



HM Government Consultation on the Regional Growth Fund

Views of CEDOS & ADEPT

September 2010

The Chief Economic Development Officers Society (CEDOS) provides a forum for Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary Councils in non-metropolitan areas. The Society carries out research, develops and disseminates best practice, and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

The Association of Directors of Environment, Economy, Planning & Transport (ADEPT) represents local authority Strategic Directors who manage some of the most pressing issues facing the UK today. The expertise of ADEPT members and their vision is fundamental in the handling of issues that affect all our lives. Operating at the strategic tier of local government they are responsible for crucial transport, waste management, environment, planning, energy and economic development issues. ADEPT membership is drawn from all four corners of the United Kingdom.

HM GOVERNMENT CONSULTATION ON THE REGIONAL GROWTH FUND

Joint views of the Chief Economic Development Officers Society (CEDOS) and the Association of Directors of Environment, Economy, Planning and Transport (ADEPT)

INTRODUCTION

1. We welcome the Government's consultation on its proposals for a Regional Growth Fund. We are pleased to assist in this by putting forward both our overall views and our response to the specific questions, for which we have consulted with our members throughout the country. We agree to our response being made public and we will be pleased to discuss things further with the Departments.

OUR OVERALL VIEWS

2. CEDOS and ADEPT welcome the announcement of the Regional Growth Fund. With the decision to close the Regional Development Agencies, the Local Enterprise Partnerships, led jointly by local councils and businesses, these will become the main focus for action to secure economic recovery at the sub-national level. The local authority economic development role will, we believe, be critical to the effectiveness of the new Partnerships. With the cuts already announced, including the withdrawal of the Local Authority Business Growth Incentive (LABGI) and with local authorities spending facing cuts of between 20 – 40%, the issue of funding and resources for Local Enterprise Partnerships needs to be addressed as a matter of urgency.

3. In this context, we believe the Regional Growth Fund will have a potentially important role in assisting the Partnerships to lead the way in supporting the sustainable economic growth of their areas. We strongly support the statement in the RGF consultation Document that the Government firmly believes that Local Enterprise Partnerships should have a lead role in coordinating funding through the Regional Growth Fund. It will be essential that this intention is carried through in the approach taken by the Independent Approval Panel and in decisions made by Ministers.

4. *Eligibility and allocation of funding* - The Consultation Document states that all areas of England will be eligible to apply for funding, which will be allocated in a way to ensure that the objectives for the Fund are met. These are to:

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

- support in particular those areas and communities that are currently dependent on the public sector to make the transition to sustainable private sector led growth and prosperity.

5. In the context of the stated objectives, we would wish to emphasise the importance of the Fund “being flexible enough to meet different needs in different places” and for all areas of England being eligible to apply for funding. To secure sustainable economic recovery and growth, we need to unlock the potential of all areas and sub-regions to make the most of this country’s economic opportunities and recognise this in the distribution of resources and in making and prioritising investment decisions. The RGF consultation suggests the Fund will support projects with *significant* potential economic growth. The judgement on what constitutes ‘*significant*’ growth will be crucial and it is important to recognise that in some areas comparatively small projects can have a significant impact on their economic future.

6. Providing the suggestions we make in response to the specific consultation questions are reflected in the final form of the RGF and the lead role of Local Enterprise Partnerships is recognised in the operation of the Fund, we believe it has the potential to play an important part in helping to achieve regional and sub-regional growth in this country. However, this potential must be put into perspective. It will reinstate only a relatively small proportion of the very significant reductions that are being made in support for the regions. Moreover, as an ‘unprotected area’ of local government spend, funding for local authority economic development action is at considerable risk from the budget cuts facing local government. As we have shown, action by local authorities and their partners has been very important in tackling the impact of the recession on local areas and sub-regions¹. It will be equally important in ensuring the new Local Enterprise Partnerships are successful.

VIEWS ON THE SPECIFIC CONSULTATION QUESTIONS

Allocation of funding

7. The Consultation Document suggests that to maximise the flexibility of the fund in the future there may be a case for operating different elements of the fund in different ways, to reflect the fact that the money will be used to support different types of projects depending on the needs of different places.

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

CEDOS/ADEPT Views:

8. To achieve local economic renewal, the Government expects Local Enterprise Partnerships to provide the strategic leadership in their areas

¹ *Recession & Post-Recession – Taking Forward Economic Development & Regeneration*
CEDOS/ADEPT July 2010

and set out local economic priorities². To ensure they have the necessary strategic oversight, we believe that, where they are established and operational, bids for the RGF should be endorsed by Local Enterprise Partnerships.

9. We consider the best and most efficient way of operating the RGF is to use it on a grant basis to provide Local Enterprise Partnerships with an indicative allocation for their areas using a funding formula that is transparent, simple and easy to understand. The formula should reflect both needs and opportunities. An indicative allocation process will help ensure that the fund has the flexibility to meet different economic issues and challenges across the country. It will strengthen Local Enterprise Partnerships and enable better alignment & leverage of other funding streams, including EU funding, to maximise investment and impact in their areas. In relation to this, there is a need for clarity about which previous funding streams are included in the Regional Growth Fund and what funding streams it replaces to enable Local Enterprise Partnerships to plan ahead, particularly in relation to infrastructure provision.

