



House of Commons

Committee of Public Accounts

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# Department of Trade and Industry: Regional grants in England

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**Sixth Report of  
Session 2003–04**

*Report, together with formal minutes,  
oral and written evidence*

*Ordered by The House of Commons  
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## The Committee of Public Accounts

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# Summary

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## Introduction

Regional grants in England consist of Regional Selective Assistance and Enterprise Grants. They support investment by companies designed to create or safeguard jobs in disadvantaged areas (the Assisted Areas). Support of this nature has been available since the 1970s. After the 1998 White Paper on Competitiveness, the Department of Trade and Industry (the Department) placed more emphasis on supporting projects which would improve productivity and competitiveness and yield high quality jobs.

Regional Selective Assistance of up to 35% of capital expenditure is available for projects which will cost over £500,000. Enterprise Grants are for a maximum of 15% (£75,000) of projects costing up to £500,000. Annual expenditure across the two schemes in England is in the order of £100 million annually. From 1 April 2002, responsibility for Regional Selective Assistance grants of up to £2 million was transferred to the nine Regional Development Agencies, with applications over £2 million remaining with the Department. Responsibility for the management of Enterprise Grants was transferred to the Small Business Service from the same date.

On the basis of a Report by the Comptroller and Auditor General,<sup>1</sup> we took evidence from the Department on 23 June 2003. We considered the continuing significant disparities in the economic performance of different regions within England, including levels of unemployment, and the role that regional grants should play in reducing those disparities. We questioned the design, operation and performance of regional grant schemes.

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1 C&AG's Report, *The Department of Trade and Industry: Regional Grants in England* (HC 702, Session 2002–03)

## Conclusions and recommendations

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- 1. Thirty years of regional grants to the Assisted Areas have failed to close gaps between the relative economic performances of the English regions.** For example, when this Committee last took evidence on regional grants in 1988, unemployment in the least advantaged region was over three times the level of the most advantaged region. Fourteen years and £1.4 billion of regional grants later, that ratio remained unchanged. During that time, the budget for regional grants or its allocation to the regions has not been based on any clear assessment of the contribution that these grants could make to the achievement of the Department's regional aims.
- 2. Regional grants have done little to reduce unemployment in Assisted Areas.** An evaluation report estimated that these grants may have contributed only around half a percentage point to the reduction of Assisted Area unemployment over a four year period. To get the best from grant expenditure such as Regional Selective Assistance, the Department needs to match the grant instrument to the needs of particular disadvantaged areas, which can vary widely. More flexibility is required in the criteria for regional grants to enable individual regions to adapt them to their specific needs.
- 3. The net employment effect of Regional Selective Assistance** is disappointingly low, at only some 40% of the gross number of jobs supported. The Department needs to target improvement in that level. They should review such factors as the relevance of scheme criteria, success of scheme marketing, viability, displacement of other jobs and comparison of administration experience between regions and headquarters, to engender continuous improvement in scheme performance.
- 4. The Department should revise the criteria for Regional Selective Assistance to facilitate grants for the services sector,** and for firms that make investments in Research and Development, product development and skills training. Because applications for Regional Selective Assistance must offer the prospect of capital expenditure, 90% of grants currently go to the manufacturing sector. But the main growth in the economy as a whole has recently been in the service sector. The Department produced no evidence that manufacturing jobs last any longer than service jobs.
- 5. The Department should market regional grants more actively to elicit a higher level of proposals than it receives at present.** The number of applications for Regional Selective Assistance has fallen from 1,832 in 1995–96 to just 960 in 2001–02. A high level of relevant applications should enable the Department to select the best.
- 6. It is not clear how regional grants fit in with other instruments the Department employs,** such as infrastructure grants and the promotion of economic clusters, and with the work of other Departments running, for example, skills and education initiatives. The Department has a Public Service Agreement target, shared with the Treasury and the Office of the Deputy Prime Minister, which requires sustainable improvement in the economic performance of all the English regions and reduction of the gap in growth rates between the regions. The Department for Trade and

Industry needs to identify the role that regional grants can best play within this framework.

7. **The Department has not specified the market weaknesses that Regional Selective Assistance is designed to mitigate.** As a result, it is difficult to judge whether the scheme fit for purpose, or where its strengths and weaknesses lie in relation to other instruments, such as infrastructure and skills development. The Department should rectify this omission as part of its ongoing Business Support Review.
8. **The Department needs to define measures against which scheme performance can be tracked.** The measures should cover all the scheme objectives and facilitate comparison with other regional development instruments.
9. **The three evaluations of Regional Selective Assistance have led to improvements in scheme specification.** Future evaluations need to develop further, for example, to reflect administrative costs, to arrive at better-supported assumptions on matters such as assisted job life, and to consider effects of assisted jobs on local labour markets.

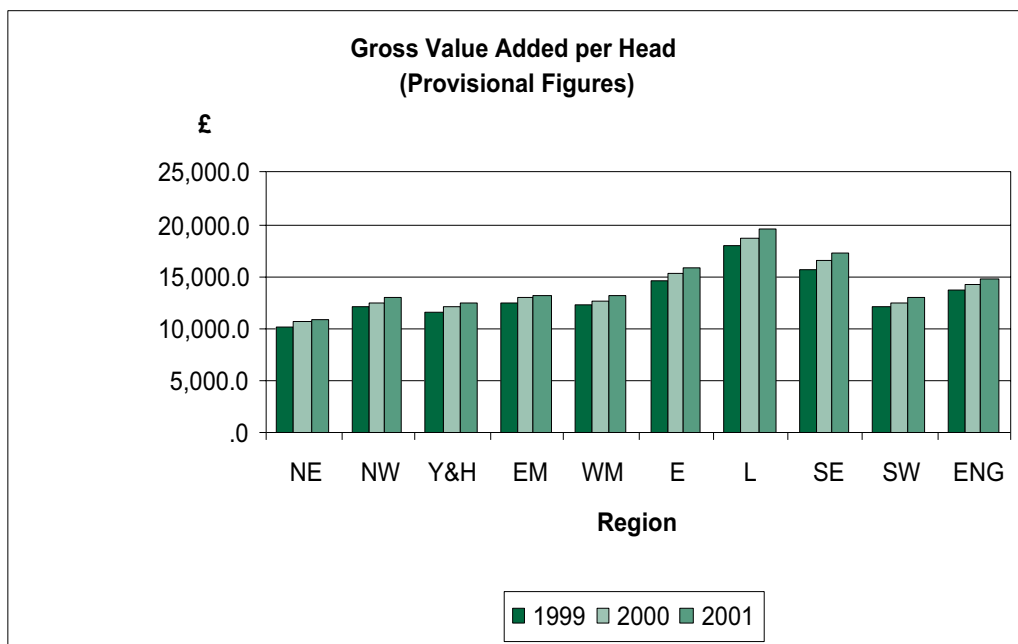




# 1 Matching response to regional needs

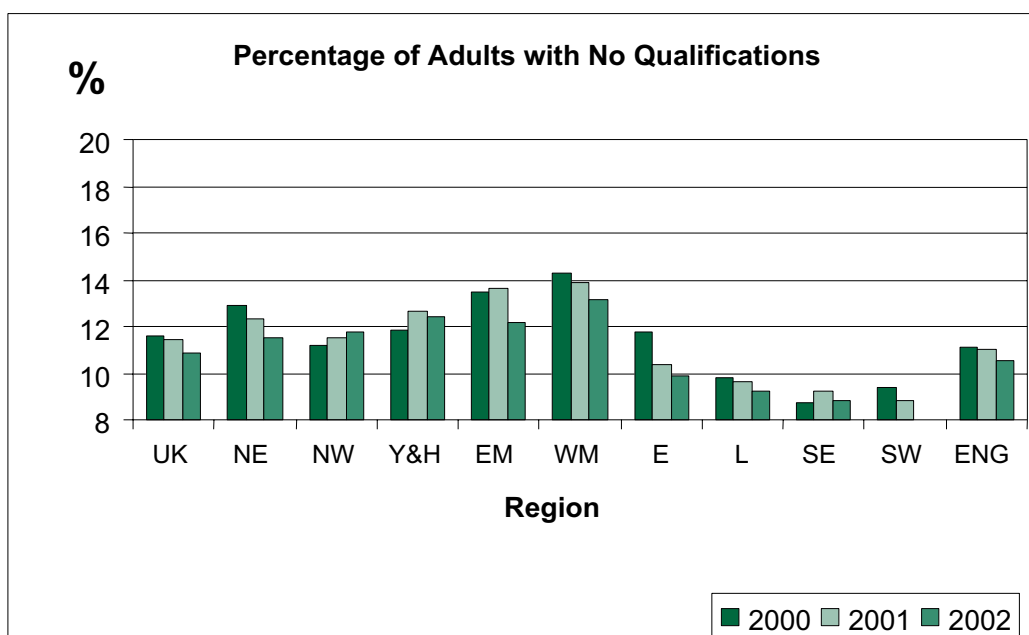
1. Disparities in the economic performance of the English regions have persisted for many years. The difference between highest and lowest regional unemployment rates has halved over the last two decades. But unemployment rates in the North East are still more than three times as high as those in the South East. There are also differences existing in other indicators such as productivity (**Figure 1**) and skills levels (**Figure 2**).

**Figure 1: Regional productivity**



Source: Office for National Statistics

**Figure 2: Differences and trends in regional skills**



Source: DTI

2. Since the early 1980s the Department has normally defined the market failings which its grant schemes are designed to mitigate. But it has not done so for Regional Selective Assistance which started in the early 1970s. It told us that regional grants were intended to address multiple market weaknesses, including high levels of unemployment and inactivity levels and low levels of skills, income levels, productivity and investment. But the balance of market failings varied in different Assisted Areas. Regional grants were one instrument for tackling these problems, but not the main one. Others were the education and skills budgets, learning and skills councils, the role of transport, and the role of economic clusters.<sup>2</sup>

3. The guidelines and criteria applied to Regional Selective Assistance and Enterprise Grants have to be approved by Treasury. The main appraisal criteria are set out in Appendix 1 to this report. The scope to interpret them in the light of local circumstances is limited. For Regional Selective Assistance, the criteria are fixed, and larger cases are appraised in London. For Enterprise Grants, the criteria must be applied, but regions are free to add further criteria if they see fit. The North East region has applied a jobs criterion to these grants, in view of its relatively high regional unemployment levels.<sup>3</sup> The same region, however, has also introduced a criterion which means that a shortfall in a company's planned funding for any particular project would automatically result in that application being refused a grant on the basis that the project might not be a viable proposition. The North East region see grant as a cushion against project risk, rather than a means to bridge a funding gap.<sup>4</sup> However, in the South West region Enterprise Grants are seen as being another piece of the funding jigsaw and an applicant would be likely to receive grant on the basis that the project would not be able to go ahead without the grant.

4. As well as safeguarding or creating jobs, a key criterion for Regional Selective Assistance is that successful applications should generate capital investment. As a result applications from the manufacturing sector better match scheme criteria than those from the service sector, to the extent that 90% of grant by value has gone to manufacturing companies.

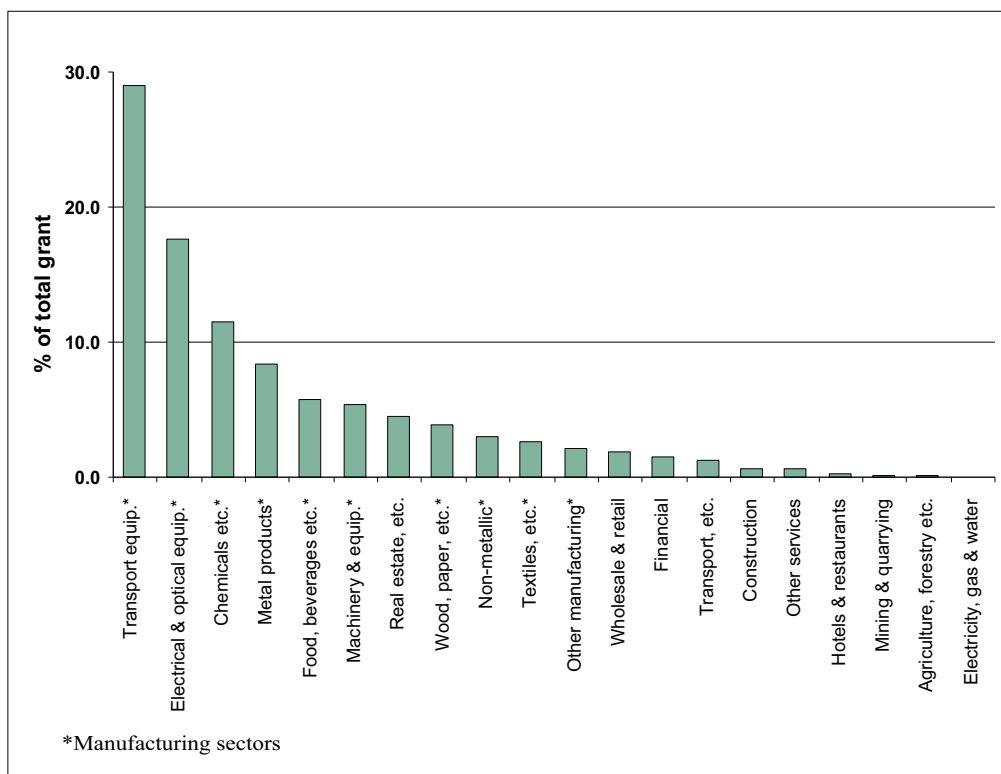
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2 Qq 13, 79, 114

3 Qq 62–63

4 C&AG's Report, para 3.13

Figure 3: The distribution of Regional Selective Assistance grants in England by industrial sector from 1994–2002



Source: C&AG's Report, Figure 7

5. More manufacturing companies apply for assistance than service companies, reflecting scheme criteria which require significant capital investment. The criterion requiring fixed capital assets was intended to keep people employed over time.<sup>5</sup> But the Department could not produce any evidence that jobs associated with fixed assets lasted longer than service-related jobs. The only available empirical analysis of assisted job life—research carried out into the effects of a range of Government financial assistance from 1975–1981 in the North East region—indicated much shorter estimates of additional life than the Department had assumed.<sup>6</sup>

6. The issue of bias in support to manufacturing is not new. The Trade and Industry Select Committee in 1995 recommended that the Department should:

“revise the RSA criteria to facilitate grants for investments in Research and Development, product development and skills training, which contribute to competitiveness but do not involve the creation of fixed assets”; and

“reconsider the criteria for awarding RSA to service sector projects, taking particular account of business services which may contribute to the competitiveness of local firms”<sup>7</sup>

5 Q 80

6 C&AG's Report, para 4.8, 6<sup>th</sup> bullet and para 4.13

7 4<sup>th</sup> Report from the Trade and Industry Committee, *Regional Policy* (HC 356, Session 1994–95) paras 68, 70

The European Commission has granted extra flexibility to permit eligible costs to be based on salary costs rather than capital expenditure, and thereby broaden the range of companies assisted by making it easier for service companies to qualify for assistance.

