National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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The Regional Growth Fund

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The Regional Growth Fund

Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

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This report covers the £1.4 billion allocated to projects in 2011, in the Fund's first two bidding rounds. Our objective was to assess whether it will be spent cost-effectively, meeting the Fund's objectives

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This report can be found on the National Audit Office website at www.nao.org.uk/regional_growth_fund

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Key facts

£1.4bn	328,000	41,000	£33,000
of public money was allocated to the Regional Growth Fund in the October 2010 Spending Review	jobs could be created or safeguarded in total, by projects and programmes receiving support from the Regional Growth Fund	more full-time-equivalent jobs could be created or safeguarded than without the Regional Growth Fund	is the average cost of each full-time-equivalent job

£1.4 billion	was allocated to projects in the Regional Growth Fund's first two bidding rounds, covered by this report, to be used by projects over three years between 2011-12 and 2013-14
328,000	jobs could be created or safeguarded in total, during the lifetime of successful projects and programmes supported by the Fund, according to bidders
117,000	gross full-time-equivalent jobs are forecast to be written into final offer letters with successful bidders
41,000	full-time-equivalent jobs could be created or safeguarded over and above what might have happened without the Fund, according to government analysis of the successful bids
£33,000	is the average cost of delivering each net additional full-time-equivalent job
7 years	is the average period these jobs are forecast to last
£1 billion	additional funding was allocated to the Regional Growth Fund in the Chancellor's *Autumn Statement* in November 2011

Summary

1 The Government wants to see strong, sustainable and balanced growth that is more evenly shared across the country and between industries. It also wants to rely less on the public sector for employment. Meeting these objectives in the current economic climate will be challenging. Places that rely on the public sector may suffer more from spending cuts and also lack the strong private sector needed to generate new employment and growth.

2 In its emergency budget of June 2010, the Government established a Regional Growth Fund (the Fund) with two objectives:

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

The Fund is part of the Government's wider strategy for local economic growth, which is set out in the 2010 *Local Growth* White Paper and the 2011 *Plan for Growth*.

3 Private sector firms or public–private partnerships were invited to bid for a share of the £1.4 billion Fund for projects that supported its objectives, and which would not otherwise have gone ahead. Applicants had to bid for at least £1 million.

4 The Government initially allocated the Fund £1 billion to be spent between April 2011 and March 2014, increasing this to £1.4 billion in the October 2010 Spending Review. The Government set out in the 2010 *Local Growth* White Paper an expectation that the £1.4 billion would be allocated in at least three bidding rounds. In the event only two rounds were held. In the first round, which closed in January 2011, 464 applicants bid for a total of £2.8 billion funding and £450 million was allocated to 50 projects. In the second round, which closed in July 2011, 492 applicants bid for £3.3 billion funding and £950 million was allocated to 169 projects. A third bidding round offering an additional £1 billion has been opened, with applications to be received by mid-June 2012.

5 Ministers identified which bids should be shortlisted and, following detailed appraisal of the shortlisted bids, decided which projects should be conditionally allocated funding. Ministers were advised by an independent advisory panel, chaired by Lord Heseltine, with further information, analysis and support provided by a small cross-departmental secretariat of officials (the Secretariat). A single Accounting Officer (the Permanent Secretary for the Department for Communities and Local Government) is responsible for delivering value for money.

6 After the appraisal phase, the Secretariat entered into detailed discussions with bidders on the precise terms and conditions attached to payments from the Fund. Each project was then subject to due diligence, in which the company delivering the project must demonstrate its fitness to be a recipient to an independent reviewer.

7 The Chancellor of the Exchequer allocated a further £1 billion to the Fund in November 2011, to be spent between April 2012 and March 2015.

8 This report covers the £1.4 billion allocated to projects in 2011, in the Fund's first two bidding rounds. Our objective was to assess whether it will be spent cost-effectively, meeting the Fund's objectives. In assessing value for money we considered whether the projects selected offer the best achievable outcome and whether the supporting administrative arrangements were robust. We did not assess the individual projects. More information on the bids is available from the Department for Business, Innovation and Skills website. Appendix One summarises our methodology and further details are available on our website.

Key findings

How well the projects selected meet the Fund's objectives

9 **The bids selected offer substantially better returns than those that were not selected.** We found that the projects and programmes selected should be more cost-effective, overall, than those not selected, producing substantially more employment for the same resource invested. The Secretariat's economic appraisal of shortlisted bids followed established good practice guidance and generated a significant volume of useful, standardised information. The information included relevant measures, such as project location, expected gross and net additional jobs, the grant requested, and the ratio of public-to-private investment.

10 Projects selected support private sector jobs in places that rely more on the public sector, in line with the Fund's objectives. A key measure of the Fund's success is how well it was targeted at areas in greatest need. The Secretariat developed appropriate statistical methods to assess whether potential projects were located in areas of relatively high need. Based on this assessment, projects selected for support are generally located in places that are relatively more vulnerable to public sector job losses. We cannot say yet what the Fund's overall contribution will be to the broader aim of rebalancing the economy in any particular area in the longer term. Evaluations of similar programmes indicate that the sustainability of a boost to private sector employment locally will depend on other factors such as business productivity, the cost and availability of housing and other amenities, and local skills levels.

The number of jobs supported by the Fund

11 The Secretariat's review of bids indicated that the projects the Fund is supporting could create or safeguard 328,000 jobs. This was an estimate of the maximum number of jobs over projects' lifetimes. Each job was counted equally, regardless of how long it was expected to last. Around 20 per cent of these jobs would be created directly by supported projects. The remainder would be created indirectly, through programmes, or where bidders identified potential for knock-on employment effects in their supply chains. It will be difficult to monitor these wider indirect impacts, which will make evaluating the Fund's total impact harder.

12 The Government expects to receive firm commitments from successful bidders to deliver 117,000 full-time-equivalent jobs. The Secretariat's final offers to successful bidders are conditional on the average number of jobs maintained over the full course of each project. The average duration of projects is expected to be at least seven years.

13 Not all the jobs delivered will be 'additional'. Some of the jobs might have been created or safeguarded anyway, and assisting one firm over another might affect markets and competition. The Secretariat made reasonable assumptions about these factors and also the risk that projects might not deliver as intended.

14 Taking account of these factors there could be 41,000 more full-time-equivalent jobs in the economy than without the Fund. Estimates of bids' net additional effects were presented to Ministers to help them choose which projects to support.

The public sector cost of jobs created or safeguarded

15 **If the Fund delivers in line with expectations, the average cost to the Fund of each net additional job would be £33,000.** It is difficult to benchmark this cost against the cost per net additional job of similar previous programmes because evaluations do not contain strictly comparable information. However, based on the information available, a cost of £33,000 per net additional job is similar to the cost per net additional job achieved by programmes with comparable objectives.

16 **Over 90 per cent of the net additional jobs could have been delivered for 75 per cent of the cost, with the cost of each job then being £26,000. The cost per net additional job supported by the Fund varies from under £4,000 to over £200,000.** The National Audit Office defines value for money as the optimal use of resources to achieve the intended outcomes. Optimising value for money from the Fund would have meant creating as many jobs as reasonably possible in vulnerable areas. However, a significant portion of the £1.4 billion was allocated to projects that create or safeguard relatively few jobs for the money invested. For example, the 27 least cost-effective awards – totalling some £160 million – will cost the Fund £106,000 per net additional job.

17 **Holding three or more rounds to generate more cost-effective bids was an option but in the event only two rounds were held.** The Fund's Accounting Officer reported that Ministers judged that there were sufficient good-quality bids in the first two rounds to avoid the need for a third. In reaching this conclusion Ministers considered a wide range of factors including whether there were vulnerable areas that were not covered by more cost-effective bids. The Secretariat told us that in cases where the appraisal suggested lower value for money, they considered the potential to improve value for money through the detailed negotiation of projects' terms and conditions and due diligence. However, our analysis indicates that a significant number of projects in the first two rounds performed relatively poorly on criteria such as the amount of additional employment supported and the ratio of economic benefits to public costs, and the way in which the broader criteria described above were defined and applied is not clear enough to allow us to determine, on review, whether they should have outweighed objective considerations or not.

18 **The Fund's Accounting Officer advised Ministers that the Fund should only support projects where the projected economic benefits outweighed the public cost. This filter provided limited challenge to bids' cost-effectiveness.** Projects where the total economic benefits exceed the cost of public funding can still have a very high public cost per job, on which no upper limit was placed.

Getting the projects up and running

19 Around a third of successful projects had received final offers of funding at March 2012. Despite the scale of the task involved in assessing hundreds of bids and turning conditional offers into formal final offers, no administration budget was identified for the Fund at the outset. Officials collaborated effectively across departments and worked hard to manage competing pressures during the appraisal phase. However, agreeing terms and conditions of grants with successful bidders has taken the Secretariat significantly longer than expected. Finalising grant terms has been particularly time-consuming for projects where the initial value-for-money case was weaker. Delays at this stage have knock-on effects because due diligence cannot begin until significant progress has been made in agreeing grant terms and conditions. The pace at which the projects have been made final offers has, however, accelerated since December 2011.