10. Given the timescale of the Fund, to ensure it makes a real impact, it will be important for Partnerships to identify clear plans of action and the outcomes to be delivered. Proposals should be able to incorporate a mix of revenue and capital elements as appropriate to the local area. At the same time, there will need to be sufficient flexibility, particularly in the first year of the RGF to ensure that areas whose Local Enterprise Partnerships are less well developed or whose proposals for creating Partnerships do not find immediate favour with the Departments, are not disadvantaged in accessing the Regional Growth Fund.

Type of activity

11. The Consultation Document acknowledges that there are a number of different types of activity that currently support sub-national growth. The Government believes that the Fund will be most effective if it can coordinate as many of these activities as possible so that decisions can be considered alongside a coherent plan for the economic future of places and communities.

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

CEDOS/ADEPT Views:

12. As the Consultation paper observes, the needs and priorities of each place will be different and the fund should be flexible enough to respond to this. We consider the fund should not seek to be prescriptive about what activities are eligible. Different areas will want to, and need to, support different activities depending on their particular local economic

² Letter from the Secretary of State for Business, innovation & Skills and the Secretary of State for Communities & Local Government to Local Authority Leaders and Business Leaders 29 June 2010

needs, challenges and opportunities. In the spirit of localism, the Fund should be flexible enough to allow for different local priorities to be identified and innovative approaches to be developed.

Bid system

13. The Consultation Document states that the Government is proposing to allocate a proportion of the fund on a bid basis to provide strategic oversight and maximise the economic impact of projects. Proposed criteria are set out. In addition, it states that project proposals will be appraised according to the framework set out in the Treasury Green Book.

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

CEDOS/ADEPT Views:

14. We generally agree with the criteria set out in the Consultation paper, particularly the focus on stimulating private sector growth and the references to long term benefits and addressing identified market failure. Issues that we would like to highlight are:

- *Scale of projects* - the criteria include the expectation that bids would be for amounts of £1 million or more (in the context of the stated objective of supporting projects with significant potential for economic growth). At the same time, there is reference to consideration being given to smaller bids, including from rural areas that can demonstrate significant private sector growth and/or leverage. In both cases, the judgement on what constitutes 'significant' will be crucial and it is important to recognise that in some areas, both rural and urban, comparatively small projects can have a significant impact on their economic future;
- *Job creation* – We agree with the importance of creating additional private sector jobs but in some areas, job safeguarding will also be important;
- *Timescale for measuring success* – There is a need for clarity on the timescale over which the success of any RGF investment is to be measured.

15. The Consultation Document states that in addition to demonstrating how they meet the criteria set out, project proposals will be appraised according to the framework set out in the Treasury Green Book. There are some concerns about this. The cost-benefit analysis processes of the Green Book have been questioned in relation to the ability of the current Framework to capture the true cost-benefit of some types of activity. An example is road infrastructure where the creation of jobs (for example via employment land released due to the access created by a road) is not counted within the current cost-benefit analysis. In appraising projects for RGF, it is essential that the wider job creation/safeguarding potential is

captured within the analysis and not as an adjunct as in the current Treasury Green Book cost-benefit analysis.

Bidding process

16. The Consultation Document proposes that there should be at least two rounds of bidding for the Fund. The deadline for the first round of bids is proposed as the end December 2010, with a view to decisions on successful bids being announced by the end of February 2011. The intention is to have a second round of bidding before the start of the 2012-13 financial year. To ensure that the bidding rounds are as efficient as possible, the Consultation Document states that it may be preferable to operate a two-stage process so that, following initial outline bids, only projects with significant potential will be invited to make a full bid.

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

CEDOS/ADEPT Views:

17. We support the principle of a two-stage process. Funding applications are time and resource intensive and a two-stage process will minimise abortive work being undertaken. At the same time it will be helpful if there is positive and constructive feedback on outline proposals that are unsuccessful. For some projects, this could enable stronger and more robust proposals to be developed for the second round of bidding.

18. Whilst we appreciate the Government's desire to make rapid progress, there is concern at the short deadline for bids of 31st December 2010, particularly as the RGF itself is still only at consultation stage. Government must guard against the danger of well thought out priority projects developed through the new Local Enterprise Partnership structures being squeezed out by off the shelf projects of less value that are able to meet an artificially short deadline.

Longer term potential

19. In the Consultation Document, the Government says there may also be benefits to creating a model that does not favour short-termism. It suggests the Regional Growth Fund could be a sustained and radical change in the way that capital and resource is allocated to places. They are asking for views on whether this could be the start of something bigger rather than a measure of alleviation.

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

CEDOS/ADEPT Views:

20. We certainly support a funding model that does not favour short-termism. To be successful, regional and sub-regional economic development requires sustained, long-term public investment, not least to give the necessary confidence to private sector investors and enable

higher levels of private sector leverage to be achieved. Whether or not the proposed Regional Growth Fund model is appropriate remains to be seen. We need to see it in operation, including the extent to which funding is bid-based, before it can be fully assessed.

21. Whilst we will reserve detailed judgement at this stage, it nevertheless seems to us that if the RGF is to continue, some changes are likely to be needed. Particularly having regard to the bid element of the Fund, on which decisions are to be made centrally on a project-by-project basis, the RGF does not fit easily with the localism agenda. Given the role of the new Local Enterprise Partnerships in providing the strategic leadership to set out local priorities and achieve the economic renewal of their areas, the most appropriate approach would be to allocate funding to Local Enterprise Partnerships on a grant basis to help fund a programme of actions over, say, a 5 year period, with the Partnerships having freedom to decide on and implement individual projects to meet local circumstances.

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