## 2 The promotion and management of regional grants

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7. The number of applications for regional grants has nearly halved from 1,832 in 1995–96 to 970 in 2001–02.<sup>8</sup> Although regional grants are demand-led, the Department was unable to explain the fall in applications.<sup>9</sup> Since the grants are demand-led, it is particularly important that companies are aware of the opportunities for assistance so that they can present projects that could not otherwise go forward. But the Department does not market the scheme, which is one of some 270 currently offered to business. This plethora of schemes has confused business and led to overlaps so the Department are reviewing business support to rationalise the help that they offer.<sup>10</sup>

8. Of the 7,279 offers of grant the Department made between 1994 and 2002, 20% were either turned down by the company or were accepted but did not go ahead.<sup>11</sup> The Department could not explain this statistic, although on occasion companies might have decided that the final offer was not high enough while in some cases rejecting an offer may have been due to a change in circumstances either with parent companies or with changes in the market.<sup>12</sup> Whatever the reasons aborted applications give rise to nugatory costs for both companies and the Department.

9. While there are no firm data on the costs to companies of making an application for regional grants the Department estimated such costs at about 5% of the grant they receive.<sup>13</sup> The Department's costs in managing the programme are around 5% of the programme's total cost.<sup>14</sup> The Department would prefer a less complicated scheme, but it felt it must strike a balance between correct and proper value for money appraisal and a light touch on administration. It was not right for the costs of administration to dominate.<sup>15</sup>

10. If a company receiving a grant does not ultimately create or safeguard the required number of jobs it proposed, the Department can claw back some or the entire grant. We asked the Department about reported cases where the jobs required had not been created or safeguarded. The Department recognised the importance of monitoring cases after a grant had been paid and the need to take a tough line when matters went wrong.<sup>16</sup> Of the six English cases reported in the Financial Times<sup>17</sup> where the jobs proposed had not been created, the Department had recovered the entire grant in two cases, and was in the process

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8 C&AG's Report, Table 2, p10

9 Q 29

10 Qq 6, 74

11 C&AG's Report, para 3.18

12 Q 93

13 C&AG's Report, para 3.15

14 *ibid*, para 3.16

15 Qq 6, 39

16 Q 77

17 Financial Times, 23 June 2003

of recovering grant in one other case. In the remaining three cases the projects were ongoing and the jobs promised might yet be created or safeguarded.<sup>18</sup>

## 3 The outcomes of regional grants

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11. The Department has set objectives for regional grants, but believes that with a demand-led scheme it would not be practicable to quantify them. Ministers had also decided against targeting particular dimensions of performance.<sup>19</sup> The Department has established criteria to help appraise projects in terms of job quality but has not translated the criteria into performance indicators for the schemes overall, nor has it defined a direct measure of competitiveness.<sup>20</sup>

12. The key issue in the cost-effectiveness of regional grants is not the satisfactory completion of assisted projects—the vast majority of expected jobs materialise—but whether assistance raises employment overall in the Assisted Areas. The available evidence suggests the net employment effects have been disappointingly small. Some assisted projects would have gone ahead anyway, in some scale; while those that did generate additional employment have, to an extent, displaced other Assisted Area jobs. The Department investigated these effects in a series of evaluations of Regional Selective Assistance, the latest of which, covering applications from 1991–1995, estimated the net employment effect at only 40% of the gross number of jobs supported. An earlier evaluation estimated that Regional Selective Assistance had reduced the unemployment rate in the Assisted Areas by only half of one percentage point over a four year period.<sup>21</sup>

13. The evaluations have been substantially more thorough and soundly based than those of regional programmes carried out by other European countries.<sup>22</sup> The evaluations do not, however, deal fully with a number of factors which influence estimates of scheme cost-effectiveness. They do not cover the administrative costs of the application and appraisal process. And there are questions about the technical assumptions underpinning the calculations, for example, in estimating assisted job life, or the nature and scale of job displacement.

14. The latest evaluation of Regional Selective Assistance showed that around three quarters of assisted firms thought they had gained a competitive advantage from the grants. But the evaluation had not sought evidence of the scale of such benefits or the impact of the grant on productivity.<sup>23</sup> As part of the Department's current review of business support schemes it has tested each scheme against national productivity and competitiveness criteria and found that regional grants score relatively weakly.<sup>24</sup>

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19 Q 13

20 C&AG's Report, paras 4.8–4.9, 4.15

21 *ibid*, paras 4.5–4.7 and Figure 10

22 *ibid*, paras 4.6, 4.8

23 *ibid*, para 4.16

24 Q 7

## Appendix 1

Appraisal criteria for Regional Selective Assistance and Enterprise Grants		
	Regional Selective Assistance	Enterprise Grant
<b>Location</b>	Projects must be undertaken in the 'Assisted Areas' as recognised by the European Commission.	Applicants must be small to medium-sized companies in designated Enterprise Grant Areas. These are the Assisted Areas and further areas designated by a flexible national measure to aid regional development and to respond quickly to local crises.
<b>Quality</b>	Additional emphasis is given to upgrading skills and technology. Four key factors are used to determine the quality of projects: wage levels, sustainable employment, research and development, and training.	Preference is given to high growth businesses seeking to maximise value added projects with quality output. Projects are measured against quality factors, these include supply chain improvements; research and development; training; salary levels; innovation; environmental sustainability; and national and regional benefit.
<b>Jobs</b>	The project must create or safeguard jobs. Those service sector projects which serve purely a local market do not generally qualify.	It is not essential for a project to create jobs in order to qualify for the grant.
<b>Maximum Grant</b>	There are no limits on the number of Regional Selective Assistance grants a company may apply for. Grants are subject to European Community 'Net Grant Equivalent' ceilings ranging from 10% to 35% of the value of the eligible capital expenditure, according to the status of the Assisted Area. There is a separate calculation for job grants, based on wage costs.	Enterprise Grant applicants are allowed any number of grants up to a combined total of £75,000. The maximum grant available is 15% of eligible expenditure, apart from medium sized firms in Tier 3 areas who may receive up to £37,500 or 7.5% of eligible costs.
<b>Eligible Expenditure</b>	Expenditure exceeding £500,000	Maximum eligible expenditure is £500,000
	The project must involve capital expenditure on fixed assets, such as property, plant and machinery.	Eligible expenditure must relate to equipment, plant & machinery; some associated one-off costs such as the acquisition of patents; and associated land, site preparations and buildings.
	Where this expenditure is insufficient, salary costs for new jobs created may be capitalised and used for assessing grant.	
<b>Viability</b>	Businesses should be viable and projects should have good prospects of becoming self-sustaining.	Businesses and projects should be viable; and the project will normally be expected to become profitable within three years.
<b>Additionality</b>	Applicants must demonstrate that a grant is necessary to enable the project to proceed.	
<b>Displacement</b>	Projects which are likely to create over-capacity, or which simply displace jobs <u>from other areas</u> , or aim to relocate jobs from one part of the country to another, are not eligible for assistance.	

Source: C&AG's Report, Figure 5



# Formal minutes

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**Monday 12 January 2004**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Jon Trickett

Mr Frank Field

Mr Alan Williams

Mr Brian Jenkins

The Committee deliberated.

Draft Report (Department of Trade and Industry: Regional Grants in England), proposed by the Chairman, brought up and read.

*Ordered*, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 14 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

A paper was ordered to be appended to the Report.

*Resolved*, That the Report be the Sixth Report of the Committee to the House.

*Ordered*, That the Chairman do make the Report to the House.

*Ordered*, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

Adjourned until Monday 19 January at 4.30 pm

## Witnesses

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**Monday 23 June 2003**

*Page*

**Sir Robin Young KCB**, and **Mr Andrew Steele**, Department of Trade and Industry

Ev 1

## List of written evidence

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Department of Trade and Industry  
HM Treasury

Ev 20

Ev 21

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Second Report	The new electricity trading arrangements in England and Wales	HC 63
Third Report	The Sheep Annual Premium Scheme	HC 64
Fourth Report	Improving service delivery: the Forensic Science Service	HC 137
Fifth Report	Warm Front: helping to combat fuel poverty	HC 206
Sixth Report	Department of Trade and Industry: Regional Grants in England	HC 207

The reference number of the Treasury Minute to each Report will be printed in brackets after the HC printing number



# Oral evidence

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## Taken before the Committee of Public Accounts

on Monday 23 June 2003

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Geraint Davies  
Mr Frank Field  
Mr Nick Gibb  
Mr George Howarth

Mr Brian Jenkins  
Mr Gerry Steinberg  
Jon Trickett  
Mr Alan Williams

**Sir John Bourn KCB**, Comptroller and Auditor General, and **Mr Nick Sloan**, further examined.  
**Mr Rob Molan**, Second Treasury Officer of Accounts, HM Treasury, further examined.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

#### The Department of Trade and Industry: Regional Grants in England (HC 702)

*Witnesses:* **Sir Robin Young KCB**, Permanent Secretary, and **Mr Andrew Steele**, Director Regional Assistance, Department of Trade and Industry, examined.

**Q1 Chairman:** Good afternoon; welcome to the Committee of Public Accounts. Today we welcome Sir Robin Young, who is going to talk to us about regional grants in England. Before I start, can I welcome Mr Kaul, Comptroller and Auditor General of India, who is sitting at the back. They have a system very much like ours, with a PAC. The Chairman is a member of the opposition. Mr Kaul employs 60,000 people. He is very interested in our work, and we are very pleased to welcome him. Sir Robin, can you start by introducing your colleague, please?

**Sir Robin Young:** On my left is Mr Andrew Steele, the Director of Regional Assistance in the DTI.

**Q2 Chairman:** Would you look, please, at page 23, paragraph 3.9? You estimate that only 45% of jobs are purported to be additional and that 40% of expenditure is unnecessary. Does this represent value for money, Sir Robin?

**Sir Robin Young:** That is obviously the key question that we will be wanting to discuss this afternoon. By way of context, I ought to say that this scheme, or something like it, has been around for about 30 or 35 years.

**Q3 Chairman:** Ted Heath invented it in 1972.

**Sir Robin Young:** Each time it has come up for evaluation—three major evaluations by the Department and otherwise, no doubt—the same question, rightly, has been raised. I would like to focus most on paragraph 4.2, which points out that between 1994 and 2002, around 303,000 jobs were expected to be created or safeguarded in the offers made for RSA. The issue then is to what extent the grant was needed to secure that, and that is where the debate lies. In paragraph 3.9, as you say, Chairman,

in the final sentence we say that 60% of total grant paid went towards additional jobs; so the bigger the project, the more additionality you achieve. However, then we are criticised for only paying towards bigger projects. I think the focus of our discussion ought to be whether those 303,000 jobs that were expected to be created or safeguarded, as in the offers made between 1994 and 2002, are worth the risk, given that some of the grant money was not additional. That has been the focus of all three evaluations the Department has had over the last twenty years.

**Q4 Chairman:** We will come back to that again this afternoon. We do not deny that jobs have been created, but we just have to investigate whether this is an over complex scheme to achieve that. We are talking about £100 million a year in absolute terms, are we?

**Sir Robin Young:** Yes.

**Q5 Chairman:** That is fairly small—tiny, in fact, in comparison to the economy of the assisted areas. Does it make any real difference?

**Sir Robin Young:** It is only one of the things that we do at the moment, and have done in the past, to influence regional disparities. As the Report says, one of our PSA (Public Service Agreement) objectives is to make sustainable improvements in the economic performance of all English regions, and over the long term reduce the persistent gap in growth rates between the regions. That is one of our current targets. This is one of the things we do; other things obviously are to do with regional development agencies—that is in my own department—or the Small Business Service and

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business links. In other departments, major investment programmes might affect the productivity and competitiveness.

**Q6 Chairman:** For such a relatively small amount of money in government terms, do you need such a complicated scheme?

**Sir Robin Young:** Ideally, we would have a less complicated scheme; but of course then we would probe less into issues of, for example, additionality and whether jobs have been displaced, which is a subject that the Report rightly raises. So some of the administrative expense of the scheme is where we are trying to test applicants against the additionality and displacement risks. So ideally we would have a simpler scheme, but I think that then we would be criticised for not probing enough as to whether these jobs were genuinely additional.

**Q7 Chairman:** Let us probe a bit more about what your own reviews have found. Page 32, paragraph 4.17: your own review assessed Regional Selective Assistance as relatively poor value for money in promoting improved productivity. What have you done in response to this criticism?

**Sir Robin Young:** That is part of our review of all business support schemes which we are carrying out at the moment through the DTI's 270 business support schemes. We tested them against national productivity and competitiveness only, not between regional competitiveness, which is relevant to the PSA objective I have just mentioned. Those evaluations came out against national productivity competitiveness. This particular grant scored relatively weakly. We are looking at that in the review of business support schemes that Ministers are doing now, and we will come to conclusions, I hope, before the summer recess.