20 The Secretariat could have retained greater control over the due diligence process. Beneficiaries bear the costs of due diligence and officials consider this encourages applicants to put in commercially sound bids. The risk of inconsistency in the level of assurance provided through due diligence could have been reduced had the Secretariat been more directly involved, for example by appointing specialists to review relevant bids.

Conclusion on value for money

21 If the Regional Growth Fund delivers as expected there will be 41,000 additional full-time-equivalent private sector jobs in the economy for seven years, supporting particularly those areas that currently rely more on the public sector. Bids were subject to standardised appraisal within competitive bidding rounds. Overall the projects selected should deliver jobs more cost-effectively for the taxpayer than the projects not selected. However, value for money was not optimised because a significant proportion of the Fund was allocated to projects that offered relatively few jobs for the public money invested. Applying tighter controls over the value for money offered by individual bids would improve the Fund's overall cost-effectiveness. Officials' time freed up from post-appraisal checks on projects where public money is providing fewer jobs could be spent on getting other projects up and running more quickly. Such an approach provides the prospect of better value for money and faster delivery from the further £1 billion allocated to the Fund in the Chancellor's November 2011 *Autumn Statement*.

Recommendations

22 We make the following recommendations to improve value for money from subsequent rounds of the Fund and identify broader lessons for programme management practice across government.

a **The Secretariat used standardised appraisal techniques to generate useful information to help Ministers choose between competing bids.** Departments, particularly the Department for Communities and Local Government and the Department for Business, Innovation and Skills, should embed good practices from the Fund's project appraisal methods more widely.

b **Applying tighter controls over value for money could improve the Fund's cost-effectiveness and allow officials to get projects up and running more quickly.** The Fund's management board, led by the nominated Accounting Officer, should:

- apply tighter controls over the value for money offered by individual bids, for example by comparing costs per job to evidence-based benchmarks, such as results achieved by similar projects and programmes;
- use funding flexibly, across smaller bidding rounds if necessary, to maximise the value obtained from public investment; and
- if value for money cannot be achieved through the Fund's competitive bidding process, consider whether alternative options could achieve the same objectives more cost-effectively.

c **Due diligence requires bidders to demonstrate their fitness as recipients of the Fund to an independent reviewer.** In future rounds of the Fund – and future programmes where appropriate – officials should explore ways to retain greater control of the due diligence process, where this could deliver sufficient assurance more efficiently.

d **The Fund did not have sufficient administrative resources to carry out all the necessary tasks quickly.** The Fund's Accounting Officer should make sure sufficient staff and resources are available to carry out all the necessary tasks in future bidding rounds. This is especially important if tasks like negotiating final offer letters and appraisal are expected to run in parallel.

e **Robust monitoring and evaluation will be required to validate the number of jobs created by the Fund.**

- The Secretariat should progress its draft evaluation strategy. Evaluation should begin while projects are being developed, to maximise the learning from experience.
- The Department for Business, Innovation and Skills and the Department for Communities and Local Government should develop and apply an evaluation framework and standard measures to improve the scope for drawing like-for-like comparisons between similar programmes.

Part One

Background to the Regional Growth Fund

Scope of this report

1.1 This report covers the £1.4 billion allocated in the Fund's first two bidding rounds. Part One sets out the background to the Fund. In assessing value for money we considered whether the Fund:

- will deliver jobs in places that rely more on the public sector, to meet its objectives, and whether it is having the largest possible impact that could reasonably be achieved (Part Two); and
- was well managed, focusing particularly on the bid appraisal process (Part Three).

1.2 Our work was based on data extracted at various stages of the bid appraisal process. We did not assess the individual projects. More information on the application process and the bids selected is available from the Department for Business, Innovation and Skills website.[1] A full statement and evaluation of the Fund's outcomes will not be possible until a significant number of projects have been implemented. We used a range of methods to examine the Fund's implementation to date. Our methods included qualitative methods to assess the efficiency of the Fund's administrative processes and quantitative methods, including statistical analysis, to assess the effectiveness of the Fund's appraisal processes and its cost-effectiveness. Appendix One summarises our methodology. Further details are available on our website.[2]

1 Available at www.bis.gov.uk/policies/economic-development/regional-growth-fund
2 Available at www.nao.org.uk

Background

1.3 The Government has stated that it wants "to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries".[3] Before the second quarter of 2008, UK Gross Domestic Product (GDP)[4] grew for almost 16 unbroken years. Much of this growth was concentrated in London and its neighbouring regions, and differences in economic performance between the regions persisted:

- **Figure 1** shows that economic performance, measured by Gross Value Added (GVA)[5] per head, was highest in London and the South East in both 2000 and 2010. GVA per head in London was one and a half times higher than England as a whole in 2010. GVA per head in the North East was only three-quarters that of England. Productivity is influenced by the types of industries operating locally and the types of roles available, both of which vary along with workers' skills levels. Research published by IPPR North (the Institute for Public Policy Research North) in 2011 indicated that in northern regions a lower proportion of the workforce is employed in managerial and professional occupations, and a higher proportion in sales, customer services and machine operative occupations, compared with the UK average.[6]

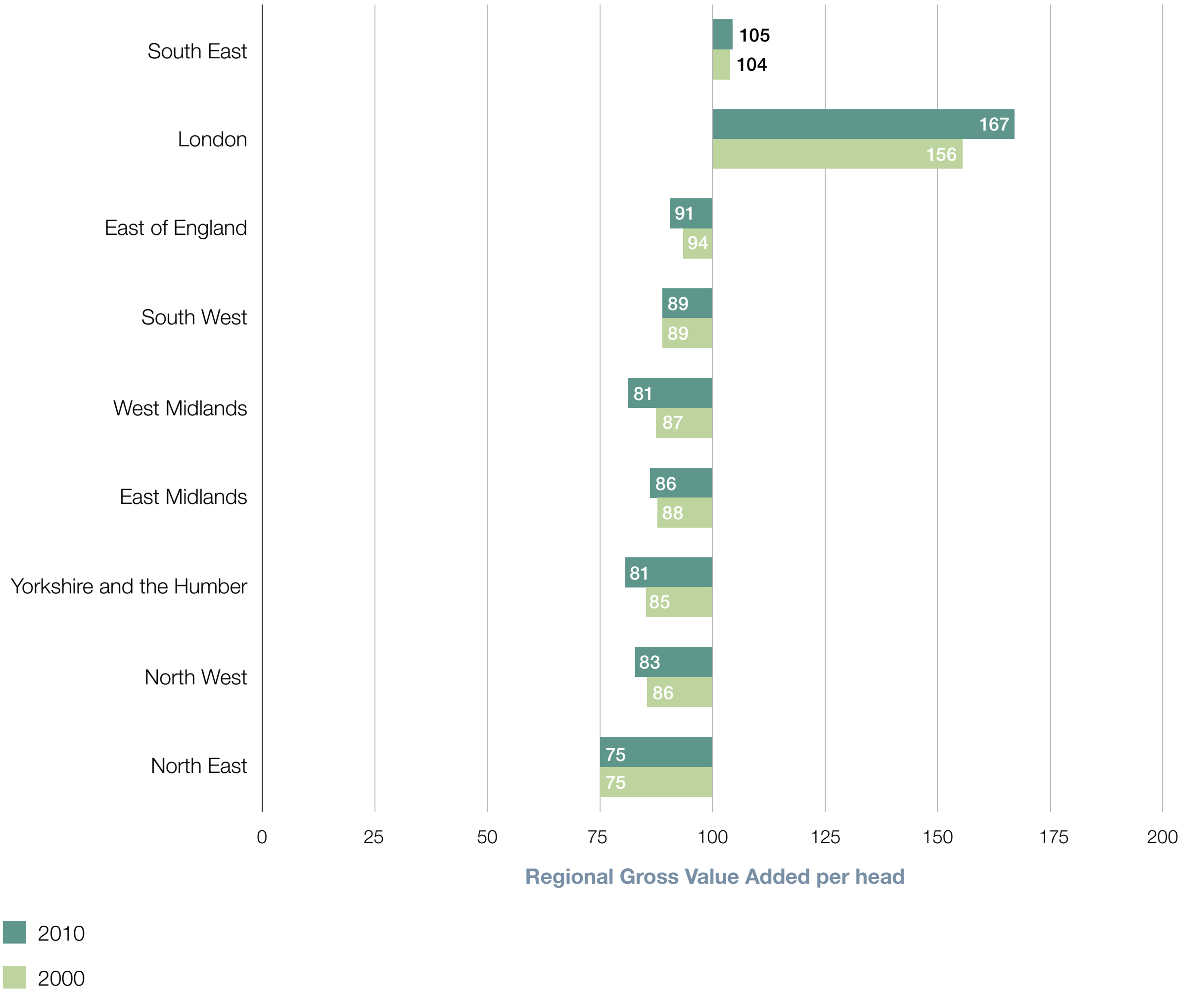
- **Figure 2** on page 14 shows that places where the economy has performed less well tend to have higher levels of unemployment. The North East had the highest levels of unemployment in the period August to October 2011, and the South East the lowest. London is an exception, as it has relatively high GVA but also relatively high unemployment levels. Regional statistics do not, however, show the large differences in economic performance within regions.[7]

1.4 The percentage of people employed in the public sector also varies. It is highest in the North East (25 per cent) and lowest in the South East and East (17 per cent).[8]

1.5 The Office for Budget Responsibility has forecast that around 710,000 jobs in the public sector could be lost between the first quarter of 2011 and the first quarter of 2017.[9] These job losses will impact particularly on those places where the public sector provides a larger proportion of employment. The Government is relying on the private sector to generate employment and growth. Places that do not have a dynamic private sector to offset public sector job losses could struggle to provide jobs and growth without support.

