# Regional Growth Fund:
# Round and round we go again?

**Dmitry Sivaev, June 2012**

## What is the Regional Growth Fund?

The Regional Growth Fund (RGF) was announced by the Government on 29 June 2010. It was conceived as having a dual purpose:

- supporting projects that offer significant potential for **sustainable economic growth and creating private sector jobs;**
- targeting areas with **high dependence on public sector employment.**

£450 million of funding was allocated to 50 projects in the first round in April 2011 and another £950 million was allocated to 126 bids in round two in October 2011. According to the Government RGF will leverage an additional £7.5 billion of private investment and will support 330,000 jobs across England.

As of March 2012 only 53 contracts have been signed and successful bidders have received only £190 million out of £1.4 billion allocated.

## A third round of the Regional Growth Fund

On 24 February Nick Clegg announced that the RGF would receive an extra £1 billion. Following this announcement, the third round of bidding was opened and applications will be accepted until 24 June 2012.

The announcement also stated that, whilst creating jobs is still the main objective of RGF, the third round will prioritise manufacturing businesses. This confirmed a policy bias that Centre for Cities has previously highlighted: more than 50 percent of second round grants have gone to manufacturing and design businesses.[1] Yet these make up about 10 percent of employment in England.

## Progress to date

The National Audit Office (NAO) report released on 11 May 2012 analysed the first two rounds of RGF allocation.[2] Their preliminary analysis concluded that, while overall the successful bids provided better value for money than the rejected applications, greater value could have been achieved.

1. Averley J (2011) 'Regional Growth Fund: Seconds out' Centre for Cities blog, 1 November 2011, http://centreforcities.typepad.com
2. National Audit Office (2012) *Regional Growth Fund. Report by the comptroller and auditor general*, London: NAO

The report shows that:

- The 328,000 jobs that are expected to be created or safeguarded by successful applicants are equal to **41,000 net additional full-time jobs** and only **13,000 of those will be created directly.**
- The public cost per additional job is extremely variable across projects, ranging from **£4,000 to £200,000 per job**. On average an additional job will cost **£33,000** of public money, which is above the £28,000 average of RDAs.
- Public to private investment ratio varies from 1:1 to 1:19 across projects, which also highlights significant differences in value for public money that individual projects are likely to deliver.
- **If some of the more costly projects were dropped, 90 percent of additional jobs could have been secured at 75 percent of the current cost.**

It is important to note that these findings are preliminary: NAO analysis used job creation and grant size estimates from funding applications, which tended to change as they went through due diligence.

## Administering the Fund

At the allocation stage the RGF managed to strike a good balance between capital investment, training, apprenticeships, support for SMEs and provision of higher and lower skilled jobs.

However, the NAO report highlights that the approval process has been too slow. The due diligence process has not only been slow but has also lacked transparency and been difficult to understand. The report shows that delays occurred because there was no separate budget or staff allocated to the task of agreeing the final conditions of the project at the due diligence stage.

The report also revealed that successful bidders selected the companies to perform due diligence and also covered the cost. This raises questions about possible conflicts of interests.

## Next Steps

Following the release of the NAO report it has been announced that the RGF administration staff will be expanded from 18 to 49. In addition the third round of bidding will introduce deadlines for the due diligence process and finalisation of RGF contracts. These measures combined should help to make the fund more efficient.

## Centre for Cities' analysis

- Some jobs are already being delivered through the RGF although, as with similar schemes in the past, these take time to be delivered and there are always questions about the cost per job created.
- The RGF has taken on a huge task by trying to both support businesses with high potential for growth and help areas which are dependent on public sector employment. This is difficult to achieve in a single policy intervention and the balance between supporting jobs growth and providing help to less buoyant areas still has not been struck.

- The measures being taken to improve implementation and management of the scheme are positive. While due diligence is necessary to ensure efficiency of public spending, it should not postpone the delivery of additional jobs. If part of the grant funding was diverted to a centralised due diligence process, administered by the secretariat, money could have been released much sooner.
- Prioritising manufacturing supports the Government's emphasis on "Made in Britain" and increasing the competitiveness of the UK's manufacturing sector. However, manufacturing businesses tend to be more capital intensive and on average have higher cost per additional job created, meaning that this approach may not support the RGF's core goal of creating jobs.

## Contact

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