**Q8 Chairman:** Would you look at page 19, paragraph 3.2? Obviously, we are talking about disadvantaged areas that have seen a decline in traditional manufacturing. Could you explain why you are putting such a huge amount of your resources into manufacturing? You are going against the current trend of modern economies, which put more and more emphasis on service industries.

**Sir Robin Young:** Certainly. The distribution of grant offers is roughly reflecting the distribution of the applicants by sector; so this is a market demand-led scheme, and we have a success rate roughly proportionate to whatever sector you come from. If you come from the service sector, you get the same success rates as if you come from the manufacturing sector. In other words, the short answer to your question is that more manufacturers apply for this grant. The reason they do that is revealed on page 16 in table 5, where you will see that only projects that have expenditure of more than half a million pounds, and which involve capital expenditure on fixed assets, such as property, plant and machinery—only projects with those characteristics are eligible for RSA support. That straight away

means that manufacturing or larger, more sustainable capital-intensive sectors are likely to win this grant support.

**Q9 Chairman:** Would you look, please, at paragraphs 2.4 and 2.5 on pages 13 and 14? If you look at page 14, you will see in paragraph 2.5: "Grant guidelines suggest that the scheme should address the following problems: barriers to outward migration of unskilled workers; wages in areas of high unemployment not adjusting downwards sufficiently to increase employment, and workers having difficulty getting on-the-job training." Would you say that it is a fair criticism that your scheme addresses the symptoms of economic decline rather than the underlying causes?

**Sir Robin Young:** Our scheme addresses the scheme applicants and the sectors and projects that they bring forward. So it is demand-led; and the criteria were those set out on page 16 in table 5, which I have just referred to. I do not think it is necessarily fair to say it is symptoms rather than causes. The scheme is designed to encourage development of viable and realistic projects in the most disadvantaged areas of the country. That is its explicit aim, and that is what it does.

**Q10 Chairman:** As a matter of interest, what proportion of DTI civil servants have been moved out to the regions from London?

**Sir Robin Young:** Something like 46% of our total staff of 10,000 are in London, but I cannot answer how many people have moved out. I do not know whether they were originally in London. I happen to know that of the roughly 10,000 DTI staff, 46% of them only are in London.

**Q11 Chairman:** For the same grade, how much extra do they get paid, working in London? What is the London Weighting Allowance? They presumably get paid exactly the same salary.

**Sir Robin Young:** It varies between grades. It is now not called London Weighting, it is called the Recruitment and Retention Allowance.<sup>1</sup> I cannot remember exactly and it varies between grades, but you are right that there is a London allowance equivalent.

**Q12 Chairman:** Can you give me a rough idea what it is?

**Sir Robin Young:** I think it is £4,000, but I could be wrong.<sup>2</sup>

**Q13 Chairman:** On page 15, paragraph 2.6, we read that you have not defined performance measures or targets for the effectiveness of the schemes. Why not, and how do you track progress if you have not so defined them?

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<sup>1</sup> *Note by witness:* Now subsumed into London and national pay rates.

<sup>2</sup> *Note by witness:* Currently, London and national pay rates for different grades vary between £2,779 and £4,614. These do not include allowances by specialists.

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 Department of Trade and Industry
 

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**Sir Robin Young:** Under each evaluation, we looked at this—talking now of 20 years—and the conclusion has been that the justification for the scheme is to address all the various multiple market weaknesses which happen in the worst-off, most deprived areas of the country. These include, obviously, high unemployment, high inactivity levels, low levels of skills, low income levels, low productivity and low capital investment levels. These are multiple, and they vary in different assisted areas. So in each of these evaluations, Ministers have concluded that there is no point in targeting one of those things, for to get Assisted Area status you are already proved to be suffering from multi-variable factors, including all those six. So to be asked to pinpoint and focus on how the small scheme can address those has been thought to be wrong, and that we should keep it as addressing the variable weaknesses.

**Q14 Chairman:** If you look at pages 29-31, paragraph 4.8 and 4.14, which is quite a useful summary of the arguments around these schemes, we see that administration costs, increased displacement and reduced additionality, could significantly reduce cost-effectiveness. Do you accept that, and why did you ignore emerging evidence on these issues?

**Sir Robin Young:** I accept that it could, but I do not think it has been proved that it has. The Report is kind about the thorough and soundly-based evaluations that we have imposed on this scheme, particularly if you look at paragraph 4.16. The Report is kind about the robustness of our evaluations. This extra report raises familiar topics for us, additionality and displacement. We do not think that the new evidence produced in the Report casts doubt on the conclusions of the last three evaluations; but in our current review of all the business support products that we are doing, we will certainly take it into account.

**Q15 Chairman:** Your own assessment is that this is not necessarily good value for money. The National Audit Office, in doing this review of your efforts, could not determine how many jobs you were really creating. I just wonder whether we can approach this issue in this way. We all accept that there are some regions that are disadvantaged and need to be helped for political and other reasons, and we all accept that jobs have been created, although they may have been largely displaced. Why do you not accept that you need to create these jobs, instead of pretending that you are creating a scientific scheme when clearly it is not? Are you really suggesting to us that this scheme is based on science and reason; or is it just a political device, a perfectly acceptable political device, in order to help disadvantaged regions?

**Sir Robin Young:** What the scheme is, and what we have hitherto argued it ought to remain under successive governments is a demand-led scheme; so it is not imposed from the centre by government or by the Civil Service. This sets out some criteria for producing sustainable projects in the most deprived regions of the country. It is demand-led, so it seems

to me that the project can get off to a better start if someone wants to do them. We then put these applications against the tests set out in the Report, and the ones which most pass or most nearly pass those tests, we then award. That seems to me to be quite a good approach, rather than, as you say, a centrally-imposed thing for political reasons. This is a market demand-led scheme against expressed criteria.

**Q16 Chairman:** The problem is that in order to get this grant you have to prove that but for the grant you would not be able to provide a job, and you also have to prove that your business is viable; so it is rather a catch-22 situation. I remember—and perhaps my colleague remembers—when we were doing this job in the DTI that we were trying to balance these very difficult arguments; but, at the end of the day, it is demand-led, as you say. Somebody comes with a proposal; it is often an important issue locally, and the DTI feels it has to do something. That is really what it is all about, is it not?

**Sir Robin Young:** I do not think that is quite right. We set out the rules of the game, and applicants then apply under those rules. We then have an elaborate assessment—

**Q17 Chairman:** “Elaborate” is the word.

**Sir Robin Young:** I know, but if you have it less elaborate, we would be criticised for not looking at displacement or additionality, and we are trying to meet both criticisms of over-elaboration but yet take sufficient account of additionality and displacement and all the other things here. We are also advised in the case of small cases by panels called RIDB (Regional Industrial Development Boards) and in large cases by IDAB (Industrial Development Advisory Board). Therefore, we have someone over our shoulder—business-led appointees—advising us on whether these applications deserve support or not.

**Q18 Mr Williams:** Can you move over on your bench? I am coming over to join you! I was Regional Minister at the EA in 1967 and the regions was part of my remit when I was Industry Minister in 1976–79. I am puzzled at the lack of intellectual back-up there is to rebut the criticisms that have been made. Has not one of the fundamental objectives been that if you can get the unemployed in the regions, particularly in times of so-called national full employment, into employment, you increase the productive capacity of the country and therefore there is an overall economic gain.

**Sir Robin Young:** I certainly think that is one of the justifications for it. These evaluations have looked at the productivity of the individual plants in the assisted areas and compared them with the productivity of plants elsewhere, and discovered they are not that brilliant by comparison. That is why the criticisms are in here about it not helping productivity competitiveness. I agree with you that overall it is better for people to be in work than not. Nevertheless, it is arguable that you get a more

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competitive result for the UK as a whole if you put these plants elsewhere, and that is what these evaluations have shown.

**Q19 Mr Williams:** We used to use a figure—and it must be higher now—before Labour came into office, so it is out of date, but it cost the Chancellor about £9,000 to have someone unemployed who need not be unemployed: the individual is not paying tax, is receiving benefits and is not paying national insurance. Is there currently a figure? To some extent, are not regional development grants—and I only say to some extent—almost self-financing in so far as they succeed?

**Sir Robin Young:** They might be. That sort of calculation is one of the justifications for, for example, the Welfare to Work Scheme and other schemes where people come off the dole into work. The RSA is a very small scheme and is meant to attract people into employment. I think you are right that this scheme and other regional support schemes are part of that overall argument, but I would not want to say it was a central part for the reasons that have been given.

**Q20 Mr Williams:** RSA is a small scheme, but it is involved in major schemes as well, is it not—major inward investment schemes also qualifying for RSA and criticised for getting it in some cases. Ford, at Bridgend, have just had their second phase after twenty years, and now they are reinvesting. It is one of the most productive plants that Ford has worldwide, according to the Managing Director in the UK. In so far as one gets the car industry and it is taking a large share of RSA, should we not also take into account on the other side that there are enormous balance of payments advantages when you have a major share of the European car productive capability?

**Sir Robin Young:** I completely agree with you, and I am glad to say that the Report does acknowledge on page 32, paragraph 4.18, that 53% in money terms of the total grant offered went to foreign-owned companies. As you say, that must have a huge benefit for the country.

**Q21 Mr Williams:** The change to providing now 50% of this money to the regional development agencies—and I am all for regional development agencies—how far is that affecting the efficiency of use? It takes some of the control and the application of criteria out of your hands, does it not?

**Sir Robin Young:** The criteria are the same, but the workings of the administration of the scheme are passed to them. It started in 2002, so we have only just had our first full year of this. The reason we did this—and it is for grants below £2 million, which have been given to the RDAs to do, as set out in paragraph 3.12 on page 23, is so that the RDAs can look at this in the context of their economic development strategies, and in their minds at least connect up the work on assessing RSAs and the likely displacement and likely effectiveness of the applications in the context of their regional

economic development strategies, which are increasingly an important part of the Government's regional policy.

**Q22 Mr Williams:** Can I draw your attention and that of the NAO to table 2 on page 10? Can I put this to the NAO: is this not a misleading use of the bar diagram, in that you have added—instead of running alongside, which would have been statistically more accurate—the very differently targeted enterprise grants to the columns which include the RSA? To some extent, as a regional interpretation—and this used to happen with HIV and AIDS statistics when they were presented—you are distorting the fact that there has been a major fall in RSA expenditure. If you looked at 1995–96, which is the second column, and then looked to 2001–02, the last columns, and look at the light blue sections, actually the RSA expenditure in the last column is one-eighth of what it was in 1995–96; yet looking at the diagram as it is presented, one has a rather complacent impression that there has not been much change in the nature of expenditure on regional employment.

**Sir John Bourn:** Mr Williams, I think there is a very clear distinction in the way the graph is drawn up, between regional selective assistance colour and the European grant colour; and the figures relating to the different grants are shown very clearly. I will ask Mr Sloan to add to that.

**Mr Sloan:** The reason why we did it like this, Mr Williams, is because enterprise grants when created—although it is different in some detailed respects—took the smaller applications that RSA would once have dealt with. By adding them together, you get a sense of how total selective assistance in this area has gone.

**Q23 Mr Williams:** Going back to the Department, is it not a dramatic change that has taken place in the use of regional selective assistance between 1995–96 and 2001–02, when it is down to one-eighth of what it had been? This is expressed in numbers of grants. What is it in value terms now, and what was it in 1995–96?

**Sir Robin Young:** I will ask Andrew Steele to answer the second question. On your first question, I think that Mr Sloan gave the right answer. If we had expressed RSA only in a separate table, with enterprise grants separately, that would have been to disguise the fact that all the small RSA projects had come forward under a different name—enterprise grants.

**Q24 Mr Williams:** No, that is wrong. That is not what I asked. What would have been statistically more accurate would have been to run the two columns side by side, because they are different grants, a different scale of grants, and therefore it is misleading when you are comparing numbers. What is implied by the table here is that there is a much higher number of grants which are equated with grants that were available earlier. It should have differentiated them. What I am trying to get at now



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is what has happened monetarily. If it has fallen to one-eighth in number of grants, what has happened to the capital expenditure?

**Mr Steele:** I would just like to be clear that, as the National Audit Office said, at the time that we introduced enterprise grants in 2000, RSA was no longer available at that level of project size, i.e., a project size of about half a million—the threshold between enterprise grants and RSA, as the Report makes clear. Before 2000 RSA covered the whole range of project size, from the very smallest, right up to the very largest. This presentation—although, as Mr Sloan has said, enterprise grants are now available in a slightly wider area—RSA is not actually available in the assisted areas to those small sized projects. To come back to your question, Mr Williams, on the value of offers, in terms of offers accepted of RSA in 1995–96, according to our data, that had a value of £160 million—this is money of the day. In the latest year, 2002–03, which we have not yet published figures on—and I should emphasise that these figures postdate the NAO’s analysis of the scheme—it was £123 million, again in the money of the day.

**Q25 Mr Williams:** Is that at constant prices, or is that at historic prices?

**Mr Steele:** Historic prices. In 2002 prices, we calculate that in 1995–96 the value was worth £191 million as against, obviously, £123 million, the same number, for 2002–03.

**Q26 Mr Williams:** So it has fallen by over a third. That is quite a dramatic figure.

**Mr Steele:** Yes.

**Q27 Jon Trickett:** Why has it fallen by so much?

**Sir Robin Young:** It is demand-led.

**Q28 Jon Trickett:** So there is less demand.

**Sir Robin Young:** Yes.

**Q29 Jon Trickett:** Why is there less demand when the area covered is larger?

**Sir Robin Young:** I do not think we know the answer to that question. As I say, the percentage success rate is about the same.

**Q30 Jon Trickett:** How do you organise your budget provision, then?

**Sir Robin Young:** We make a guesstimate of the likely demand.

**Q31 Jon Trickett:** Have there been years when it has increased above the budgetary provision at the beginning of the year?