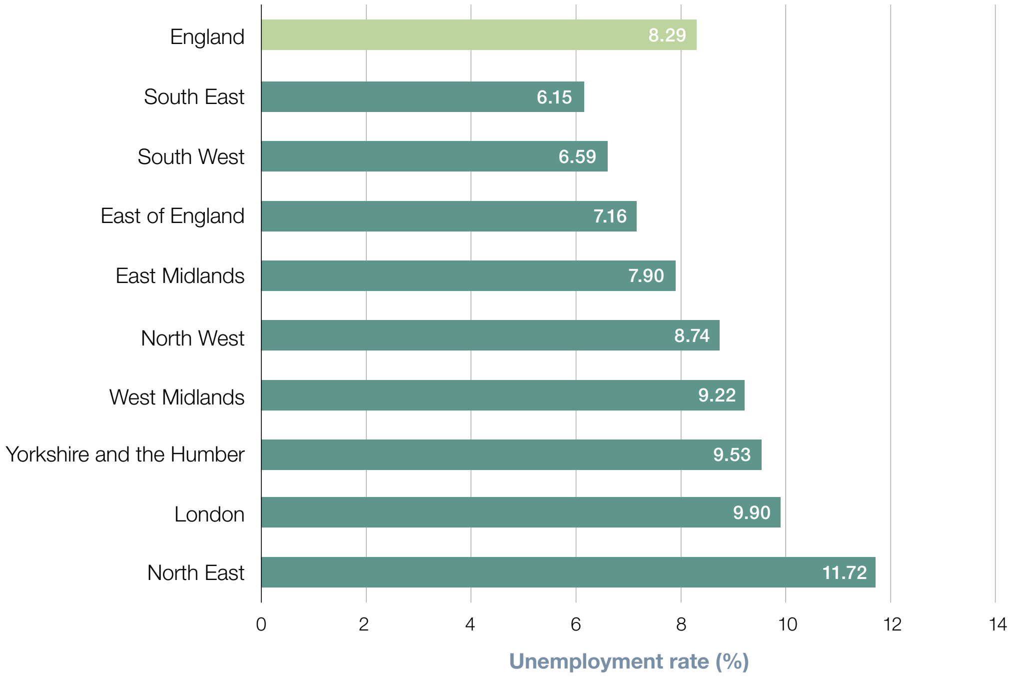
3 HM Treasury and Department for Business, Innovation and Skills, *The path to strong, sustainable and balanced growth,* November 2010.
4 Gross Domestic Product (GDP) is the final value of all goods and services produced within an economy in a given time period.
5 Gross Value Added (GVA) summarises economic performance considering both employment and productivity. It describes the difference between the total inputs and outputs across a given place, firm or worker and is typically used when comparing performance levels within and between places.
6 IPPR North, *Richer Yet Poorer: Economic inequality and polarisation in the North of England,* February 2011.
7 The Department for Business, Innovation and Skills produced an analysis of sub-regional economic differences in its October 2010 document *Understanding Local Growth* available at www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/u/10-1226-understanding-local-growth
8 Based on Office for National Statistics Labour Force Survey data for quarter two 2011 (not seasonally adjusted) rounded to the nearest per cent.
9 Office for Budget Responsibility, *Economic and fiscal outlook,* November 2011. The Office for Budget Responsibility estimate refers to general government employment, which includes all central and local government occupations but excludes public corporations.

Figure 1
Regional Gross Value Added per head, 2000 and 2010 (England=100)



Source: Office for National Statistics regional economic performance data

Figure 2
Regional unemployment rate, August–October 2011



Source: Office for National Statistics Labour Force Survey

The Regional Growth Fund

1.6 In June 2010's Emergency Budget, the Government announced plans for a Regional Growth Fund "to support increases in business employment and growth".[10] The Fund was launched by the Deputy Prime Minister with £1 billion, later increased to £1.4 billion in the October 2010 Spending Review. This funding was allocated over two bidding rounds and will be released to the successful bidders over three years from 2011-12 to 2013-14. The Chancellor of the Exchequer announced a further £1 billion funding as part of his 2011 *Autumn Statement.*[11] This will be allocated in additional bidding rounds to be released between 2012-13 and 2014-15. A third bidding round offering an additional £1 billion has been opened, with applications to be received by mid-June 2012. **Figure 3** shows the profile of the Fund's total budget.

10 HM Treasury, *Budget 2010,* HC 61, June 2010.
11 Available at www.hm-treasury.gov.uk/press_134_11.htm.

Figure 3
The Fund's budget 2011-12 to 2014-15

Department	Type of budget	2011-12 (£m)	2012-13 (£m)	2013-14 (£m)	2014-15 (£m)	Total (£m)
Department for Communities and Local Government	Capital	260	350	168	302	**1,080**
	Resource	215	189	416	–	**820**
Department for Business, Innovation and Skills	Capital	–	30	168	302	**500**
	Resource	–	–	–	–	**–**
Total		**475**	**569**	**752**	**604**	**2,400**

NOTES

1 The Fund's initial £1.4 billion was originally allocated across three departments (the Department for Communities and Local Government, the Department for Transport and the Department for Environment, Food and Rural Affairs). Funding was transferred in the 2011-12 Spring Supplementary Estimates so that all funding was allocated to the Department for Communities and Local Government.

2 The further £1 billion allocated to the Fund in the Chancellor's November 2011 *Autumn Statement* was split equally between the Department for Communities and Local Government and the Department for Business, Innovation and Skills.

3 These figures are in cash terms.

Source: Department for Communities and Local Government

1.7 The Government established the Fund's specific objectives as:[12]

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

1.8 The Fund is part of the Government's wider strategy for local economic growth, which is set out in the 2010 *Local Growth* White Paper and the 2011 *Plan for Growth*.[13] The Government's objectives are to:

- "shift power to local communities and business, enabling places to tailor their approach to local circumstances;
- promote efficient and dynamic markets, in particular in the supply of land, and provide real and significant incentives for places that go for growth; and
- support investment in places and people to tackle the barriers to growth".

12 HM Government, *Consultation on the Regional Growth Fund*, July 2010.
13 HM Government, *Local growth: realising every place's potential,* Cm 7961, October 2010; and HM Treasury and the Department for Business, Innovation and Skills, *The Plan for Growth,* March 2011.

1.9 To qualify for support from the Fund, applicants needed to bid for at least £1 million and demonstrate that their proposals would:

- create additional sustainable private sector growth;
- rebalance the economy in areas dependent on the public sector; and
- not otherwise go ahead without support from the Fund.

1.10 The Fund is a ‘challenge fund’, so money is allocated to bids competitively. Ministers decide which projects to fund based on recommendations from an independent advisory panel, chaired by Lord Heseltine, and information from officials. The Fund’s Accounting Officer, at this time the Permanent Secretary for the Department for Communities and Local Government, has overall accountability for ensuring delivery of value for money from the Fund. The Secretary of State for Business, Innovation and Skills has ministerial accountability.

Part Two

Expected results from the Regional Growth Fund

2.1 This part of the report examines the results expected from the Fund. We considered whether these results represent cost-effective delivery against its stated objectives.

2.2 The Government set out in its 2010 *Local Growth* White Paper an expectation that the £1.4 billion Fund would be allocated in at least three bidding rounds.[14] In the event only two rounds were held. In the first round, which closed in January 2011, the Secretariat received 464 bids, for a total of £2.8 billion funding, and Ministers conditionally allocated £450 million to 50 projects and packages of smaller projects. In the second round, which closed in July 2011, 492 bids were received requesting £3.3 billion funding, and £950 million was allocated to 169 projects, programmes and packages of smaller projects.[15]

Jobs created or safeguarded

2.3 An important measure of the Fund's success will be the number of additional jobs it creates. Figures from the bids indicated that the Fund could support approximately 328,000 jobs. The composition of those jobs is split between rounds one and two as follows:

- In round one, bidders estimated that **127,000** jobs would be created, of which 27,000 would be created or safeguarded directly. The remaining 100,000 would be 'indirect' jobs (those created through grants to projects or programmes that provide support to businesses and those created through knock-on effects in the supply chain, for example).
- In round two, bidders estimated that **201,000** jobs would be created or safeguarded, comprising 37,000 direct and 164,000 indirect jobs.
- Overall 64,000 of the jobs, around 20 per cent, would be created or safeguarded directly, with the remaining 264,000, or 80 per cent, being indirect.

