can be used so that value for money is not put at risk and such endowment should be reported to Parliament as integral to the Transparency agenda.	The Government agrees with the Committee's recommendation. Target implementation date: 2013.	Guidance on the use of endowments is contained in Managing Public Money (MPM) Annex 5.1. MPM confirms that, exceptionally, funding by endowment may be made to enable the recipient to set up a fund from which to draw down over several years and which would allow a clean break from the need for further support. Endowments should only be made where there is a robust value for money case for doing so. As with any form of advance payment, endowments should not be made to circumvent public spending controls, or to avoid under spending. MPM is currently being refreshed. It will make clearer that endowments should not be used to avoid under spends at the end of the year. The Treasury will also include a requirement for departments to notify Parliament by Written Ministerial Statement of any endowments above the Parliamentary notification threshold.
5 The Fund set far too low a threshold for acceptable value for money in the selection of projects and programmes. The value for money threshold only required the projects' economic benefits to outweigh the public cost. This low hurdle allowed significant leeway to select projects that offered, at best, marginal benefits for the taxpayer. While 75 per cent of the projects had a cost per job of £60,000 or less, many cost significantly more – in some cases over £200,000 per net additional job. The departments confirmed that some projects were chosen for reasons other than value for money in cost per job terms, such as their location, or assumptions about wider benefits. The Committee does not consider that the way these broader judgements were applied was sufficiently clear or transparent. For future bidding rounds the 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.	The Government disagrees with the Committee's recommendation.	The Government considers that introducing an artificial value for money threshold at appraisal stage, as proposed by the Committee, would increase the risk that good projects and programmes capable of delivering on the objectives of the fund in a cost-effective manner would be sifted out ahead of due-diligence and contracting. As part of the RGF process, the contracting stage including negotiations as part of due diligence provides the opportunity to improve value for money for any project/programme selected, including lowering the cost per job. The Committee should also note that the NAO recognised that cost alone was not the only factor to be considered and that wider economic benefits play a significant part in each decision: this is made clear on the RGF website. Each appraisal clearly shows a number of factors required to support the decision-making process including benefit cost ratio and net cost per job. The Accounting Officer has indicated in all three rounds that he would seek a Ministerial Direction on any projects/programmes chosen by the Ministerial Panel where the benefit cost ratio was less than one. However it is inaccurate to describe this as a hurdle that, if passed, would automatically lead to RGF grant being offered. There has never been a requirement to use this mechanism.

Committee recommendations[1]	Departments' response[2]	
6 It is unacceptable that the Department for Communities and Local Government and the Department for Business, Innovation and Skills do not yet have a clear plan for evaluating the Fund's impact. Despite decades of experience with similar initiatives, the departments involved do not know how they will evaluate the Fund. There is a risk that the Fund's total costs and the wider benefits claimed will not be measured accurately if they do not promptly define what data they need to collect. Plans should have been in place before money was released so that a comparative baseline could be established. The Department for Communities and Local Government and the Department for Business, Innovation and Skills should accelerate work on the Fund's plans to evaluate impact and set out how it intends to do so in detail in a letter to us by the end of the year.	The Government agrees with the Committee's recommendation. Target implementation date: November 2013.	All RGF awards are monitored quarterly against specific key performance indicators (KPIs) that reflect the objectives of the Fund. This robust monitoring data will be the foundation of the future evaluation of the impact of RGF. In parallel BIS and DCLG are working with expert third parties such as the London School of Economics (LSE) to develop an economic evaluation model that will take the monitoring as an input. Work to establish appropriate controls will need to be completed before the evaluation model can be finalised. We expect that this work stream will be complete by November 2013, well in advance of the interim evaluation that is scheduled for 2015. The RGF Secretariat will publish an annual monitoring report in Spring 2013, demonstrating what projects have actually delivered against what they were expected to deliver, as set out in their final offers.
7 It is not clear how the Fund is aligned to other programmes promoting growth, which rely on local expertise to select the right projects for the local area. It is not clear how a decision-making system based on central, national panels can make the best decisions for particular localities. Nor is it clear how the money from the Fund is aligned with other growth programmes, such as the Growing Places Fund, which rely on local decision-making. The Department for Communities and Local Government and the Department for Business, Innovation and Skills should improve consultation with local bodies, such as Local Enterprise Partnerships, for future rounds of the Fund and clarify arrangements for oversight and coordination of local growth initiatives.	The Government agrees with the Committee's recommendation. Recommendation implemented.	The Government disagrees with the Committee's conclusion that RGF is not aligned with other programmes promoting growth. RGF is already aligned with other cross-Government priorities including the Industrial Strategy and Growth policy and maintains contact with all interested parties through regular meetings. Over the course of the different rounds, the role of Local Enterprise Partnerships (LEPs) has increased as they have become more established, from endorsing the projects and programmes within their region to applying to the fund to run programmes where they can support their companies. The Secretaries of State for BIS and DCLG wrote to all LEP Chairs in February 2012 encouraging them to get involved in RGF Round 3 bids in their area. Half of all 414 bids were endorsed by LEPs and 25 bids were submitted directly from LEPs. In Round 3 a total of 29 LEP bids were selected to a value of £378 million. The City Deals process seeks to harmonise arrangements for oversight and co-ordination with Local Growth Initiatives, including RGF, Growing Places Fund and wider LEP priorities.

Notes

1 HC Committee of Public Accounts, *The Regional Growth Fund*, Fifth Report of Session 2012-13, HC 104, September 2012.

2 HM Treasury, *Government responses on the Fifth, the Eleventh to the Thirteenth and the Fifteenth to the Sixteenth Reports from the Committee of Public Accounts*, Cm 8534, Session 2012-13, January 2013.

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