**Sir Robin Young:** We are normally reducing, but in the past our internal estimates have been higher than actuality.

**Q32 Jon Trickett:** The truth is, you try to manage the budget down.

**Sir Robin Young:** No. The success rate for applications is around the same.

**Q33 Jon Trickett:** Yes, but there are less applications.

**Sir Robin Young:** Yes, but we are not managing that.

**Q34 Jon Trickett:** Paragraph 1.5 is, I think, misleading because it says that the calculations are based on criteria at ward level; but so far as I am aware, GDP per head is not calculated down to ward level.

**Mr Steele:** The reference to GDP per head is the European Commission’s requirement.

**Q35 Jon Trickett:** Yes, we do not calculate it down to ward level, do we?

**Mr Steele:** No, but for Tier 1 areas, which is where GDP per head is most relevant because it is the only criteria—

**Q36 Jon Trickett:** That is not at ward level; that is determined at sub-regional level.

**Mr Steele:** That is determined at sub-regional level, indeed. For Tier 2 areas, that is determined by an agglomeration by ward.

**Q37 Jon Trickett:** So it is not true to say that the main criteria governing the specification of areas were employment and economic activity at ward level. It talks in the next sentence about the GDP per head. It is not true to say that that relates even to Tier 1 or Tier 2 wards, since we do not know the figures for GDP per head at ward level, do we? That is not a correct statement.

**Mr Steele:** It does say: “In Tier 1 areas GDP per head would have been less than 75% of the European Community average, based on data available at the time of designation. Tier 2 areas are based on groups of electoral wards, where significant disparities exist from the national average in residential or workplace unemployment . . .”

**Q38 Jon Trickett:** I think that paragraph is misleading and I just wanted to see whether there was some information that I was not aware of, in terms of ward levels. Earlier, you were asked about additionality and so on. You said you had an elaborate scheme for looking at issues of displacement and additionality. Why has the UK volunteered to have a far more elaborate scheme than elsewhere in Europe?

**Mr Steele:** It is the result of our wish to evaluate properly and comprehensively and completely the value for money we are getting from this scheme. That is the reason. We have done it three times, as set out on page 28.

**Q39 Jon Trickett:** Is it not the case that comparative governments within the EU operate a simpler scheme that is less costly to companies which might be struggling, and less costly to the public purse; and that one could therefore argue that large amounts of money proportionately get directly to the additional jobs per head. Here, are we not creating significant numbers of appraisal officers and officials, rather than jobs producing goods and services going to the market place?

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**Sir Robin Young:** I hope we are striking the right balance—though I am open to correction—between a correct and proper evaluation on value-for-money grounds and sufficiently light touch on administration grounds. It is not right that the cost of administration dwarfs this in any serious way. If you look at paragraph 4.6, the NAO rightly states that our evaluations are substantially more thorough and soundly based than the evaluations of regional programmes carried out by other European countries, few of which had addressed additionality or displacement at all. I fear that if I acted in one of those countries, you might be asking me why I had not addressed additionality or displacement.

**Q40 Jon Trickett:** I think that what we are doing, which is often the case, is dredging our way through the small print and increasing the amount of bureaucracy relative to the rest of the European Union, to the disadvantage of home-based producers of goods and services. I think that your answer seems to demonstrate that that is the case.

**Sir Robin Young:** I do not think it does. I hope it demonstrates that we are striking the right balance between proper evaluation *post hoc*—not during the application stage. We ask them to fill in a form, saying “will you just displace jobs; and are your jobs really additional?” I think that that is absolutely sensible, and indeed I think you would rightly criticise me if we did not insist on such questions going in to the application form. The Report gives no evidence that people have been seriously put off by that, nor does it say that other European countries have produced better schemes.

**Q41 Jon Trickett:** In terms of demand-led, does that not mitigate against strategic intervention, in the sense that the most deprived areas may not have the most enterprising form-fillers or even the most enterprising officials in the regional office or wherever? To that extent, you cannot demonstrate the correlation between productivity—these groups of regions—and where the money is actually going, can you? There is no correlation between the two.

**Sir Robin Young:** One reason why we devolved administration of RSA from central government or its regional offices to the RDAs, was to introduce a connection with the strategic economic development function of the RDA. I think that although it has only been going for a year, that has been widely welcomed as being useful in making the RSA work of the RDA correlate and connect with the economic development work of the RDA. Certainly, each time we have had an evaluation, ministers under successive governments have looked at the possibility of stopping this being a demand-led scheme and having it a centrally encouraged scheme, and concluded against that, on the grounds that it was more likely to be better value for money to go with the grain of existing bidders’ applications, rather than invent a scheme from scratch.

**Q42 Jon Trickett:** Recently, the Government announced enterprise districts, of which there are 2,000 in the UK. How does that relate to the map of

wards which you have created for Tier 2, for example? Is this not simply another additional set of geographically defined areas?

**Mr Steele:** I may only be able to give you a partial answer. Certainly, in drawing up the assisted areas map we had in mind a combination both of areas of acute labour market weakness or low employment participation rates or higher unemployment, together with areas of industrial opportunity, i.e., where it was likely that further industrial development could be introduced, and therefore where RSA could have the most effect in terms of regional opportunity and regional industrial opportunity. I am not, as I sit here, familiar precisely with the definition. I believe that the 2,000 enterprise wards were done on the index of multiple deprivation.

**Q43 Jon Trickett:** It is very difficult to get hold of a map of the 2,000 wards; it is almost impossible to find out where they are. It would be interesting, perhaps if a written presentation could be given to the Committee which would correlate it and show to what extent there is overlap and to what extent they are different. If the Government is tackling deprivation in a number of different ways, it ought to reinforce rather compete one with the other. I wanted to raise a final point relating to table 5 on page 16, which talks about eligible expenditure. If I had time, I would relate the case of a particular textile company in my area which was refused expenditure because it was not eligible. In here it seems to say that the only kinds of expenditure which are eligible are capital expenditure, fixed assets, property, plant and so on. However, in the line below that, it talks about salary costs being capitalised. This is really fancy accounting, when you capitalise salary costs. How can we explain that salary costs can be capitalised when the only eligible expenditure is really plants and buildings? What kinds of salary come under plants and buildings? Can you give us an indication of the scale of capitalisation that is being done? It used to be called creative accounting, when Mrs Thatcher was in Number 10, did it not, and—

**Mr Steele:** I do not think that the reference really should be interpreted as creative accounting—or I do not interpret it as that. The reference is to a way of calculating European Commission ceilings on the amount of assistance that governments can give as part of their state aid controls. In their new regional aid guidelines which came into force in 2000, along with the new assisted areas map, there was an alternative to the traditional way of calculating eligible expenditure, the traditional way being exactly plant, machinery and buildings and so on, because they were concerned that there should not be too much skew towards the capital side, on the basis that job creation was as important as initial investment. So they introduced an alternative way of calculating that ceiling, which was essentially to take two years of salary costs, provided that new jobs were created and apply the so-called European

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Commission intervention rate to those two years' salary costs, instead of the rate to the eligible expenditure.

**Jon Trickett:** I do not think I followed that at all. If I did follow some of it, it actually explains this particular sentence. I do not have time to explore that now, but it would be helpful to have an additional explanation about this capitalisation of salaries, particularly because many members may have local firms that were refused as being non-eligible, which might have been had this rule been in application.<sup>3</sup>

**Q44 Geraint Davies:** Sir Robin, like Mr Alan Williams, I am in principle very much in favour of regional development grants. He reminded me of the fact that my father, David Thomas Morgan Davies was involved in the location of Ford at Bridgend, as a civil servant heading up economic development in the Welsh Office. You will have seen the coverage in today's *Financial Times* and I want to focus on the particular case of LG which, as you know, in 1997, when William Hague was Secretary of State for Wales, he promised to deliver 6,100 jobs in exchange for £247 million of public money. Now, I think there are only 300 jobs left and it works out at about a third of a million pounds per job. Do you think that that particular scheme was well handled?

**Sir Robin Young:** John Bourn will correct me if I am wrong, but I am briefed that I am not allowed to make any comments about Welsh or Scottish schemes because not only am I not responsible for them myself—<sup>4</sup>

**Geraint Davies:** This was done before the Welsh Assembly. I am talking about whether this was well managed before the advent of the Welsh Assembly.

**Q45 Chairman:** This is a huge article on the front page of the *Financial Times* and I think you could pass up on it really, to illustrate what is going on.

**Sir John Bourn:** Chairman, perhaps I should make the point that this is something that is under investigation by the Auditor General for Wales at the request of the Audit Committee of the National Assembly. The Auditor General for Wales will be making a report on it to the National Assembly, and it will cover the origin of the scheme as well as its present position.

**Chairman:** You may have some difficulty in getting an answer on a specific scheme, but you can, if you want, try and talk around it.

**Q46 Geraint Davies:** I will try and talk around it because what I am interested in knowing is what lessons were learnt from this by the Department for the future use of public money, in terms of safeguards and process before we get into it, because I was interested to read here that a Treasury official, at the time that the green light was given to this £247 million, said that they were only given hours to vet the scheme, and he said, "it was the most scandalous

thing I ever saw". I am wondering whether we have a situation still where an international auction may be provoked by a multinational company trying to get regions and nations bidding against each other for the highest amount of cash to locate—what is regarded as a very high price—in this case chip production of a massive scale in the global marketplace—whether you can imagine a situation where such an auction would occur again and where the excitement is such that corners are cut and somebody says, "we need 'yes' or 'no'; how much is it? Is it 247? We are going ahead." Could that ever be imagined to happen again?

**Sir Robin Young:** I would never say "never".

**Q47 Geraint Davies:** I was hoping you would.

**Sir Robin Young:** Certainly, the lesson we have learned from all the previous schemes and the evaluations, is that it is important to get the right balance between investigation and interrogation of applications and the awards that we give. Then it is very, very important to have mechanisms to not pay the grant if things go wrong. For example, if you look at page 28, paragraph 4.3, of the Report, it says that of the 3,000 RSA projects which had been completed at the time the Report was written—we were rather reassured to see that 69,000 jobs were expected, and 67,000 had been created; that is to say jobs that were safeguarded or created—where that does not happen, we of course have the right to claw back grants. Indeed, other English examples, which I am allowed to talk to—<sup>5</sup>

**Q48 Geraint Davies:** This was an English example, in the sense that there was no Welsh Assembly in 1997.

**Sir Robin Young:** If you look at another example in the same list in the same newspaper, you will see no.3, which is Siemens. We in England paid £18 million on the promise of 1,567 jobs—and I am quoting from the *FT*—and they did not produce, and we got the £18 million back. That is a lesson learnt from other unhappy things, on which I make no comment.

**Q49 Geraint Davies:** Do you think the Welsh Assembly would get the £100 million back?

**Sir Robin Young:** Well, I have made a promise to my colleagues in Edinburgh and Cardiff that I will not, on instructions from Sir John Bourn, comment on their cases. I am really sorry, but I cannot.

**Q50 Geraint Davies:** Coming back to the article, it says that of the top 50 support awards since 1993, 10 have folded and six are falling short; and of these 16 they offered £322 million to create 27,647 jobs. Have you got any comment about that?

**Sir Robin Young:** If I can just enlarge on the point I was making earlier, I said before that 303,000 jobs were expected to be created or safeguarded as a result of the offers made since 1994. We are really, really keen that those jobs should be produced, that they are English jobs here, because that is the whole

<sup>3</sup> Ev 20

<sup>4</sup> *Note by witness:* Prior to devolution, RSA in Scotland and Wales was the responsibility of the Accounting Officer for the Scottish Office and Welsh Office respectively.

<sup>5</sup> See footnote to Q44.

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purpose of the scheme—to produce jobs in the most economically deprived parts of the country. The reassuring feature of this Report is that we do seem to have, on the basis of the projects completed, a 97% hit rate, which is not bad—although it would be better if it were 100%. That means that if that rate were continued, we would have something very close to 303,000—if things go ahead and all projects reach completion.

**Q51 Geraint Davies:** In relation to joined-up government in terms of the Foreign Office, there is a quote here in the *FT* from a Foreign Office official that there was a gross failure to recognise downside risks of the project, which was overseen by William Hague, the Secretary of State for Wales. This is again about what you do not talk about—I know that—but in general could that happen again; that there were briefings from the Foreign Office about downside risks of a prospective project in a particular country, that were sort of ignored by the DTI, and where the Treasury had no opportunity to value a scheme that was pushed ahead and told, “go; we will give you another £100 million, or whatever the auction price is, and then downstream we pay the costs”? Could that happen again? How much do you speak to your Foreign Office colleagues on this sort of thing?

**Sir Robin Young:** We are guided a lot by British Trade International, which is shared between the Foreign Office and DTI. I mentioned earlier, and it becomes relevant now, the Industrial Development Advisory Board for large cases, which would certainly include the sort of cases you are talking about, and Regional Industrial Development Boards. The Secretary of State gets independent advice, not just from officials but from other people who might be thought to be influenced by the Foreign Office, but also by these independent people on the Industrial Development Advisory Board. We therefore have a system erected to avoid any improper or sloppy analysis; so we have an official’s recommendation which is then franked or not by these independent members on these boards.

**Q52 Geraint Davies:** Is there a danger of a strong minister completely overruling the advice of even a DTI official, because again there is a quote here: “The decision to award £247 million for LG to build two factories in Wales is the most scandalous thing I ever saw.” I wonder whether this sort of thing still happens—the DTI and Foreign Office not giving Treasury the chance to have more than a couple of hours to evaluate it. Surely, that could not happen again, could it—or could it?