14 HM Government, *Local growth: realising every place's potential*, Cm 7961, October 2010.
15 In this report we count a project as each activity for which a decision to award funding was made. Some published departmental data treats multiple awards as a single project, for example where projects are related or packaged as a programme.

2.4 The Secretariat currently expects to agree final offer letters securing approximately 117,000 full-time-equivalent jobs (the equivalent number of jobs providing 30 hours or more of work per week). The number of full-time-equivalent jobs in final offer letters is less than the total number of jobs created because:

- the conditions set out in final offer letters are generally based on the average number of full-time-equivalent positions maintained over the project's life, rather than the number of jobs created during the project – in reality some jobs will last less than the project's lifetime. For example, construction jobs may only be supported in the early stages of a project; and
- not all of the indirect jobs created or safeguarded can be written into offer letters. For example, where bidders estimated the number of local jobs that may be supported through a transport project, these were considered but will not form part of the detailed terms and conditions against which bidders' performance will be monitored.

2.5 Not all the jobs created or safeguarded, whether direct or indirect, will be 'additional'. Some would probably have been created or safeguarded anyway, because there is always a possibility that firms might have made the investment without public support, or would have found alternative support. Also, assisting one firm could generate a competitive advantage over its rivals, decreasing competition in the wider market. **Figure 4** outlines several factors that could influence the difference between the gross and net additional number of jobs created or safeguarded, which affect all government interventions to some degree.

Figure 4
Additionality – common reasons for differences between gross and net additional impacts of economic development and employment programmes

Gross jobs The total number of jobs created or safeguarded by projects receiving funding	minus	**The effects of** **Deadweight** Jobs or projects that would have happened without the Fund **Displacement** Beneficiaries take market share or use scarce resources, leading to job losses elsewhere **Leakage** Jobs taken by people or places that were not intended to benefit **Substitution** Following recruitment to a funded project, someone else loses their job	equals	**Net additional jobs** The number of jobs created or safeguarded over and above what might have happened without the Fund

Source: National Audit Office

2.6 Taking the Secretariat's estimates of these factors – and risk – into account, the first £1.4 billion of the Regional Growth Fund could create, safeguard or support the equivalent of 41,000 net additional jobs, including both direct (13,000) and indirect (28,000) jobs. This is the number of full-time-equivalent jobs lasting the average economic life of all projects, which is around seven years.

2.7 The Secretariat developed estimates for the Fund's level of additionality (the proportion of jobs that are additional as outlined in Figure 4) using uncertainty analysis techniques. This provided a range of possible results by assigning different probabilities to a range of variables. This is good practice because it shows uncertainty around predicted results and helps inform decision-makers about levels of risk. Benchmarks from similar programmes suggest that additionality levels of between 30 and 50 per cent are typical. The Secretariat's analysis indicates that the additionality of the majority of the projects successful in the first two bidding rounds should be within a similar range.[16] This means that the Secretariat recognised that in many projects around half or more of the expected impact might have happened anyway, or could be offset by adverse effects elsewhere. Rigorous evaluation is required to establish the additionality of the outturn results.

2.8 The Secretariat's analysis indicates that a third of the Fund's net additional jobs (13,000) will come directly from supported projects. The remainder (28,000) are expected to be delivered indirectly. Many of these are from programmes where an intermediary, such as a bank, will make grants or loans to other businesses. Others are expected to be created through knock-on effects in supply chains and the wider economy. For example, a transport project could create construction jobs directly, but support other local jobs indirectly. Applicants to the Fund were asked to estimate how many of these indirect jobs they thought their projects would support. The Secretariat considered both types of job in assessing projects' potential impact. It is reasonable for the Secretariat to have considered this kind of broader impact given the Fund's objectives. Verifying the precise number of indirect jobs that have been delivered will however be difficult, and will require detailed evaluation of both the Fund overall, and of the sub-programmes that are expected to deliver many of the indirect jobs.

16 The Secretariat's appraisals indicated that 50 per cent of the bids selected in the first two bidding rounds had additionality levels of between 30 and 50 per cent, and 80 per cent of bids had additionality levels between 25 and 55 per cent.

The types of projects and programmes supported

2.9 The Fund will support a wide variety of projects, operating across a number of economic sectors. **Figure 5** illustrates the types of projects that have been supported and the total number of full-time-equivalent jobs that these projects are expected to deliver.

- More than half the jobs will be created by projects that provide support to small and medium-sized businesses, which were allocated nearly £400 million. These projects typically involve the Fund granting money to a bank or other intermediary, which will then use the money to make grants or finance available to assist business development.
- Around half the projects are direct grants or loans to individual businesses, typically to support investment in new capital assets, product research and development or training. Seventeen projects will support the automotive industry by investing in both large established manufacturers and smaller firms that supply components.
- The Fund will also support economic and social infrastructure projects such as housing, roads, ports, and energy and waste facilities. These projects may deliver wider impacts in addition to the immediate employment boost.
- A small number of bidders will establish programmes using grants or endowments from the Fund. These include bids from Local Enterprise Partnerships to establish longer-term job creation programmes in their local areas.

Creating jobs in areas of most need

2.10 A key measure of the Fund's success is how well it was targeted at areas in greatest need. The Fund is not an 'area-based initiative' focused on pre-defined geographies, such as electoral wards or postcodes but instead considers relative need alongside other factors.

2.11 The Secretariat developed a 'location coefficient' to categorise applications according to the relative vulnerability of each project's location to public sector job losses. This coefficient combined four measures:

- the benefits claimant count (a proxy for the level of economic inactivity or unemployment);
- the share of employment in the public sector;
- the extent of private sector jobs growth in the five years before the downturn (2003 to 2008); and
- the number of active enterprises per head of population in 2008 (the most recent available at the time).

Figure 5
Share of funding and expected gross jobs by type of project

Type of project	Number of projects	Total funding (£m)	Total funding (%)	Gross contracted jobs expected	Gross contracted jobs expected (%)
Access to finance	22	396	30	61,500	53
Economic and social infrastructure	40	337	25	12,300	11
Business support and development	97	302	23	23,600	20
Automotive	17	148	11	13,300	11
Programmes	11	142	11	4,600	4
Packages of smaller projects	30	12	1	1,600	1
Total	**217**	**1,337**	**100**	**117,000**	**100**

NOTES

1 Total funding is less than £1.4 billion and the total number of projects less than 219 because: the table excludes two projects provisionally allocated funding that later withdrew from the process; and total funding reflects known changes in amounts awarded to individual projects after they were made conditional offers.

2 Funding and gross jobs represent amounts expected to be written into final offer letters as at December 2011. Funding levels and gross jobs may change prior to final offer letters being awarded.

3 Packages of smaller projects are groups of projects, which might individually be under the minimum Fund grant threshold of £1 million, typically themed around projects in similar sectors or places. We have counted each small project separately.

4 Figures may not sum due to rounding.

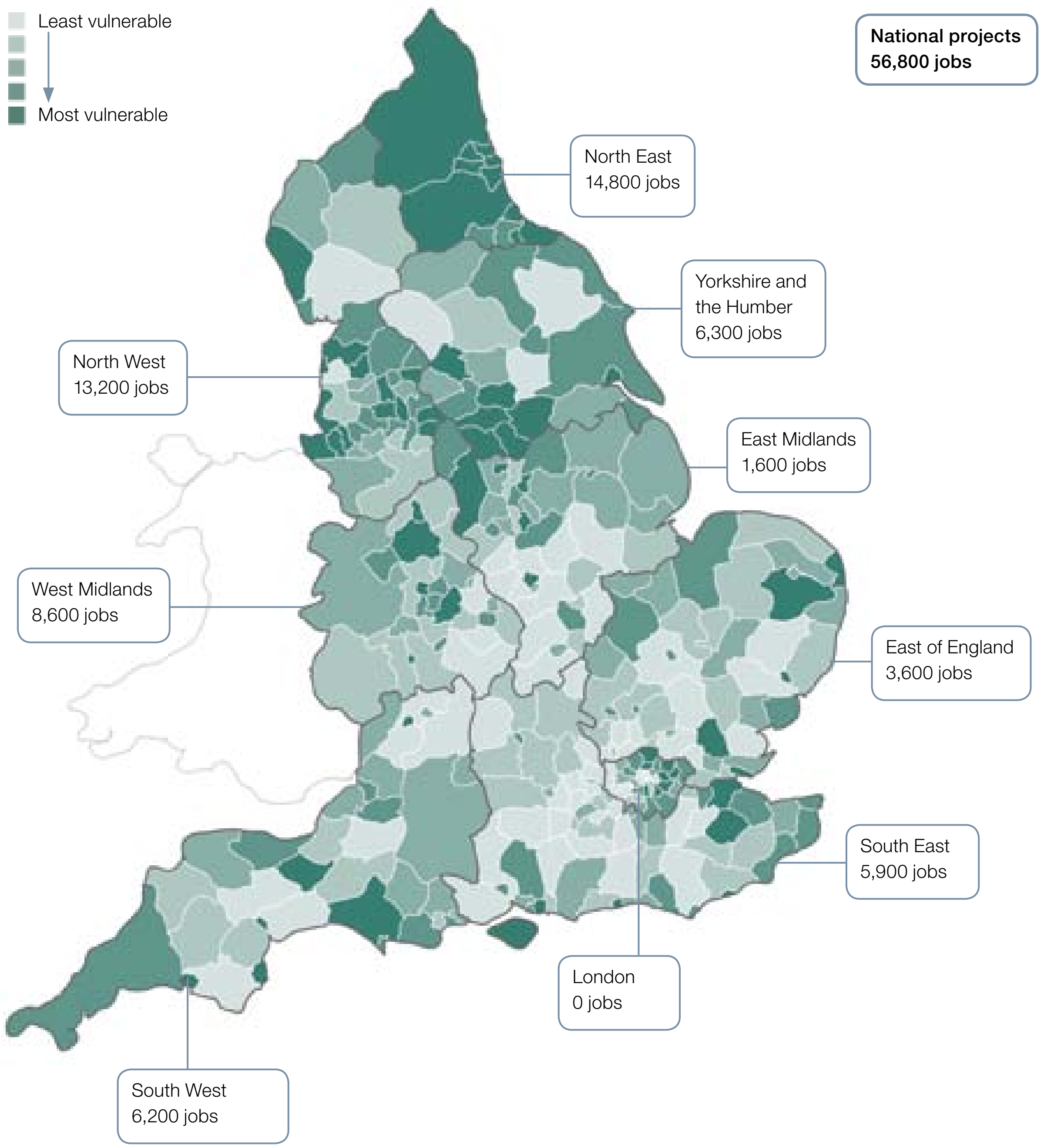
Source: National Audit Office analysis of Secretariat data and bid information

