House of Commons

Committee of Public Accounts

Promoting economic growth locally

Sixtieth Report of Session 2013–14

HC 1110

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Contents

Summary

After the abolition of the Regional Development Agencies, the Department for Communities and Local Government and the Department for Business, Innovation and Skills (the Departments) set up a range of new initiatives for promoting local economic growth, including Local Enterprise Partnerships, the Regional Growth Fund, Enterprise Zones, the Growing Places Fund and City Deals. Initially the programme lacked clarity and coordination between the initiatives, and progress in creating jobs has so far fallen below the Departments' initial expectations. The Departments have not spent the money available as quickly as expected and they now face a challenge in spending the funds available by the end of 2014-15; for example, under the Regional Growth Fund, the largest of the schemes, the Departments now plan to spend £1.4 billion in 2014-15, compared to the £1.2 billion spent in the first three years. The Departments also need to address the problem of some intermediaries having been too slow to distribute funds to front-line projects. The Departments should also improve their monitoring systems so that they can distinguish the impact of individual schemes, improve data on which to base future investment decisions, and prepare the ground for well informed evaluation. In 2015 the Local Growth Fund will replace much of the existing funding for local economic growth and this will be an opportunity to apply lessons learned from the current range of initiatives. The Departments must, from the outset, set out clearly how the new fund will be monitored and evaluated, and what action they will take if performance falls short.

Conclusions and recommendations

1. In 2010, the government announced its new approach to local economic growth in the White Paper *Local growth: realising every place's potential*. The White Paper announced the abolition of the Regional Development Agencies and introduced new structures and funds to promote and coordinate local economic growth. The first of these were the Local Enterprise Partnerships and the Regional Growth Fund. The Departments then introduced Enterprise Zones in 2011 and the Growing Places Fund and City Deals in 2012. In the four years to 2014–15, the Departments have allocated £2.6 billion to the Regional Growth Fund in the first four rounds; £325 million to Enterprise Zones; £730 million to the Growing Places Fund and £223 million to City Deals. This brings the total funding for the four year period to 2014–15 to £3.9 billion. The Department for Communities and Local Government is responsible for all of these local growth initiatives, except for later rounds of the Regional Growth Fund. The Department for Business, Innovation & Skills is responsible for rounds five and six of the Regional Growth Fund, amounting to £600 million. In 2015, the government will introduce the Local Growth Fund, worth £2 billion in 2015–16. This funding is available to Local Enterprise Partnerships subject to agreeing 'growth deals' with central government.

2. **Departments face a significant challenge in spending the funds available by the end of 2014–15.** The Departments have not spent money under the local growth initiatives as quickly as expected. Consequently, if they are to meet their spending targets, they now have to spend more in 2014–15 alone than they have managed in total in the first three years. Under the Regional Growth Fund, the largest single scheme, the Departments plan to spend £1.4 billion in 2014–15 out of the total £2.6 billion for the Fund's first four rounds, having only managed to spend £1.2 billion in total in the first three years to 2013–14. The Departments told us that because they have agreements in place with recipients, they did not think it was an insurmountable challenge to spend £1.4 billion effectively in 2014–15. In doing so, the Departments must guard against the risk of compromising on quality in favour of projects that can spend the money quickly.

   Recommendation: ***The Departments should do more to ensure that beneficiaries are ready to receive the money and deliver the extra jobs in the timescales envisaged. They should also develop an early warning system to identify if local projects are not sufficiently developed to spend the money as planned and provide support or reallocate funds as necessary.***

3. **Too much money is still parked with intermediary bodies over which the Departments are not exerting enough control.** When we first took evidence on the Regional Growth Fund in 2012, not enough funding had yet reached businesses and too much was parked with intermediaries including local authorities and banks. We were disappointed to hear that £1 billion is lodged with intermediary bodies out of the estimated £3.9 billion allocated across the various local growth schemes. Of the ten Regional Growth Fund programmes highlighted in the C&AG's report, only one has distributed more than a small fraction of its funding to businesses. One, run by

Santander UK, has only distributed £2.3 million so far out of £53.5 million. The same scheme will be able to claim up to 9% (£5 million) administration costs over its lifetime. The Departments told us they have the ability to claw back funds from intermediaries that are too slow in distributing funding but also acknowledged that they have not yet done so.