**Sir Robin Young:** I cannot comment on the specific. We have erected a system whereby there is stringent evaluation in line with the transparently set out criteria. There is independent evaluation of the official recommendation, and then there is the Secretary of State’s decision. That is what happens. If something was seriously bad value for money—

**Q53 Geraint Davies:** You would write a note.  
**Sir Robin Young:** I would.

**Q54 Geraint Davies:** Given that there are pressures now, and have been in the past from the regions—it used to be the Welsh Assembly and the Scottish Executive, and I guess the DTI—as we move towards regional government do you think there is going to be all sorts of pressures behind the scenes? I have just mentioned a grotesque example of political interference here. Do you think there will be any difficulty with the new structure not seeing the wood for the trees and not having a broad strategy, because everyone is tugging? Do you think there is a danger of different regions bidding up a prospective investment in Britain so that a new LG might bid one region against the other, and before you know it public money is not optimally used?

**Sir Robin Young:** I hope not. It is always unwise to say “never”. As accounting officer for this scheme, it is my job to police the value for money of it. Excessive intervention not in line with the criteria set out in the scheme would require a direction, in which case this would become public in due course. It is the case that I am responsible for making sure that the transparent scheme criteria are followed, and we have these independent business-led advisory boards to help police that.

**Q55 Geraint Davies:** Is there a danger of sub-optimally topping up different investments between regions? It is a bit of an old example, but when the steel industry was renewed, half was put in Ravenscraig and half at Llanwern for political pressure reasons. The regional development money should all have been in one place because they were moving around steel. Could that happen again?

**Sir Robin Young:** Well, this is all hypothetical. We would obviously work with colleagues in Edinburgh and Cardiff to avoid wasteful competition between us. I cannot answer hypothetically very easily.

**Q56 Mr Steinberg:** I have got to say, Sir Robin, that when I read this Report and the final report, I was extremely disappointed, particularly for my region in the North-East, where the scheme seems to have totally failed to make any real progress into the situation that we have there. On page 14 of the Report, figure 4, we see that during the early 1980s regional disparities widened considerably; and then they seemed to converge at some stage. Why is it that the North-East of England is at the top of this graph constantly throughout the 1980s and 1990s, into the next century—and presumably in the 1970s? Can you give me a reason?

**Sir Robin Young:** I think there are others more expert than I on regional statistics, but—

**Q57 Mr Steinberg:** With great respect, I would expect you to be an expert on it as well because your department is giving out money to the regions. Frankly, as far as the North-East is concerned, it has failed miserably, has it not?

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**Sir Robin Young:** Well, we do not know what would have happened if we had given out less money. This is the RSA scheme, which is a small amount. The North-East has a large share of the Regional Development Agency budgets, and there are other regional spends, which I imagine are designed to reflect the circumstances of the North-East. I do not think you can expect that the overall unemployment differential, which is the title of figure 4 here, would be very significantly affected by RSA schemes pure and simple.

**Q58 Mr Steinberg:** I agree, but what I would expect is that if there was regional aid being given out to the most disadvantaged regions, we would have a situation where the North-East of England clearly is the most disadvantaged region in the whole of the country as far as unemployment is concerned; and even when it does converge slightly in the early 1990s, the discrepancy is still huge. Why has something never been done about that to close that gap? Clearly, there is a big gap there; clearly, we are disadvantaged as far as jobs are concerned; and yet nothing seems to have been done on the basis of giving any special help. Why is that?

**Sir Robin Young:** Again, we would need a separate table to look at the proportion of government funding across the patch which goes to the North-East. This Report does not cover that; it covers RSA only, which is a demand-led scheme, and where the North-East, I am sure, gets its share—or no worse share than other regions—of successful applications.

**Q59 Mr Steinberg:** That is not the point. I am not arguing whether we have had a fair share or we have not had a fair share; I am saying that it is as clear as the nose on your face or anybody's nose on anybody's face, that the North-East is a disadvantaged area, with less jobs and more unemployment than anywhere else in the country; and yet it appears to me that grant aid is given to the South-East, the East, East Midlands and West Midlands, which all have average unemployment. The North-East does not; it has always been well over—at one stage 6% over the national average—and we get no special help. Why?

**Sir Robin Young:** If I could refer you to the map on page 11, you will see from table 3 that the eligible areas in the North-East are a huge proportion of the region by comparison with the tiny proportion of, for example, the East or the South-East. So it is actually the case that the coverage of the North East by assisted areas is far, far greater, and therefore the number of eligible applications in the North-East is far, far greater than the wealthier areas. You are obviously right that the unemployment differential on table 4 does show that the North-East has severe challenges, which presumably successive governments have been trying to address, and which we in DTI must try and address along with Treasury and the Office of the Deputy Prime Minister. We have this PSA target over the long term to reduce the persistent gap in growth rates between the regions. I think this table shows that successive governments

have tried to address the persistent gap. As you rightly point out in the table, it is our target to try and do so. My only point in respect of RSA grant is that it is only a very small part of the picture and it is demand-driven.

**Q60 Mr Steinberg:** I am going to move on, but all I would say is that I do not dispute that there are areas of disadvantage throughout the whole of the country. The fact that you yourself said that the North-East has the biggest area of disadvantage, it seems to me, quite clearly, that it is wrong for money to be put into areas of the country that are clearly quite affluent and do not suffer from the number of job losses that we have, or lack of jobs that we have. Yet, for nigh on 20 odd years—nearly 30 years—we have clearly been the worst area of the country and have not had the special help that we deserve. I am glad to say that you are looking at new ways because we are looking to see what is going to happen in the future. My involvement in these schemes has been reasonably minimal, and only when I have been asked to help have I done so. The one occasion that does come to mind is that I was asked to help a business in my constituency where 300 jobs were at risk. They have been refused assistance. It was only when I intervened and asked to meet the Secretary of State that the decision from the DTI was reversed in the region. The money that they were requesting was made available; the 300 jobs were saved and are still there now, four years on. I spoke to the regional office at the time, and I was dealt with by arrogant civil servants who were clearly saying that they were right and everybody else was wrong. Why is it that the Report seems to indicate as well that criteria throughout the country are different? Why is it that in the North-East the criteria are much stricter than perhaps in the rest of the country, while we have most problems?

**Sir Robin Young:** I cannot obviously comment on the project you mentioned because I had not heard of it until now. The project would have to be appraised against the criteria set out on page 16 in table 5. That contains the criteria for RSA applications. You have to pass all those tests before—

**Q61 Mr Steinberg:** If you turn to page 24, paragraph 3.13, it states: “In the North-East they see enterprise grants as a ‘cushion’ against the risks inherent in the project. A company that has a ‘cash gap’ in the planned funding of their project would be refused grant on the basis that the project may be non-viable.” If I remember rightly, that is the reason why this grant was refused in the North-East. If I had not intervened on that occasion, 300 jobs would now be gone, presumably, because of it; and presumably the Secretary of State at the time saw the silliness of it and overruled the decision. It goes on to say: “The North East region also apply a formal job creation criterion to enterprise grant applications, even though this is not a requirement of the scheme.” I make the point again: why does it appear that the North East criteria are much stricter

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than they are in the rest of the country; and yet we have the worst unemployment. You would have thought it would be the least strict, would you not?

**Sir Robin Young:** Responsibility for administering the enterprise grant scheme is still with the Secretary of State but the regions are entitled to have different rules.

**Q62 Mr Steinberg:** So what you are saying is now we have the RDAs there is still no difference in the change of the rules. Who makes up the rules for the regions, if that is the case?

**Mr Steele:** The distinction to be drawn here, as indeed the Report does draw, is between RSA as it currently is which is a national scheme operating to broadly common guidelines across Great Britain on the one hand, and, on the other hand, enterprise grants, which is a scheme that only operates in England for the smaller scale projects, directed at small and medium-sized enterprises, and there are common criteria, as set out in table 5 on page 16, but we have allowed individual regions to apply additional criteria, if you like, in accordance with their own regional economic strategies, which Sir Robin has mentioned, and in accordance with their own—in other words local—needs, and some examples of this are given in the Report in paragraph 3.13. Those additional criteria are very much a matter for the region as to where they see its best fit.

**Q63 Mr Steinberg:** So we can have some civil servant sitting in Newcastle making a decision that he thinks is the best decision for the area because of certain criteria, but at the end of the day the decision he is taking based on the criteria he has decided does not necessarily mean it is best for the north east of England. Is this not an argument for regional government?

**Mr Steele:** Taking the particular example of the north east, you were talking about the unemployment problems and pointing out the trends and the fact that the north east remains a very high unemployment region in comparison with other English regions, and it is for that very reason that the north east itself has applied a job criterion to the Enterprise Grant to ensure it is directed rather more specifically at job creation and safeguarding than perhaps some other regions have chosen to do it. So to be fair to the north east, and perhaps it would be equally fair to ask them to explain specifically, in that area it is specifically directed at job creation and safeguarding.

**Mr Steinberg:** You have not convinced me but my time is up, unfortunately.

**Q64 Mr Gibb:** Briefly, how many civil servants are there to administer this scheme?

**Mr Steele:** I would say approximately 50 or 60 administering RSA, both centrally and in the regions but the reason I cannot be very precise is that some of those teams, particularly in the regions, until recently, particularly in the period covered by this Report that is 1994–2002, were administering

other schemes as well as RSA, and particularly the SMART scheme had joint administrative arrangements.

**Q65 Mr Gibb:** Is there a correlation between the number of grants made and the economic cycle? Do you see more grants being achieved when unemployment is up or down? These tables only go back to 1994–95 so it is difficult to assess from this Report, but I wonder whether there is a correlation.

**Sir Robin Young:** I do not know the answer to that question, I am afraid.

**Mr Steele:** Our analysis suggests generally speaking there is a correlation between applications for RSA and the economic cycle, in general. There are, however, some years when that does not hold true but there may be specific things which are affecting the operation of RSA. I am thinking, for example, when the assisted areas map was about to be withdrawn, where we see a spike on applications perhaps not altogether surprisingly, and that may interfere with the statistical correlation, but generally speaking over a period of years we find it is correlated, yes.

**Q66 Mr Gibb:** In terms of applications made and grants issued as well?

**Mr Steele:** Generally speaking the numbers of offers made is related to the number of applications made.

**Q67 Mr Gibb:** So does that not undermine the objectivity of the criteria used to evaluate projects?

**Sir Robin Young:** I do not see why.

**Q68 Mr Gibb:** Why should there be more grants made during downturns in the economy? To me that implies that the criteria in assessing projects are not objective if, in years when unemployment is high, more grants are issued.

**Mr Steele:** I am sorry, perhaps I was not clear in my earlier answer. We see a direct correlation between economic activity and RSA applications, ie it is in periods of growth that applications for RSA go up.

**Q69 Mr Gibb:** So the higher the growth, the more applications? That is not implied from the table on page 10. We have had strong economic growth really since we were ejected from the ERM and yet you find the number of applications with grants declining. Growth is very strong at the moment; unemployment is very low—it is declining; inflation is low. If your answer is right why would you find a decline in applications?

**Mr Steele:** One factor in this is the fact that since the redrawing of the assisted areas map in 2000 we have in England at least a small number of assisted areas, and indeed the intervention rates that I mentioned earlier have been on the whole reduced as a part of that redrawing of the map, so we may be getting a smaller number of applications from a smaller number of areas, to put it broadly. Another factor is the fact that business investment has been not very strong in the recent couple of years or so. I do not have the figures directly to hand but obviously this is an investment scheme and will depend very much

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on the levels of business investment, and as has been pointed out it is still very much dominated by the manufacturing sector.

**Q70 Mr Gibb:** So business investment is declining, Sir Robin. Can we pay tribute to you for that in the DTI? What is happening? Why is business investment declining?

**Sir Robin Young:** Inward investment is down; the relations with the euro area; a slump or near slump in the euro area—there are lots of possible reasons for that.

**Q71 Mr Gibb:** Why has the map been redrawn showing fewer areas of qualifying tier one from tier two? Is that because the prosperity of Britain has increased since the map was drawn last time?

**Mr Steele:** A substantial reason for it is the employment and unemployment rates compared with the rest of Europe. This is a strong feature behind the provisions in the European treaties that govern the operation of regional aid, and it is very well known that United Kingdom employment and unemployment rates are generally speaking higher and lower—I hope I have that the right way round—compared with our major European rivals so that has been one of the influences on the map as a whole.

**Q72 Mr Gibb:** So as Britain maintains its position as a full employment economy over the years, as I believe it will, is there a case in the long run for abolishing this grant as that is sustained, or will there always be a case for this sort of grant?

**Sir Robin Young:** We will find as the EU expands with a greater number of accession states that we will be eligible for far fewer structural funds altogether, not only with the assisted area map as you say reduced but the United Kingdom will be eligible for far fewer, if any, structural funds as a result of being a more, relatively, wealthy member of a larger and poorer family.

**Q73 Mr Howarth:** Could I say at the outset that this scheme and its successors goes back really to the 1960s and even before that really. There is a lot of experience in my constituency in that Harold Wilson was President of the Board of Trade and places like Kirby and Hightown were very much built on the back of these sorts of schemes so we have good reason very much to appreciate that, but there are two areas I want to explore a bit further and the first is the role of regional development agencies in this process. I do not know whether, Sir Robin, either you or Mr Steele could explain exactly where regional development agencies fit into this process?

**Sir Robin Young:** Certainly. Paragraph 3.12, or if you wanted paragraph 1.7 on page 10, until 2002 RSA were administered by government offices, that is to say civil servants but with their regional offices, as you know, Mr Howarth, but after April 2002 it was the decision of this government as part of, as it were, bringing our grant regimes closer to the coal face, all grant offers up to £2 million and the routine monitoring of RSA projects were given to the RDAs, partly to bring it closer to the business

applicant but partly also to relate the work in assessing RSA cases more to the economic development strategies of the RDAs which were becoming an increasing cornerstone of the Government's regional policy to address the disparities between regions which Mr Steinberg has been talking about.

**Q74 Mr Howarth:** So in my area, for example, the RDA is involved in the supervision of single regeneration schemes; it is responsible for the supervision of regional selective assistance. Do you not think they might be falling over themselves a bit with rather too many schemes, where there is some overlap between the two types of scheme?