2.12 Data were based on district and unitary local authority areas. As **Figure 6** overleaf shows, many of the places ranked as the most vulnerable are concentrated in the North of England. The North East, in particular, has a high density of more vulnerable places. But there are some vulnerable areas in every region, including London (particularly East London) and the South East. Some bidders expected projects to impact on more than one local authority area. In these cases, the Secretariat created a nominal location reflecting the combined characteristics of the different places and compared this with actual local authority areas to arrive at an equivalent rank.

2.13 We found that overall the locations of projects chosen for support were weighted towards more vulnerable areas. The average location rank of projects that received funding was 77 (where 1 is the most vulnerable local authority area and 326 the least). This indicates that projects selected are more likely to be located in places that are more vulnerable to public sector job losses. As Figure 6 shows, more of the jobs created or safeguarded are expected to be located in the North and Midlands. None of the jobs are expected to be located in London, reflecting in part a low number of London-based bids. However, the regional job distribution does not include the potential job impacts of national projects, which cannot yet be ascribed to any particular region.

Figure 6

Vulnerability to public sector job losses by local authority area, and gross full-time-equivalent jobs expected to be contracted for by region



NOTES

1. Shaded areas represent lower-tier (district) and single-tier local authority areas, based on a combined index created by the Department for Business, Innovation and Skills and the Department for Communities and Local Government to help target the Fund. The index double-weighted the public sector dependency measure, relative to measures of economic inactivity, the number of active enterprises and the rate of private sector jobs growth.
2. Jobs shown are expected gross jobs written into final offer letters, currently expected to be 117,000. Final numbers are subject to the outcome of negotiations and due diligence.

Source: National Audit Office analysis of Secretariat data

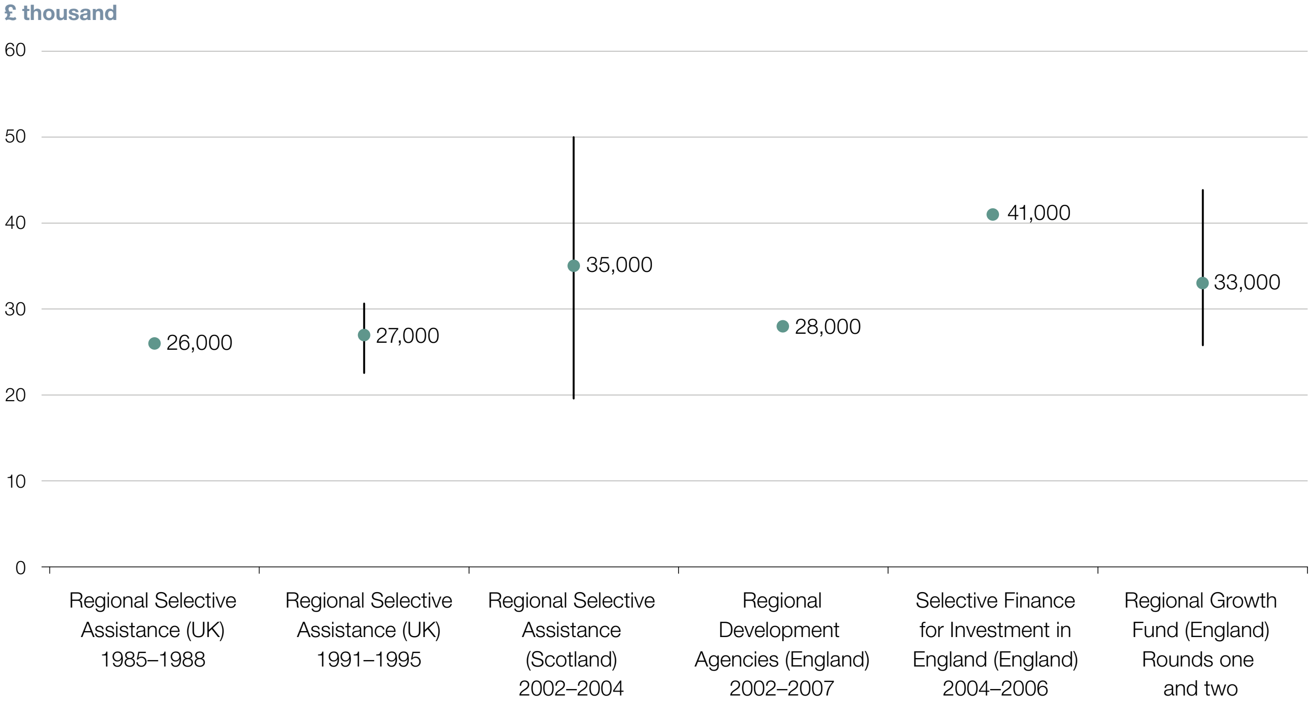
Cost-effectiveness of the Fund

2.14 Our analysis indicates that the average cost of each of the expected 41,000 net additional full-time-equivalent jobs created or safeguarded would be around £33,000. This cost varies considerably for individual projects, from under £4,000 to over £200,000. The cost per expected net additional year of employment varies by project from less than £1,000 to over £60,000, although for the majority of projects (80 per cent) this cost is expected to be less than £10,000. The ratio of private-to-public investment, referred to as 'leverage', similarly varies between individual projects and programmes, from less than £1 of private investment expected per £1 from the Fund, to over £19. The average amount for the first two bidding rounds together is around £6 of private investment expected, for every £1 from the Fund. However, our analysis indicated that there was no strong relationship between the ratio of private-to-public investment and the direct cost to the Fund of creating and safeguarding jobs.

2.15 We compared the Fund's expected cost per net additional job with results achieved through similar programmes. **Figure 7** overleaf shows the average cost per net additional job indicated in evaluations of a selection of similar programmes and the upper and lower range around that average, where identified. This indicates that if the Fund delivers in line with expectations, the cost per net additional job created or safeguarded by the Fund would be within the range created by similar programmes. We cannot draw more definitive conclusions because the wide variation in methods used in these evaluations to calculate costs per job means we are not comparing like with like. Not all the evaluations contain sufficient detail for us to adjust cost per net additional job figures for factors such as how long jobs lasted. Also, the figures for the Fund are, at this stage, only estimates of the potential results. Subsequent evaluation will need to establish the outturn cost per net additional job, accounting for factors such as the actual amount of grants paid. As paragraph 2.8 indicates, substantiating the Fund's results through evaluation is also key to determining how the cost per net additional job compares with that of other programmes.

Figure 7

Expected cost per net additional job generated by the Regional Growth Fund, compared with average cost per net additional job generated by similar programmes



NOTES

1 Ranges and point estimates for cost per job are those reported from the relevant published evaluation, where available, presented in 2010 prices. The price base for each evaluation was assumed to be the middle year of the evaluation timeframe.

2 Regional Development Agency figures refer to all activities. This was thought to be a better comparison than simply business support interventions because the Fund contains significant infrastructure investment and some regeneration projects and programmes.

3 Ranges reflect uncertainty about the additionality of jobs created in the evaluation timeframe and alternative methods for generating the estimates. Estimates are not standardised for the timing, duration or quality of jobs, because not all the evaluations provided sufficient information to perform these calculations.