Recommendation: ***For any initiative which distributes money through intermediaries, the Departments should introduce binding milestones into future contracts and agreements for distributing funds. The Departments should also move quickly to claw back money not being spent or spent disproportionately on administration and redistribute it to better performers.***

4. **Progress in creating jobs is falling well short of the Departments' initial expectations.** The Department for Communities and Local Government reports that the Regional Growth Fund has created or safeguarded over 65,000 jobs, and told us it was confident it would achieve a total of 78,000 in 2013–14. But the Departments' estimate of the cost per net additional job has risen from £30,400 in Round One to £52,300 in Round Four. The results claimed for jobs created in Enterprise Zones and through the Growing Places Fund are particularly underwhelming: 4,649 jobs from Enterprise Zones and 419 from the Growing Places Fund. The current forecast of jobs to be created through both these schemes falls significantly short of the Departments' expectations of what would be achieved through the funding provided. The Departments acknowledged that the initial projection of 54,000 jobs from Enterprise Zones was over optimistic and should have been scrutinised properly before being released. Although these initiatives may have wider benefits, the creation of jobs is the primary aim of these schemes and the number and cost of jobs created are key indicators of value for money.

   Recommendation: ***The Departments should scrutinise thoroughly any forecasts of the jobs its schemes will create before presenting them to Parliament and the public.***

5. **The Departments were too slow to put in place management arrangements to develop and coordinate the new structures and funds for promoting local economic growth.** We welcome the recent creation by the Departments of a single growth directorate and a programme board which are now overseeing progress across initiatives. But, the earlier lack of coordination contributed to different initiatives and bodies bidding for the same pots of money and the potential for double counting the number of jobs created. We remain concerned that the Departments are not yet using the new oversight arrangements effectively to decide which initiatives to invest in to provide the best value for money.

   Recommendation: ***The Departments should set out how they will use their new governance arrangements to take investment decisions across the portfolio of local growth initiatives and ensure value for money.***

6. **The Departments have been slow to develop plans for evaluating local growth schemes and their monitoring data do not allow them to compare schemes' performance robustly.** The Departments do not understand fully the impact of their schemes, either individually or as a portfolio. The Departments have commissioned a

scoping study into an evaluation of the Regional Growth Fund, which may lead to a full independent evaluation in due course. The Department intends to evaluate each of its schemes but, while full evaluation will inevitably be long-term, the Departments lack sufficient good quality monitoring data to assess schemes' performance and inform investment decisions in the short term. The Departments are not monitoring the same outputs in the same way across all the schemes. The Departments need to ensure that they are only counting jobs once. For example, there is a risk that jobs created by businesses receiving money from the Regional Growth Fund could be counted twice.

Recommendation: ***The Departments should develop their monitoring systems so that they can distinguish the impact of individual schemes, make informed value for money judgements across the portfolio of initiatives in the short term, and should develop plans to evaluate the portfolio of initiatives over the longer term.***

7. **The local growth fund is an opportunity to improve the strategic oversight of funding to support local economic growth.** In 2015 the local growth fund will replace much of the existing funding for local economic growth. There will be around £2 billion a year available to Local Enterprise Partnerships (LEPs), subject to them agreeing 'growth deals' with central government, based on multi-year strategies for enhancing local economic growth. At present, the Department for Communities and Local Government acknowledges that LEPs are at different stages of development and that some are more transparent than others. LEPs work through local authorities, who account for the money that the partnerships spend. But it seems to us that no one has a strategic overview of LEPs and comparable performance information is hard to come by.

   Recommendation: ***The Departments need to learn lessons from the current programme and adopt a more coordinated and strategic approach when introducing the new growth deals next year, including setting out the basis for how the programme will be monitored and evaluated, and what action they will take if performance falls short. The Departments should also set out clearly the information that they expect LEPs to publish, covering their own funding and structures, as well as data to enable comparisons of their impact.***

1 Progress in distributing funding and creating jobs and growth

1. In 2010, the Government set out its plan for achieving local economic growth in the White Paper, *Local growth: realising every place's potential.*[1] In it, the Government set out its objective "to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries". The White Paper also introduced Local Enterprise Partnerships and the Regional Growth Fund, to which the Department for Communities and Local Government and the Department for Business, Innovation and Skills (the Departments) have since added further structures and funding arrangements **(Figure 1)**. On the basis of two Reports by the Comptroller and Auditor General, we took evidence from the Departments on the setup, performance and management of the four largest new local growth programmes and Local Enterprise Partnerships, the key new strategic body.[2]

Figure 1: Summary of initiatives within the scope of this report[3]

Initiative	Nature of initiative	Funding available 2011–12 to 2014–15
Local Enterprise Partnerships	Created by local business and civic leaders, chaired by a business leader, to set the strategy and vision and take the decisions that will drive growth locally.	£54 million
Enterprise Zones	Sites where businesses receive incentives to start up or expand; including simplified planning, business rates discount, and tax allowances. All business rate growth within the zone is retained in the local area for at least 25 years.	£300 million
Growing Places Fund	Investment funds, overseen by Local Enterprise Partnerships, for small infrastructure projects. Funding to local projects is mostly through loans with the repayments reinvested in new projects.	£730 million
Regional Growth Fund	A competitive fund across bidding rounds that provides funding to encourage private sector enterprise, lever in private investment and to support, in particular, those areas that are currently dependent on the public sector to make the transition to sustainable private sector-led growth.	£2,547 million
City Deals	Agreements negotiated between central government and cities which give local decision-makers new powers, freedoms and funding channels.	£223 million
Total		**£3,854 million**