**Sir Robin Young:** As a generality I most certainly do agree with you. One of the reviews we are carrying out within DTI at the moment is of the whole portfolio, I think it is around 270 business support schemes which the DTI are responsible for in one way or another, some of which are done locally by the RDA, others by the Small Business Service, others by Business Links and others through local government, so there is a confusing panoply of schemes, and we know this because we have asked business representatives and organisations what they feel and they say they are thoroughly confused, so there is an overlap and too many confusing schemes. We are going to try and sort this out I hope before the summer recess in an announcement about the rebrigading of our business support products to make it much simpler and less overlapping, but the connecting of work on RSA with the rest of the RDAs' work is a plus because before you had RSA being done by civil servants who are then not responsible for the rest of the economic development strategy, so bringing it together under the RDA roof was a good idea.

**Q75 Mr Howarth:** It may well have been a good idea but is there any evidence that it has been effective in practice?

**Sir Robin Young:** Well, we only have had the one year. April 2002 was when we delegated to the RDAs this responsibility, and I am talking about RSA applications of less than £2 million because do not forget it is from DTI and its regional offices to the RDA, so it is too early to say. What we can say is they have taken on the new job with enthusiasm and nothing has gone wrong with it as we have handed over, and I would hope in the years ahead we will see the advantage of connecting the RSA decisions with the rest of the economic development strategy.

**Q76 Mr Howarth:** With respect, Sir Robin, if somebody gave me the discretion to be able to dispose of investments of up to £2 million I think I would be quite enthusiastic about it, but enthusiasm is not necessarily the same thing as effectiveness.

**Sir Robin Young:** I meant enthusiasm from the applicants. Local business stakeholders have said they are happier to be dealing with the RDA with whom they are in discussion already about other aspects of European funds and economic regional agenda, so they feel they are talking to the right

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people about their RSA grant. They got confused before as to whether they had to talk to a government office or to the RDA and they are now with the RDA.

**Q77 Mr Howarth:** Secondly, and this has already been touched on when one colleague referred to it as the bidding process, where somebody either is proposing to move out because we have had a lot of experience in my own constituency or for that matter a new investor moves into an area, both of which are necessary, one of the experiences we have had and it really rankles with people, particularly employees and former employees, is that large scale investments are often put into companies who make various promises about jobs, continuity and so on, and within a very short space of time they are on the move again, possibly looking for grants elsewhere. I know you have the ability to claw back but it does seem to be used very lightly. Do you not think there is a case for monitoring more closely what happens in terms of the investments that are made and perhaps taking a tougher line where it becomes apparent that really these schemes are being exploited?

**Sir Robin Young:** I certainly do agree about the importance of monitoring and taking a tough line when things go wrong. I mentioned the Siemens case in the *Financial Times* as an example of where we have done just that and clawed back the whole of the £18 million grant. The second point about monitoring is that when we did look, as in page 28 paragraph 4.3, and compared the figure of jobs promised to be safeguarded and created and then looked for the completed projects at those jobs which were then achieved, we have got a 97% hit rate, so I do agree about the importance of monitoring but that evaluation does show that in those cases anyway, it is not true of all cases by any means, and there are over 3,000 of them covered by that paragraph, we have a 97% hit rate which I am reassured by.

**Q78 Mr Field:** Could I dwell on one point, Sir Robin? It is quite clear from both the regional report and what you have said that this is not your baby, you have inherited it, but I was intrigued by the questions which the Chairman began with and with which you agreed which were that the aim of this programme and other programmes was to close the gap between areas of least advantage and those with most advantage. To do that one presumably has to try and understand why it is that some areas are so lacking in advantage compared to other areas. Could you go over with us what they see as the dynamism? Why do some areas lag behind others?

**Sir Robin Young:** Certainly and you have put your finger on the most important aspect of this really. One reason why we cannot get a simple picture is that the picture is not simple and varies between regions. Certainly, and you hardly need telling, Mr Field, there are some areas of very high unemployment, some of very high inactivity levels, some with incredibly low levels of skills, some with very low incomes, some with very low productivity

and all of them probably with low capital investment, but no one area has the same combination of those which is why, although it would be nice to have an RSA scheme directed at particular targets only, when you talk about multiple market weakness you are talking about that mixture which varies between different places. Some places cover a large region; others cover black spots within otherwise wealthier regions. That is why the map has those isolated assisted areas which are less economically successful, spots within otherwise successful regions. A different mixture of those facets of multiple market weakness will apply to each, in my view, and certainly that is what the evaluation has come up with.

**Q79 Mr Field:** So if at the expenditure review you were asked to go back to square one and think how would I spend this money if I was not spending it this way to try and make good the gap between the poorest and richest areas, you would probably still come up with a scheme like this?

**Sir Robin Young:** It might be part of the weaponry but it already is only a small part. We are also looking at—because I repeat we have this PSA objective, on which I would welcome all help, to make sustainable improvements in the economic performance of all regions and over the long term reduce the persistent gap in growth rates between the regions, not a straightforward target to hit so we are discussing exactly the point you raise—we are looking at various parts of the RDA budgets, various parts of the education and skills budgets, looking at learning and skills councils, we are looking at the role which transport and transport links play and we are looking at the role of economic clusters, universities and higher and further education. In different areas, different mixtures of putting resources in will have beneficial effects. In my view an RSA scheme should be part of the overall weaponry—not the main part, it is only a limited scheme, but if there are applicants for sustainable jobs which can be tilted towards those areas by a relatively small injection of government funding, that seems to be a legitimate part of the overall weaponry to tackle what is a much bigger problem.

**Q80 Mr Field:** It probably does not surprise you that I share the same memories that George Howarth has of these schemes but we may both have partial views of those—namely that separate from trying to maintain jobs within an area, to attract jobs within an area, the ones that roll up for help are those which are capital intensive. To what extent do you think that is a better buy than trying to devise ways of cheapening labour in those areas to attract employers and capital in without cutting wages?

**Sir Robin Young:** Another very topical issue. It is the case that the current scheme only attracts projects where there is capital expenditure exceeding half a million—your very point—and that is a part of the scheme, and deliberately so. The enterprise grant which we discussed earlier then is an opportunity for smaller firms. The issue of current schemes and



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smaller schemes is that they tend to be more mobile so that the money we spend on capturing them is, according to the evaluations,<sup>6</sup> more likely to disappear more quickly than those who have had to spend more money on capital spend, which at least anchors them in your constituency, as it were, whereas if you use public money to attract the more mobile sectors then they can come in and out, take the money and run. Operating on the overall wage pool is a much bigger subject, and one which the Government is entering into, I believe, with its latest pay review proposals.

**Q81 Mr Field:** But given that we can now postal district analyse data in a way in which we could not previously, and from that we see the most disadvantaged areas much more clearly, if you were called before the Chancellor when he next does his review of public expenditure and he was saying, “Look, you have the freedom to choose, do we try and attract jobs in an area by making the labour in that area cheaper not by cutting wages, or we continue down the capital route and the capital bar which is in this scheme”, would you not have an answer that you could share with us?

**Sir Robin Young:** I do not think so precisely as all that. It may be that the question is wider anyway and that jobs might be attractive if there was better policing in the worst estates or better transport links between where people live and where people might want to work, so I think the question is wider. I hope it is being tackled by the neighbourhood renewal part of the Government’s machine, which will indeed be interesting for the Chancellor in the next spending review. The job creation aspect of it is, indeed, something we discussed with colleagues in the neighbourhood renewal unit. On the whole my impression is wage levels are not a huge deterrent. That is my current impression.

**Q82 Mr Field:** Both the Chancellor and I have constituencies where there are fewer people in work than when we were first elected, and we have had a whole strategy of trying to attract jobs by capital. We have not thought of trying to attract jobs by reducing the cost of the labour. We hope to be in the House a little bit longer and would like to be returned in our constituencies for being more effective, so might we not think rather differently about spending these sorts of budgets?

**Sir Robin Young:** It is certainly an option. On mobility, having attracted them will they stay? That is the sort of issue that I think can legitimately be looked at, but I agree that the size of the capital hurdle you have to jump to get this grant by definition attracts only a certain type of work and not others which might better be attracted.

**Q83 Mr Jenkins:** Firstly, Sir Robin, most of us are totally in support of the work we are trying to do here insofar as nobody wants to write off a region or an area. We have seen dramatic shifts and changes in employment, in the role of the market so anything we can do and the cost-saving and the benefit from this work is tremendous. You can imagine, if 300,000 jobs had been created in a region and if all those people upped and left and came to London to work, the knock-on cost of providing houses and the social infrastructure would be horrendous, and of course I would not be able to get on the tube in the morning either! In fact, we want more work sent out from the centre to the regions and this is what we are looking at—the strategy and how we implement it and how successful we are, rather than at the scheme itself or criticising the concept of the scheme. When people talk about market failure and unemployment in the regions they think it is a failure but that is not a failure of the market—that is the market working and working effectively to its own advantage, as it always will do. So when we talk about this scheme being demand-led, what we are saying is we are market-led, are we not, in this concept?

**Sir Robin Young:** Yes, and the reason is that we want to go with schemes which someone wants and projects rather than impose our own idea.

**Q84 Mr Jenkins:** I am not opposed to that. We have picked winners from the centre in the past and we have a long list of them littered around this country where they have fallen foul at the first hurdle, so I would say that we must try and find what works in the local area, for the local employer and the local community, and that is what we are trying to get down to. So we have the different government officers who are distributing the RSA, and we are now handing this over to a large degree to the RDAs which are business and market-led.

**Sir Robin Young:** Yes.

**Q85 Mr Jenkins:** So now you see the difficulty of how do you get someone’s aspirations above that market that has created the conditions in the first place?

**Sir Robin Young:** I do not think it is impossible. The scheme is the scheme: the rules are the rules: the criteria are the criteria. The applications have to pass certain tests and all we have done is pass over to the RDA the job of establishing whether the tests are passed, so it is not such a step-change as you imply.

**Q86 Mr Jenkins:** Hindsight is a great thing, and we can always go back to the local paper and say “This scheme failed four or five years ago”, but I remember the day when everyone was into computer shares and high tech money, the market went mad, and looking back we all thought that was folly. Now, with all this wisdom we have now, who would put their money into dot com companies? Nobody. So if we are in a situation of learning from our successes as well as our failures, and we must do, how do we learn? How do you rate the performance of each region? How do you rate the performance of your offices because, according to Mr Steinberg, it says

<sup>6</sup> *Note by witness:* The most recent evaluation concluded that smaller RSA grants had less additionality than larger ones. It did not assess the life of the project against its size. The Department believes that more capital intensive projects tend to be more embedded.

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the criteria laid down in different regions can vary, and that is brilliant. I have no disagreement with that particularly—it can vary for local conditions. Which shows the most success? Which set of criteria?

**Sir Robin Young:** As the Report acknowledges, we evaluate these schemes a lot and the achievement of the various regions, and we compare and contrast the projects as described in the bid application stage with what happens after completion, and I have referred now and then to paragraph 4.3 which shows that, as far as jobs have been achieved at least, for those projects that have been completed we have a 97% hit rate. So for each region we will have a picture of schemes allowed, offers made and outcomes achieved, and that is really important. We have regular discussions between what used to be government office staff and are now RDAs. Similarly when regions have differing processes and views about what shall happen, for example, on the north east unemployment case, it is because the north east has high unemployment that it has been decided that for enterprise grants it should have an employment creation threshold, so there is a connection between the high unemployment which Mr Steinberg pointed out and the special rule which the north east has decided to impose on its dealing with enterprise grants. It has only been doing that for a year so it is too early to say but we will assess what has happened as a result of that and, if it has been a success, in other areas where there is high unemployment it will be asked, “Why do you not too have a job creation threshold if that is a good way of attacking high unemployment in your area?” So what we are trying to do is give local discretion but have a constant monitoring and constant improvement programme so we can see what is happening.

**Q87 Mr Jenkins:** So on table 9, when I got the East Midlands at minus 27, all that means is when they offered to find 1,000 extra jobs we were 270 short of delivery when it was up and running, am I right?

**Sir Robin Young:** I do not know if your figures are right—

**Q88 Mr Jenkins:** I am bound to be right!

**Sir Robin Young:** It is a percentage.

**Q89 Mr Jenkins:** It is a percentage, of course.

**Sir Robin Young:** Because when we see tables like that we immediately have discussions, corrective action. I am told the East Midlands performance has increased radically since the snapshot that was in this Report.

**Q90 Mr Jenkins:** They must have altered their criteria.

**Sir Robin Young:** I do not think so.

**Q91 Mr Jenkins:** No?

**Mr Steele:** As Sir Robin has said, this is a snapshot at a particular point. Projects last for quite a long time; we monitor them for an average of about five years or so and projects will create or safeguard—particularly create—more jobs as they continue, or

we hope they will, and we monitor that. In fact, the East Midlands’ numbers now are significantly lower than the ones shown in this Report but all the numbers will have changed, I should make that point. I have not got all the numbers here but it will not be a factor of different criteria; it will just be progress on existing projects.

**Q92 Mr Jenkins:** I am seeking clarification—I am not critical in any way, shape or form, but of the figure we have been given, when you go along to a company and sit down and you go through all the proceedings and you finally make the company an offer, 20% do not take up that offer. Why?

**Sir Robin Young:** It varies. Sometimes the offer is not as high as they want so it is a game. We do not always offer what they ask—in fact, very rarely—so when they get the offer they say that it is not sufficient. Sometimes their plans have changed and sometimes the company conditions have just altered, so it is being brought under a different manager and that sort of thing.

**Q93 Mr Jenkins:** Companies have gone through the procedure; it has cost them money to go through the procedure; business people do not like throwing money away normally so at the end of the day they have looked at the offer and the conditions and said, “Well, it just ain’t worth it for me”. 20%?

**Sir Robin Young:** They have decided not to go through with it for one reason or another. It could be the offer is too low, or it could be the company has been taken over or there is a change of personnel, or it could be they have just changed their plans or the economic circumstances have altered their view. The answer is we do not really know but it is not necessarily because the application process was wrong, or it might be we offered them too miserly an amount in their view.