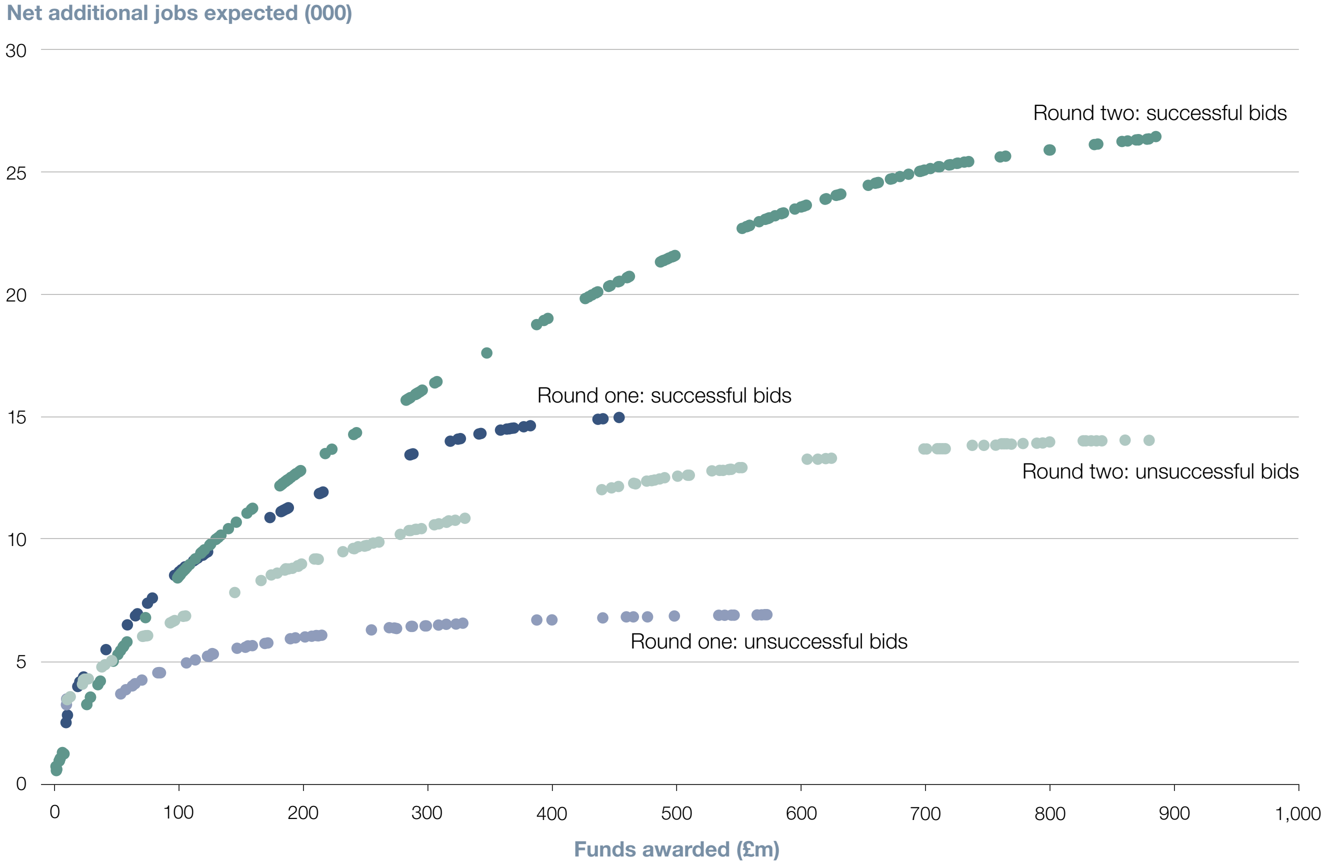
Source: Departmental evaluations and National Audit Office analysis of Fund bids

Maximising the Fund's impact

2.16 Figure 8 shows the cumulative number of net additional jobs created, against the funds awarded. This shows that in both bidding rounds a significant proportion of funding was allocated to projects that did not offer many net additional jobs in return. The appraisal process assessed the relative merits of each project against others in the same bidding round. While some variation in cost-effectiveness between projects is to be expected, the effect is significant. The broad pattern of a tailing-off of benefits, relative to funds awarded, is also evident when projects are placed in order of other measures such as the cost of each year of employment created.

Figure 8

Relative cost-effectiveness of successful and unsuccessful bids subjected to full appraisal



NOTES

1 Bids presented in ascending order of cost per net job expected. Both direct and indirect jobs are included.

2 The points in this graph reflect the projects provisionally selected for funding and known changes in the amounts awarded to individual projects. Some of the projects may change during offer letter negotiations and due diligence; others may not proceed.

Source: National Audit Office analysis of Secretariat project appraisals

2.17 The National Audit Office defines value for money as the optimal use of resources to achieve the intended outcomes. Had funding been allocated only to those projects promising the most net additional jobs relative to the cost, over 90 per cent of the net jobs expected from the full £1.4 billion could have been secured for around £1 billion (75 per cent of the funding actually allocated, taking account of changes to projects' terms and conditions after they were initially awarded funding). Each job would have cost around 20 per cent less: £26,000 compared to the £33,000 actually expected. This means that the Fund could potentially have been used to create a similar number of jobs, but at a lower average cost per net additional job. We identified that the least cost-effective 27 awards made from the Fund,[17] totalling some £160 million, will cost the Fund an average £106,000 per net additional job, or £20,000 per net additional year of employment.

17 We identified the least cost-effective awards by identifying all projects where the cost per net job is over £50,000, the cost per net job-year is over £10,000 and the ratio of economic benefits to public costs is less than 2:1, based on the Secretariat's economic appraisals of the bids.

2.18 The Secretariat reported that these less cost-effective awards were made:

- to achieve greater coverage of areas of need, when no alternative projects were available; or
- where they believed it would be possible to improve on the initial proposition through negotiation of the detailed terms and conditions attached to the project and due diligence. These processes could, in some cases, alter projects' cost, benefits, or both.

2.19 The Fund's Accounting Officer advised Ministers that they should only select projects where the Secretariat's estimate of the project's total net economic benefits outweighed the cost to the Fund. This advice was intended to provide an additional filter to protect against poor value for money. This filter provided little additional challenge to projects' cost-effectiveness. Our analysis, presented in Figure 8 and paragraphs 2.16 and 2.17, indicates that projects where the benefits outweigh the costs can still have very high costs per net additional job. However, no limit was put on the cost per net additional job. Making a significant number of less cost-effective awards reduced the cost-effectiveness of the Fund overall.

2.20 Holding back more of the money that was allocated less cost-effectively would have made funds available for at least one more bidding round. The Fund was originally earmarked for at least three bidding rounds.[18] In the event, only two rounds were held. The amount of funding made available for the first round was increased, from £250 million to £500 million, after bids had been received, but before the detailed analyses of projects had been completed. Ministers eventually allocated £450 million. The remainder of the £1.4 billion was allocated in the second bidding round. Holding back from allocating funds to weaker projects and holding a third bidding round could have encouraged more and stronger bids. Had achieving value for money in this way not been possible, officials should have considered whether using the Fund remained the best option for using public money to support vulnerable areas.

2.21 The Fund's Accounting Officer reported that Ministers judged that there were sufficient good-quality bids in the first two rounds to avoid the need for a third. In reaching this conclusion Ministers considered a wide range of factors, including those outlined in paragraph 2.18. However, our analysis indicates that a significant number of projects in the first two rounds performed relatively poorly on objective criteria such as the amount of additional employment supported and the ratio of economic benefits to public costs. The way in which the broader criteria described above were defined and applied is not clear enough to allow us to determine, on review, whether they should have outweighed objective considerations or not.

18 HM Government, *Local growth: realising every place's potential*, Cm 7961, October 2010.

2.22 Despite these issues, Figure 8 shows that the projects selected for funding are likely to be more cost-effective, overall, than those not selected, producing substantially more net additional employment for the same resource invested. This indicates that the anticipated potential for improving value for money by using competition between bids to improve value for money has been demonstrated, and that the appraisal process is fit for its intended purpose of determining more from less cost-effective projects, subject to the reservations outlined in paragraphs 2.17 to 2.20.

2.23 Some of the projects that were not selected for funding offered, on the face of it, better results for the Fund's investment than some of those selected. Our review of a sample of such cases indicated that these projects were usually rejected on other grounds, such as location, deliverability or contravention of European State Aid rules.[19]

The Fund's wider and longer-term impacts

2.24 Projects that the Fund is supporting will, in many cases, create wider benefits for the public and private sector than the immediate employment boost. For example, there are projects to provide economic and social infrastructure, such as roads or housing. The Secretariat considered these benefits as part of the project appraisal process.

2.25 The Fund's objectives also refer to creating sustainable employment. Sustainable was defined as employment lasting five years or more. While, on average, this should be achieved, we cannot say what the Fund's contribution will be to rebalancing the economy in any particular area in the longer term. Previous evaluations of similar programmes indicate that direct business support grants have a measurable effect on employment within assisted firms. The Fund has supported a wide variety of projects, including business support, infrastructure and regeneration projects. However, longer-term changes in local economies will depend on a wide range of factors, such as:

- the productivity of local businesses;
- the mix of local industries;
- the cost and availability of housing and other amenities; and
- local residents' skills levels.[20]

19 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 and Skills is responsible for coordination and development of UK State Aid policy.

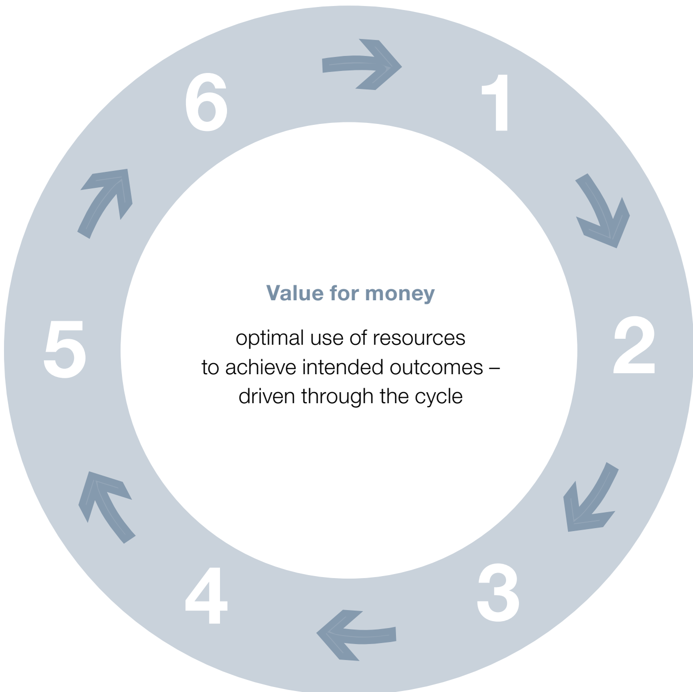
20 H Overman, 'Policies to help people in declining places' in *Strategies for underperforming places*, Spatial Economics Research Centre, February 2011, available at www.spatialeconomics.ac.uk/textonly/serc/publications/download/sercpp006.pdf and M Boddy et al. *Regional Productivity Differentials: Explaining the Gap*, available at http://people.bath.ac.uk/hssjrh/Regional%20Studies%20text%20912.doc.

Part Three

Managing the Regional Growth Fund

3.1 The National Audit Office expects value for money in public spending programmes to be driven through a core management cycle (**Figure 9**).

Figure 9
The core management cycle



1 Strategy
based on evidence with clear policy goals

2 Planning
with agreed priorities, resources, management information and programme management in place

3 Implementation
with good financial management, risk management, governance and controls in place

4 Measurement
of quality, delivery, costs and user experience against benchmarks and targets

5 Evaluation
of implementation against strategic goals

6 Feedback
amends priorities and informs future strategy and planning

Source: National Audit Office: A short guide to structured cost reduction, 2010

Strategy and planning

3.2 Public sector programmes should link clearly to government's strategic priorities, and identify measures of success to quantify their contribution. The Government established the Fund's overall objectives early in the new Parliament through an informal process, involving discussion between the Cabinet Office, HM Treasury and departments. These objectives were then subject to public consultation, the results of which were reflected in the 2010 *Local Growth* White Paper.[21]

3.3 The Fund's management board did not translate the Fund's high-level objectives into quantified, measurable success criteria for the Fund as a whole, nor were timescales for its expected impact established. Good practice dictates that departments should set clear, specific and measurable objectives for policy interventions, and formally appraise alternative options for achieving those results. Where programmes impact on business, these analyses are usually set out in an Impact Assessment. The Secretariat set out the key potential risks facing the Fund in a project initiation document and used modelling to identify staffing requirements for the appraisal and contracting phases. However, no full Impact Assessment or options appraisal for the Fund as a whole was completed.

Implementation

Appraising individual bids

3.4 The Fund was oversubscribed. In the first bidding round, 464 applicants submitted bids for a total of £2.8 billion. In the second round, 492 applicants submitted bids for a total of £3.3 billion. Rigorous bid appraisal was essential to increase the chances that projects selected maximised delivery against the Fund's objectives. To evaluate the detailed appraisal process, we considered whether:

- the Secretariat undertook robust assessments, using measures reflecting the Fund's objectives; and
- the projects selected are likely to perform better than those not selected, based on the information generated.

3.5 **Figure 10** overleaf shows the key stages in the Fund's appraisal process. There were four key elements:

- initial, independent sifts by Ministers and the independent advisory panel based on information provided by bidders;
- detailed appraisal of shortlisted projects by the Secretariat;
- recommendations to Ministers from the independent advisory panel; and
- decisions by Ministers on which projects should go ahead.

21 HM Government, *Local growth: realising every place's potential*, Cm 7961, October 2010.

Figure 10

The process for appraising and selecting bids to support through the Regional Growth Fund

Officials summarise bid information against criteria of the Fund

An independent advisory panel considers summary information and requests a more in-depth economic appraisal of those bids that they consider have the potential to best deliver on the Fund's objectives

Ministers consider summary information and the independent advisory panel shortlist and decide final shortlist of bids for economic appraisal

Officials complete economic appraisals and submit one-page summaries to the independent advisory panel

The independent advisory panel considers economic appraisals and recommends to Ministers which projects to fund

Ministers consider the independent advisory panel recommendations and make final decisions on the allocation of funding

All allocations are subject to confirmatory due diligence

Beneficiaries receive final offers

Source: Regional Growth Fund Secretariat

Undertaking robust project assessments

3.6 The detailed appraisal process reflects good practice, in line with HM Treasury's *Green Book*.[22] The Fund was explicitly open to a wide range of bidders and types of projects. Reflecting this, officials developed a standardised one-page project assessment pro forma, which reported projects' location, the expected direct and indirect jobs created or safeguarded, the cost of each net additional job year expected and other wider economic benefits. The pro forma also provided qualitative commentary on issues such as State Aid compliance and wider strategic fit with various departments' objectives. The Secretariat provided a range of measures, which was appropriate given that the Fund had to balance the expected benefits from projects, with their location. They also adjusted projects' costs and benefits for estimated additionality levels and risk, which is a positive feature of the appraisal process. These summary assessments of bids' net additional effects were presented to Ministers to help them choose which projects to support.

The influence of appraisal information on decision-making

3.7 We conducted statistical analyses to test how far project selection was informed by the information generated. As Figure 8 and paragraph 2.22 indicate, these tests show that the projects chosen outperform those not selected, on the whole, on a range of measures. The experiences and specific knowledge of the independent advisory panel and Ministers means a degree of judgement was also applied in the project selection process. We found no evidence that judgement had replaced the objective project appraisal process, which was applied to all shortlisted projects. However, as explained in paragraph 2.18, in some cases judgements outside the original appraisal criteria were applied, for example where projects were selected primarily because they were in areas that had not yet received support. While these considerations are not unreasonable, basing decisions on which bids to support on factors outside the objective appraisal criteria diluted the influence of the appraisal process.

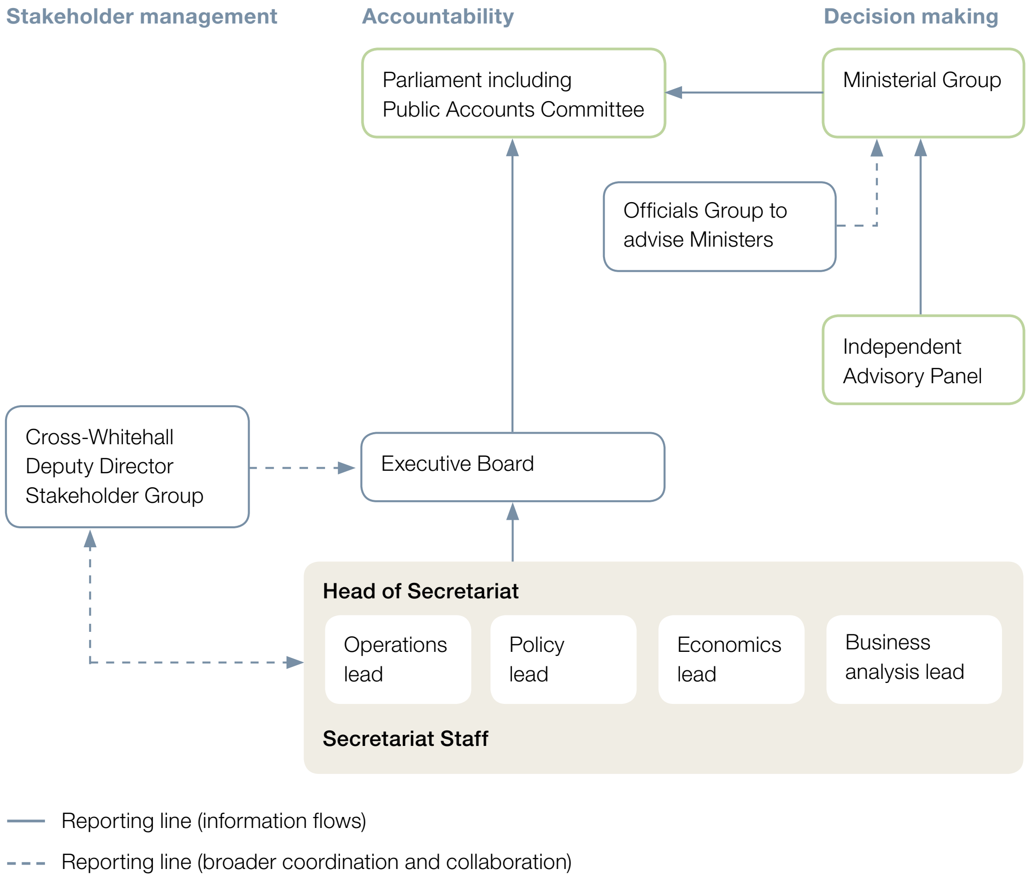
3.8 According to its terms of reference, the Fund's management board, chaired by the Accounting Officer, must make sure that the Fund provides value for money, as well as that it addresses its original objectives. The appraisal process provided a framework for assessing bids' costs and benefits but the absolute threshold for value for money from any project was set at a very low level (see paragraph 2.19). We would expect to have seen a more challenging target.