**Q94 Mr Jenkins:** Is the five years’ minimum on job security a barrier because to be honest, with the best faith in the world, if I was with a company I could not offer anyone five years’ job security out there today, certainly in manufacturing, so I am going to take an element of money off you, invest it myself, and then maybe two or three years down the line fail and you will be coming back and asking me for the money back again?

**Sir Robin Young:** Yes. The criteria are in table 5 on page 16, and any of those might put people off either from applying or proceeding at the end of the day. The five year job condition which you mention is an EU condition so it is part of the scheme which we are having to follow.

**Q95 Mr Jenkins:** If it was a major hurdle, surely we could go back to the EU and say, “Look, in today’s present economic climate I am sure you are suffering the same thing across Europe as us, and we think it should be reduced to three years, for instance.”

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**Sir Robin Young:** Indeed we would.

**Q96 Mr Jenkins:** I am surprised we have not got that information and have not done that work. That is all I am asking.

**Sir Robin Young:** Fair enough. One of the criteria is you need to have capital expenditure exceeding half a million, and that implies a certain sustainability. You do not put half a million capital up if you are thinking of moving quickly, so it is the connection between all the various hurdles and that five year job security which we need to focus on. We think the package is attractive, but we are open to suggestions as to how it could be flexed.

**Q97 Mr Jenkins:** Competitiveness was one of the key elements in this scheme, and whilst I have seen that there are some very good capital investment projects to improve competitiveness in a particular firm, I am not sure it has impacted upon a particular region. Have you done any work to assess the competitiveness of a region, and are we improving on any of these regions?

**Sir Robin Young:** We have done a lot of work on this and it is a very knotty issue. Each RDA has to have an economic development strategy designed precisely to improve the competitiveness of the region and, indeed, to get its GDP per head growth up to the level of the best. So it is a constantly discussed feature of our relationship with RDAs and there is no single solution. On the competitiveness front, when we changed the RSA scheme in 2000 we shifted away from the pure jobs based idea by introducing more of a quality criteria, a number of factors assessed to help determine the quality of projects, including for example whether the project is creating high skilled sustainable employment and whether it has any R&D content, so we have tried to look at ways of upping the quality of projects in addition to their job creation.

**Q98 Mr Bacon:** Sir Robin, you have said that the scheme is demand-led a number of times and that the schemes that meet, or most nearly meet, the criteria are awarded grants. Does that mean you could fail to meet the criteria or miss them in some way but still be awarded the grant?

**Sir Robin Young:** The package of application material which firms have to fill in expresses where there is flexibility between them. For example, it says—and I am reading from the package now—if you are relocating the same jobs from one part of the country to another you are not eligible for assistance but where displacement may occur as a result of technological innovation there may be grounds for assistance, so there is flexibility between some of these criteria in the material we give to applicants.

**Q99 Mr Bacon:** So could you miss the criteria and get a grant?

**Sir Robin Young:** You could miss some of them provided you have passed sufficient of them.

**Q100 Mr Bacon:** Only 45% of the jobs supported were additional according to page 31 of the Report. Could you say what you would think of as an acceptable level of additional jobs?

**Sir Robin Young:** This is the central question which we have looked at with every evaluation and it is really hard to answer. The other relevant piece is paragraph 3.9, page 23, which points out that the bigger the project the more additional jobs there are which would push us towards saying if you only gave RSA to very big projects you would get much greater additionality and less “wasted money”. This is not, however, what ministers have concluded in successive governments each time we have had an evaluation. It has been a question of what the risk is, and this is a question I put to ministers each time we get one of these evaluations, and it is really important, it seems to me, that we do try and estimate the true effect of these grants taking account of additionality and displacement, because if there were neither new jobs or just new jobs from somewhere else the grant looks less and less attractive.

**Q101 Mr Bacon:** What percentage would you regard as acceptable?

**Sir Robin Young:** I would go to ministers and ask them that question, and at the moment 60% of our total grant paid creates or safeguards additional jobs.

**Q102 Mr Bacon:** So you are basically saying that although going to bigger schemes might have a greater effect, in the instant case you are faced with there is always a very good reason, quite understandable for political reasons, that it is those 230 jobs in such-and-such a factory or constituency and therefore the decision is made for those reasons plus the additional percentage is lower. Is that basically what you are saying?

**Sir Robin Young:** No, nothing like as wide as that. Table 5, page 16, shows strict criteria and the application form is strictly set out and people have to answer all these questions. There will always be a matter of judgment and you will see from the Report that additionality and displacement can only be worked out post hoc because obviously at the application stage we have the firm’s word for what they are going to do, and then with the help of our independent assessors on the RIDBs and—

**Q103 Mr Bacon:** I will come on to evaluation in a minute, if I may. On the front page of the *Financial Times* one adviser who has worked with foreign companies on many of the largest deals said that the system for assessing grants has remained unchanged for twenty years and needs updating. Is that an accurate description?

**Sir Robin Young:** No, certainly not. We have changed it radically in 2000 to add the quality we got in, and I am sure there are other changes since then which are probably in the Report. I know in 2000 we made major changes and the enterprise grant itself is a new innovation. The way the RSA is assessed, particularly on the quality point, was a major shift.

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**Q104 Mr Bacon:** So you disagree with that?

**Sir Robin Young:** I do.

**Q105 Mr Bacon:** Mr Molan, how many hours did the Treasury officials have to assess this grant that is referred to in the *Financial Times*?

**Mr Molan:** I am not in a position to comment on this press quote. I have no idea who gave it and its context.

**Q106 Mr Bacon:** Let me ask you a more general question. What is the shortest number of hours that the Treasury has had to assess a scheme?

**Mr Molan:** I do not have that information to hand. Normally we would expect a reasonable amount of time, a matter of days to turn round a case.

**Q107 Mr Bacon:** When you say you do not have the information to hand, you knew you were coming here this afternoon and you saw this in the paper this morning. Did it not occur to you to find out the information?

**Mr Molan:** I did investigate the frequency of cases which came to us recently, but I did not ask how many hours or days we had to see—

**Q108 Mr Bacon:** What is the shortest amount of time the Treasury has had available to assess the scheme?

**Mr Molan:** The honest answer to that question is I do not know.

**Q109 Mr Bacon:** Could you send us a note on it?

**Mr Molan:** Yes.<sup>7</sup>

**Q110 Mr Bacon:** The shortest amount of time, and if it is in hours or days then obviously that would be helpful. Sir Robin, the *Financial Times* again says, “We are clear”—this is a DTI spokesman, I do not know if it is one of yours—“that there is a role for government to intervene when, for whatever reason, the private sector will not invest in what we consider to be a viable project . . .”. It is this word “viable” that interests me. What are the basic criteria the DTI use to say that a scheme is viable when, for whatever reason, the private sector will not?

**Sir Robin Young:** It is enlarging on the appraisal criteria set out on page 16 in table 5, so the applicants have to fill in—

**Q111 Mr Bacon:** The prospect of being self-sustaining and all that sort of thing?

**Sir Robin Young:** Yes, with financial details. The forms are here, they have to fill in a detailed application with finances set out over a period of years, job creation, money to be invested—detailed applications.

**Q112 Mr Bacon:** The story goes on to say that half of the £750 million invested went to companies that have since closed factories or failed to meet employment creation targets. Some £322.7 million went to create 27,647 jobs, of which only 4,300 jobs

remain. It goes on to say that the money is paid in stages. Of this £322.7 million, can you say how much has been paid?

**Sir Robin Young:** For the English cases I most certainly can. I am afraid I cannot comment on the Scottish and Welsh cases for reasons observed before. So in number 3, Siemens plc—

**Q113 Mr Bacon:** Could you just give a total?

**Sir Robin Young:** No, I have it in my head but in two cases it has been paid and paid back so for numbers 3 and 8, two English cases, the full amount of grant paid has been paid back to us so the net is zero. It went out and came back because they failed to do what they promised to do, which is, I think, a good robust system. For the other cases we are on the case and it is too soon to say whether we will need to have that solution.<sup>8</sup> All the rest I am afraid are Scottish and Welsh.

**Q114 Mr Bacon:** May I ask you about paragraph 2.4 which talks about the extent of economic rationale justifying any scheme of government intervention? It says that regional selective assistance does not have such a rationale because it was introduced before the preparation of rationale was mandatory. It goes on to say, “The absence of a state of rationale means that it is not clear what market weaknesses are being addressed by Regional Selective Assistance or how appropriate the programme is as an instrument to correct these weaknesses. Without a stated economic rationale it is difficult to be sure that the scheme addresses directly the causes of the economic problems facing Assisted Areas or represents the approach most likely to yield sustainable improvements and good value for money”. Are you planning, firstly, to get a statement of economic rationale for regional selective assistance?

**Sir Robin Young:** This is something we are discussing with ministers at the moment as part of our review of all the business support schemes we are doing but the problem with it, and to enlarge on an answer I gave to Mr Field, is the multiple weaknesses faced by the most economically deprived parts of the country are many and manifold and differently mixed so it is not straightforward, nor necessarily desirable, to say that there are one or two causes of economic deprivation in these assisted areas. That is not the case. It is a very complicated mixture which varies locally between high unemployment, high inactivity levels, low levels of skills, low income levels, low productivity and low levels of capital investment. It is a complicated mixture.

**Q115 Mr Bacon:** I understand. If I could pick up your point about Mr Field, as he pointed out quite shockingly to me, in the Chancellor’s and Mr Field’s own constituencies the level of employment is lower than five or six years ago despite all this activity. Mr

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<sup>8</sup> *Note by witness:* The *Financial Times* article of 23 June referred to six English RSA cases: in two cases, grant has been recovered; in one case, we are in the process of recovering grant; and in three cases, the projects are ongoing and they continue to be monitored.

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Field was encouraging you to consider whether it is really in principle wrong to be subsidising capital when the situation you really have is an excess of labour. Should you not be subsidising labour rather than capital if the problem you are trying to address is levels of employment in these types of complex urban deprived setups?

**Sir Robin Young:** Absolutely.

**Q116 Mr Bacon:** So is not this system that is subsidising capital fundamentally flawed?

**Sir Robin Young:** I did not hear him say that nor do I believe it is the case. Capital investment is one way of addressing complicated economic problems—

**Q117 Mr Bacon:** If I can just stop you there because I have not got much time, taking British Steel, or Corus or whatever they are now called, net we produce more steel in this country now than we have ever done and yet we employ very few people in the steel industry sadly and the reason is, of course, capital investment, so it is not obvious that capital investment necessarily creates the large numbers of jobs that you are after, is it?

**Sir Robin Young:** The Report points out that 303,000 jobs are expected to be created or safeguarded by the applications which have so far been allowed. I would argue that 303,000 is quite good. It goes in the economically worst, most deprived parts of the country so you would be unwise, it seems to me, to jettison the advantage of this scheme in favour of another.

**Q118 Mr Bacon:** I am really running out of time—I can hear rustling to my right! You said that when the evaluation occurs you ask the companies to fill in the form in which one of the questions is “Are these jobs really additional?” What happens if the company says they are not?

**Sir Robin Young:** Then they fail.

**Q119 Mr Bacon:** Do they have to pay you back the money?

**Sir Robin Young:** They do not get it in the first place.

**Q120 Mr Bacon:** I am sorry—this is not the evaluation afterwards.

**Sir Robin Young:** I beg your pardon. I am so sorry.

**Q121 Mr Bacon:** I understood you to be talking about afterwards, the *ex post hoc* bit. Is that not what you were saying?

**Sir Robin Young:** I do not remember which answer you are referring to. We certainly ask that question before but as part of the application there is a question—

**Q122 Mr Bacon:** But I was talking about afterwards, during the evaluation. When you are trying to find out whether the jobs are additional or not, is there not an inbuilt bias, an encouragement for companies in their answers, in their enthusiasm to get more grants, to say, “Yes, these jobs have been additional”?

**Mr Steele:** The surveys that are at the heart of the evaluation are done on a confidential basis so the individual companies are not identifiable, and as the Report says there are a lot of questions asked of these companies by which their answers to that fundamental question are tested against, like “Did you have plans to do other things?”. “What were those plans?” “Where are you planning on going?” If the answers were pretty unconvincing then the evaluators were unconvinced that they really were additional, and that is why we have the estimates of additionality that we have.

**Q123 Mr Williams:** First of all, Treasury. Is it not a fact that the Treasury is hardly ever involved in these regional grants? They only come to you when they have particular problems that need to be considered and, therefore, it is very often at the end of months of assessment and consideration that the case comes to you and it is normally then, on a specific point, backed up with the relevant information and decisions are expected quickly?

**Mr Molan:** It is certainly true that the case would normally come to us after quite a period of time of examination internally, but as with all things that come to the Treasury for approval we would expect to be given a reasonable amount of time to look at the evidence and form a view on whether or not we should approve it. Because there is a long process leading up to it does not mean we should be expected to give an instant answer—we need a reasonable amount of time to see the evidence and discuss the facts with the Department—and very often we will go back and say we want some modifications to the terms of the grant or some conditions to be attached.

**Q124 Mr Williams:** What I am getting at is this is a relatively small number of cases. The impression people got from the *Financial Times* is every case must come to you and you are supposed to give your approval and that is nonsense—it is the complete opposite. It is the special cases that come to you.

**Mr Molan:** That is right. There are two thresholds. One is grants over £7 million and those where the cost of a job is over £17,000, which is a very small sub-set.

**Q125 Mr Williams:** Thank you. Now I have to be fairly quick but can I say to the other two witnesses, and I say this with regret, that you have put up one of the weakest defences of regional policy I have ever heard in my life and I am very sad about it. Even taking the point about subsidising capital as opposed to jobs, we are not there just to create jobs for people digging ditches, are we? We are there to try and get people into high tech, value-added jobs that are going to be of maximum value to the country.