22 Good practice in project appraisal is set out in HM Treasury's *Green Book,* 2003, available at www.hm-treasury.gov.uk/d/green_book_complete.pdf. The principles of good performance measurement in public spending programmes are set out in HM Treasury, Cabinet Office, National Audit Office, Audit Commission and Office for National Statistics, *Choosing the right FABRIC: a framework for performance information,* March 2001. For further information see the National Audit Office's performance measurement pages: available at www.nao.org.uk/help_for_public_services/performance_measurement.aspx.

Governance and accountability

3.9 The Government intended the Fund's governance structure (**Figure 11**) to facilitate cross-departmental working and engagement and provide clear accountability from the outset. The cross-departmental working and engagement has been relatively successful, with each department able to contribute its expertise to appraising bids. The governance structure worked less well in promoting clear accountability. A memorandum of understanding, drafted by the Secretariat, proposed a single Accounting Officer (the Permanent Secretary for the Department for Communities and Local Government). However, this memorandum was not signed by all departments because of confusion over accountability for departmental contributions. Under the Fund, resources were to remain in departments' accounts until released to fund projects and programmes. There was a perceived lack of clarity about whether each accounting officer must provide assurance for particular projects supported by the Fund, or have joint proportionate responsibility for the Fund. In the event, departments have now transferred their funding to the Department for Communities and Local Government, which simplifies accountability arrangements and is less complex to administer.

Figure 11
The Fund's governance and accountability



Source: Regional Growth Fund Secretariat

Final offers and due diligence

3.10 After the appraisal phase, the Secretariat entered detailed discussions with bidders whose projects had been conditionally allocated funding. These discussions cover the precise terms and conditions of the funding, including which business activities are eligible for public support, and the timing and conditions attached to payments from the Fund. Following this process, each project undergoes due diligence.

3.11 Work on agreeing terms and conditions with applicants progressed slowly. The Fund has no dedicated administration budget. Its small Secretariat struggled to manage the volume of work to conduct the appraisals for the second bidding round while also negotiating final project terms and conditions with companies offered funding in the first bidding round. Delays at this stage have a significant effect on the overall time taken to finalise offers, because due diligence cannot begin until the Secretariat and the bidder have agreed factors such as the precise activities that the Fund will support. The Secretariat was supported by up to 12 full-time-equivalent economists from other departments during the project appraisal phase, but all but one of these staff returned to their home departments, before the due diligence phase started. The Departments for Communities and Local Government, and Business, Innovation and Skills have allocated additional resources to the Secretariat and the process for finalising offers has progressed more quickly since December 2011. As at 16 March 2012, 68 bidders, around a third of the total bidders, from the first two rounds had received final grant offer letters,[23] compared to 11 in December 2011.

3.12 Due diligence is an important part of the contracting process, requiring bidders to demonstrate their fitness as recipients to an independent reviewer (the due diligence consultant). The reviewers examine three areas:

- company capacity;
- project capability (the ability to deliver the specific project); and
- output confidence (the degree of confidence that can be reasonably placed in the expected number of jobs).

3.13 Beneficiaries bear the costs of due diligence and officials consider this encourages applicants to put in commercially sound bids. We assessed a sample of the early due diligence reports and found substantial variation in their coverage of the three areas. We consider this to be due partly to the wide scope of the review requested. The Secretariat chose to require each potential recipient to select their own consultant, seek the Secretariat's approval and appoint the consultant jointly. This reduced the amount of Secretariat control and assurance over the capabilities of the consultants and involved a lengthier process for each project.

23 The 68 offer letters relate to 230 offer letters expected to be provided in total. The number of offer letters exceeds the number of successful projects because some projects have multiple counterparties, each of which will receive a separate final offer letter.

3.14 The Secretariat could have retained more control over the due diligence process. For example, engaging a range of organisations directly through a framework agreement could have provided services more effectively. This is because the three distinct strands of the due diligence require different skills and experience and might be better addressed by specialist advisors. However, unless an appropriate framework had already existed, the Secretariat would have had to procure these services under EU rules. The Secretariat acknowledges the limitations of the current system, but considers that it did not have sufficient resources to take more direct control of the due diligence process.

Financial management

3.15 The Fund has a very ambitious spending profile, with some £475 million expected to be spent in the first year. In December 2011, the Fund was facing a potential underspend of some £366 million against a budget of £475 million. The Fund has no end-of-year flexibility, meaning that money cannot be transferred between years, and any underspend could potentially simply be returned to HM Treasury and lost to the Fund. Departments and the Secretariat worked with HM Treasury on ways to manage this position and minimise the potential effects on the Fund, including distributing some of the Fund via endowments managed by some of the programmes supported in the second bidding round. The Secretariat currently estimates that the Fund will be underspent by £10 million in 2011-12.

3.16 Front-loading the Fund's spending profile was highly optimistic. Bidders will generally claim their grants proportionately as the project progresses and they can provide evidence of eligible spending and job delivery. This sort of funding mechanism is unlikely to see demand for funding peak in the first year. As indicated above, most successful bidders have not yet received final offer letters because it has taken longer than expected to complete the necessary negotiations and checks. Officials consider that this process has been particularly time-consuming for projects where the initial value-for-money case was weaker.

Measurement, evaluation and feedback

3.17 Officials from the Department for Communities and Local Government's local offices will monitor operational projects. The Secretariat will require early warning of potential delivery problems. Grant offer conditions typically allow the Secretariat to make sure the Fund only releases grant money as projects achieve milestones and as conditions for the creation or safeguarding of jobs are created. It is, however, too early for us to conclude on whether the monitoring arrangements are effective.

3.18 Failing to deliver jobs would initiate claw-back provisions, under which the grant would be reduced in proportion to the shortfall in outputs achieved. In many cases at least some money will need to be invested, often in capital works, before all the employment benefits can be realised. As government has the duty to act reasonably, there may be occasions where it is not possible to recover the entire grant, without negatively impacting the recipient and possibly destabilising the company.

3.19 The Secretariat has not yet finalised its draft evaluation programme. A key challenge will be to capture the Fund's full impact. Evaluating the wider impact of interventions like the Fund locally can be problematic because it is difficult to isolate the effect of interventions from other wider economic and other local factors. Although the information to be collected has been agreed in offer letters, the evaluation strategy for the Fund overall should be finalised as a priority.

Appendix One

Methodology

Method	Purpose
Interviews We conducted semi-structured interviews and discussions with officials from the Fund Secretariat, contributing departments, HM Treasury and the Cabinet Office and a small sample of applicant businesses that had been made a provisional offer.	To understand and gather opinions on the Fund's design and implementation, its rationale, governance and delivery model, the appraisal and selection process and due diligence requirements.
Document review We examined a number of documents from the Secretariat, including application documents, project appraisals, process descriptions, due diligence reports and meeting minutes.	To understand and assess the Secretariat's processes and procedures for delivering the Fund's objectives.
Literature review We reviewed selected literature on employment creation schemes and regional policy in the UK and abroad.	To understand the lessons from past experiences of successful regional policy initiatives.
Quantitative and financial analysis We examined the financial data used by the Secretariat to plan the spending of the Fund and scrutinised the factors associated with projects progressing through the appraisal process.	To assess the effectiveness of the funding model and how far project appraisals influenced which projects were successful.
Economic analysis – efficiency analysis and benchmarking against comparators We compared the Fund's potential outcomes to what could have been achieved within the same resources and how that compared with similar programmes.	To assess the Fund's effectiveness and efficiency (for example, the cost per job) and draw comparison with results of other initiatives.
Peer review We discussed our study plans and emerging findings with experts in relevant fields. We are grateful to Professor Henry Overman, Professor Colin Wren, Professor Harvey Armstrong and David Faull.	To challenge and review the emerging findings for robustness and relevance to the wider audience, and ensure consistency with other research and findings.

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