**Sir Robin Young:** That is the very point I made in response to Mr Bacon.

**Q126 Mr Williams:** And in terms of value for money I referred in my questioning to the £9,000 per job that was used in the mid-90s as the cost of Treasury of having someone continuously

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unemployed because they are not paying tax or National Insurance and they are in receipt of benefit. Now that is way out of date, but you referred to the figure of 67,000 jobs. 67,000 jobs at £9,000 is worth £600 million a year so if those jobs survive for ten years it will be £6 billion that those jobs have created over time since they were set up. That is a good deal for the Chancellor, is it not?

**Sir Robin Young:** Extremely. Indeed, 67,000 is only those jobs in the projects which have been completed at the time of the Report. The total potential number at the time the offers were made is 303,000 which, multiplied, would be even better.

**Q127 Mr Williams:** And that is above a ten-year expenditure on RSA?

**Sir Robin Young:** Yes.

**Q128 Mr Williams:** So you have a good case but it has not come through. Switching then to the correlation, because the discussion with Mr Gibb was a bit misleading over what happens with correlation, historically what you said is correct: as the cycle improves then the number of investments improves and therefore there is a positive correlation, and when the economy goes up the RSA historically tended to go up. But the important point is that this is fundamental to what you are thinking about the future—that that is no longer the case because manufacturing jobs are now becoming increasingly scarce, is that not so? So although the economy is expanding, most of the expansion is coming not in the manufacturing sector, or certainly not in employment in the manufacturing sector, but in employment in the service sector, is that not the case? So the historic correlation is no longer relevant. It is of interest, and would have been a correct answer up to a certain date for Mr Gibb, but is no longer describing the present situation. Now the Trade & Industry Committee recommended to the Department that it should look again at the case for services being included. Historically we always oppose the case for services on the grounds that they tend to be locally provided, and you would be paying people to provide jobs they would be provided with in the area anyway, but now we are in different area of services, are we not? Take the news at the moment and the loss of call centres to India. Here you are talking of jobs that are service jobs and which are not just mobile nationally but internationally, and we are losing those on a major scale to the Far East. It may be we cannot compete even with the help of grant aid, but does that not suggest to you that you should perhaps revisit the suggestion of the recommendation that was made to you by the Trade & Industry Committee?

**Sir Robin Young:** We certainly are, and we are reviewing that for that reason and others. I repeat that we do not give up on the manufacturing base and it is not the case we are not getting good schemes still, and it would be terrible if we just were to switch—

**Q129 Mr Williams:** No one is asking you to switch.

**Sir Robin Young:** No, and the enterprise grant was one way we have switched in response to the Trade & Industry Select Committee but I am sure there are other ways in which we must look at flexing the scheme in response to local circumstances. Nevertheless, having fixed capital assets as a way of keeping the people there still seems to be a useful part of the scheme.

**Q130 Mr Williams:** Finally, just for when the evidence has been written up and assessed for the Report, coming back to the questioning we had in relation to figure 4 where we were talking about the north east which has identical problems to Wales and Scotland which are outside our remit, is it not a fact that to look at that table in relation to the availability grants is to look at something that is not there? That table is for unemployment and it has no grant implications whatsoever, does it?

**Sir Robin Young:** That is my point, and the Government's response to it is nothing to do with RSA.<sup>9</sup>

**Q131 Mr Williams:** That is right, and in fact, if anything, if you look at what happened in the north, as with Wales and Scotland, we still want more done and what it shows is that whereas at the start of the diagram unemployment in the north was 6% above the national average, it is now still too high but at least it is only 2% above the national average, and similar things are happening in Scotland and Wales. So to interpret that figure as having any significance in terms of grant availability is to misrepresent what the graph is about, because then we go to the information about the south east and the south east does not qualify, I might say. It has 20% of the population and hardly qualifies for it at all?

**Sir Robin Young:** It has very few blips on the map, if you find the map.

**Q132 Mr Williams:** That is right. It is virtually nothing.

**Sir Robin Young:** Table 3, page 11, gives a few blips.

**Mr Williams:** I just wanted to get that clarified.

**Mr Field:** Could I put a marker against what Alan Williams has just said? We had moved the conversation on because we have all grown up in an age when somehow we should be capital led and substituting capital is respectable but you are a ne'er do well if you talk about subsidising wages. Is there not a danger of having a single model approach to how we deal with the inequalities in these areas? Of course, it is important for any country that depends as we do on international trade to have part of our economy up there with the leaders, but if in fact we also have areas where huge numbers of people are not in work, it might be equally sensible at the same time to be trying directly to devise policies which

<sup>9</sup> *Note by witness:* Sir Robin Young was agreeing that figure 4 on page 14 did not show the regional distribution of RSA. One of the main aims of RSA is to address regional disparities in unemployment.

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deal with the surplus of labour rather than just putting all our eggs in one basket and going down the capital route.

**Q133 Chairman:** That is an interesting philosophical question. Have you a response?

**Sir Robin Young:** Yes, but it takes us rather wider than what is in the Report. The RSA is a particular sort of grant to attract a particular sort of investment, and it can be flexed in the way Mr Williams says. Your proposition, Mr Field, is much broader and wider and there is lots of scope for discussion within government about that; it is a very interesting approach to the neighbourhood renewal issue and all the details and statistics coming out by post code and wards do allow for such discussions to take place—I suggested the neighbourhood of your context—and it will be discussed as we approach the next review.

**Mr Field:** And the election!

**Q134 Mr Bacon:** You said that paragraph 4.6 of the Report was kind to the Department about your evaluations. I have read it and I do not think it is at all. It says that "... the evaluations were competently executed in accordance with the specification and that they were substantially more thorough and soundly based than the evaluations of regional programmes carried out by other European countries", which may or may not be saying much depending on the evaluations carried out by other European countries, but it does go on to say, "... we have highlighted a number of ways in which the evaluations could cater for a greater range of known interactions, and which could yield a deeper insight into scheme effects", and I will give you three examples. For example, paragraph 4.8, "The evaluation of employment effects and costs excluded any changes in employment outside the Assisted Areas", and again in paragraph 4.8 it excluded the departmental and the company administrative costs, and thirdly, in 4.14, the evaluation does not take account of the effect of additional jobs on the working of the local labour markets and, therefore, the net effect of local employment. Are you going to try and incorporate these and other points to have a deeper and more insightful evaluation?

**Sir Robin Young:** We certainly will try but as the Report made clear it is not straightforward. These are not easy. To look at the effect of a small grant on the local labour market is, the Department have argued in the past, impossible and anyway not useful.

**Q135 Mr Field:** It made quite a lot of work!

**Sir Robin Young:** That is not one of our objectives—I repeat, not one of our objectives! But the Report does raise issues which are familiar to us to do with additionality and administrative costs, all of which we will pursue. The Report does not give easy answers which we were mad not to have followed so far. It is not straightforward.

**Q136 Mr Bacon:** You are proposing to strengthen your evaluation?

**Sir Robin Young:** We are certainly looking at the evaluation again, yes, and also if we change the grant product we will, of course, set out our evaluation proposals.

**Q137 Mr Bacon:** Secondly, in relation to paragraph 4.16, three quarters of assisted firms thought they had gained "a competitive advantage". If you gain a competitive advantage, it must be compared with someone. Compared with whom was a competitive advantage gained?

**Sir Robin Young:** I cannot answer that. I do not know if Mr Steele can.

**Mr Steele:** I am afraid I cannot answer it.<sup>10</sup>

**Q138 Mr Bacon:** Well, you are the Permanent Secretary and the accounting officer responsible for spending this money and I would like you to answer the question. Compared with whom was a competitive advantage gained?

**Sir Robin Young:** I did not write the report—

**Q139 Chairman:** But you agreed with it. Make a stab at answering it.

**Sir Robin Young:** I am sorry, I do not know the answer.

**Q140 Mr Bacon:** I would have thought the answer was obvious. It is compared with people who have not received a grant, is it not?

**Sir Robin Young:** If that is what you mean, of course, yes.

**Q141 Mr Bacon:** So how many of those are foreign and how many domestic?

**Sir Robin Young:** I do not know.

**Mr Steele:** If the evaluation from which these comments are taken, the most recent evaluation, is published along with the other two evaluations the Department has done, and if that information is available in the evaluation, we will certainly ensure the Committee gets it.

**Q142 Mr Howarth:** Just for the purposes of getting something on the record, really, a couple of colleagues starting with Frank Field have mentioned this business of subsidising labour rather than capital. Although it is not your Department it is important to say that, through the Department of Work and Pensions, there are such schemes through Jobcentre Plus, and particularly in my constituency we have had Action for Jobs and the Step-up programme more recently.

**Sir Robin Young:** Thank you.

**Q143 Chairman:** I have one question. There was an accounting officer's direction on Viasystems Circatex, was there not, in September 2001 when £3.75 million was given in grant to a company. There was some doubt about whether this breached EU rules and there was going to be a further comment from the EU on this subject. Have you heard from the EU? Have you chased them? Or not?

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<sup>10</sup> Ev 20

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**Sir Robin Young:** No, and, just as a matter of process, we had not hitherto named the company.<sup>11</sup>

**Q144 Chairman:** So you do not want to comment on this now?

**Sir Robin Young:** We had not even named the company in public before. This would be the first public airing of that company's name, and would affect its commercial standing.

**Q145 Chairman:** But this was September 2001. We were told, or I was informed, about this. I was not informed there was anything secret about this but I was also informed that the EU were going to rule. We are now looking at something which dates back to September 2001 and we have still not heard. What is going on?

**Sir Robin Young:** The company is still in existence and we are in discussion with it. This remains confidential.

**Q146 Chairman:** Do you want to provide me with a note?

**Sir Robin Young:** With pleasure, and with apologies to having maybe embarrassed you.<sup>12</sup>

**Mr Field:** The House of Commons is one of the safest places to give away a secret!

**Q147 Chairman:** If I have caused you any embarrassment, I apologise, but I look forward to receiving your note.

**Sir Robin Young:** Perhaps when I give you the note I will give you advice as to what could be published and what could not.

**Chairman:** Thank you. Thank you very much for coming this afternoon to what has been a very interesting hearing. Clearly there is a consensus among the Committee about the value in grants in terms of job creation but we will wish to look at the map again in our report in terms of dealing with the complexity, and the vexed issue of additionality which we tried to probe this afternoon. Thank you very much.

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<sup>11</sup> Ev 21

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<sup>12</sup> Ev 21

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Supplementary memorandum submitted by the Department of Trade and Industry

Question 43: *Using salary costs to calculate eligible expenditure for RSA and enterprise grant purposes*

Mr Trickett asked about the use of salary costs to calculate eligible expenditure for RSA purposes (Table 5). In replying, the witness referred to the current European Commission Guidelines on National Regional Aid, which came into force in 2000.

Paragraphs 4.11—4.14 of the Guidelines allow regional aid to focus on job creation, linked to the carrying out of an initial investment project. Job creation means a net increase in the number of jobs in a particular establishment. The amount of aid must not exceed a certain percentage (the Net Grant Equivalent applicable to the Assisted Area in question) of the wage cost of the person hired, calculated over a period of two years. Aid for job creation must be made conditional on the maintenance of the employment created during a minimum period of five years.

This method of calculating the European Commission financial ceilings is an alternative to the usual method of using eligible investment costs. The other criteria set out in Table 5 continue to apply.

The Guidelines are available at:

[www.europa.eu.int/eur-lex/pri/en/oi/dat/1998/c074/c07419980310en00090031.pdf](http://www.europa.eu.int/eur-lex/pri/en/oi/dat/1998/c074/c07419980310en00090031.pdf)

Question 137: *RSA and competitive advantage*

Mr Bacon asked compared with whom was the competitive advantage claimed by three quarters of RSA-assisted firms gained.

The NAO Report's reference (para 4.16) to this issue is based on the latest evaluation of the RSA Scheme, published in 2000 and based on RSA offers accepted in Great Britain in the period 1991–95.

The relevant passage in the evaluation (para 7.4.1 and Tables 7.8 and 7.9) said that respondents (in the survey of RSA-assisted companies) were asked whether they expected the RSA project to give them a competitive advantage over other suppliers, and if so details of the nature of that advantage. Seventy three per cent indicated that overall they had gained a competitive advantage and were able to identify a location. When weighted by grant costs, over 60% indicated that they had gained a competitive advantage overseas. This evaluation did not analyse the responses on competitive advantage by ownership of the respondent companies.

The latest evaluation is available on DTI's website:

[www.dti.gov.uk/regional/evaluationrsa91-95.pdf](http://www.dti.gov.uk/regional/evaluationrsa91-95.pdf)



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Questions 143–146: *Accounting Officer Direction*

As explained in the Department's evidence to the Committee, the Department has not named the company to which the RSA offer was made which was the subject of a Ministerial direction, on the grounds that identifying it would be likely to affect its commercial standing. I can confirm the answer I gave to the Committee that there has been no discussion with the Commission on this matter since the Direction was issued. We will inform the National Audit Office of any developments in this regard.

*Sir Robin Young KCB*  
Permanent Secretary

7 July 2003

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**Supplementary memorandum submitted by HM Treasury**

At the Public Accounts Committee meeting on the NAO Report into Regional Grants on 23 June, Richard Bacon MP asked what the shortest time was that HM Treasury had had to respond to a request for Regional Selective Assistance (RSA) clearance.

We have reviewed our RSA correspondence relating to cases submitted to us within the last 5 years. Since many cases are discussed informally, sometimes over a long time scale, before final submissions are made, it is difficult to say precisely how long we have had to consider each case. With that qualification in mind, the shortest time period that HM Treasury were given to respond to a finalised case proposal from the Department was one day.

Such a short time period is not typical by any means, and in the majority of cases the notice given by DTI was closer to one or two weeks, or longer. Both departments, however, understand the need to act swiftly, without compromising appropriate scrutiny, when the need arises.

8 October 2003