2. The Departments are spending £3.9 billion through these arrangements over the four years from 2011–12 to 2014–15.[4] A further £600 million will be available through rounds

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

2 C&AG's report, Funding and structures for local economic growth, HC 542 Session 2013–14, December 2013; C&AG's report, Progress report on the Regional Growth Fund, HC 1097 Session 2013–14, February 2014

3 C&AG's report, Funding and structures for local economic growth; Appendix, page 15 (NAO Update Report, Funding and structures for local economic growth, March 2014)

4 C&AG's report, Funding and structures for local economic growth, key facts

five and six of the Regional Growth Fund from 2015–16 and, in that year, the majority of local growth funding will be through a new Local Growth Fund totalling £2 billion.[5]

3. Despite the large sums available, little money has actually reached businesses. It is disappointing that this situation has persisted since our September 2012 report on the Regional Growth Fund.[6] Of the £3.9 billion currently available to all the schemes we examined, £3.5 billion remains to be paid to local projects. Some £1 billion of the £3.9 billion to be spent by 2014–15 is currently parked with intermediary bodies such as local authorities, Local Enterprise Partnerships and banks.[7]

4. We asked the Departments about progress with the top ten largest programmes within the Regional Growth Fund. Of these, the Royal Bank of Scotland is the only programme to have distributed more than a small proportion of the funding available: £69.8 million of the £70 million paid from the Fund. The other nine programmes have distributed only £34.7 million of the £350.6 million the Departments have paid to them. In particular, Santander UK has only distributed £2.3 million of the £53.3 million the Departments provided.[8] The Departments explained that this programme is two years into a nine-year scheme but admitted that it had underperformed against expectations, and that the Departments have had experts working with Santander. The Departments informed us that they are tracking closely the programmes run by intermediaries and that they have the ability to claw back funds from intermediaries that do not distribute the funding quickly enough. To date, the Departments have not clawed back any funding from programmes, including the ten highest-value programmes. As this funding needs to be spent by the end of 2014–15, there is a risk that it is already too late for the Departments to claw back and re-distribute funding, in time for it to be spent in a manner that would create the private sector jobs intended and achieve value for money.[9]

5. A consequence of the slower than expected spending is that the overall budget for the schemes has now backed up into later years. We are concerned particularly about the significant increase in spend needed through the Regional Growth Fund in 2014–15. We asked the Departments how they are going to manage spending £1.4 billion from the Regional Growth Fund in 2014–15 alone, as this is more than the £1.2 billion they spent in total over the previous three years. The Departments explained that they now have signed agreements in place with recipients. They recognised that it would be a challenge to spend the money by the end of 2014–15, but did not consider it to be insurmountable. We also heard that the Departments are reviewing the risk status of every project and programme in receipt of money from the Regional Growth Fund. Of approximately 400 projects, around 30 (8%) are rated red, 110 (28%) are rated amber and 260 (65%) are rated green.[10]

5 Qq4–8; *C&AG's report, Funding and structures for local economic growth, para 3.26*

6 *HC Committee of Public Accounts, The Regional Growth Fund, Fifth Report of Session 2012–13, HC 104, September 2012*

7 Q84; *C&AG's report, Funding and structures for local economic growth, para 2.8 and appendix 3*

8 Qq37–38, Qq47–48; *C&AG's report, Progress report on the Regional Growth Fund, figure 4*

9 Q37, Qq39–41, Q45, Q48

10 Qq11–16, 16–29, Q32, Q39; *C&AG's report, Progress report on the Regional Growth Fund, figure 5*

6. We concluded in September 2012 that the Treasury's decision to allow the Departments to use endowments to avoid surrendering unspent monies from the Regional Growth Fund at the end of the year risked value for money.[11] Since then, HM Treasury has issued a revised version of *Managing Public Money* and the Department told us that endowments will not be used in the future. However, the Departments have continued to find ways to meet their budget targets, including using Section 31 grants to local authorities, moving budgets into later years, and making exceptional awards. We asked the Departments how they were going to avoid shovelling money out at speed to meet the budget target, as they have done in the past. The Departments told us that the test of success is not spending to the penny, but that they run an effective process; that they capture and properly evaluate the schemes and that they get to a signed final agreement as quickly as they can, and then support projects that are ready to take the money.[12]

7. The Departments have also allocated around £18 million of the Regional Growth Fund for intermediary bodies running the programmes to spend on administration. The Departments have paid out £10 million for administration costs to date. The amount allowed varies considerably across the ten largest programmes. The Royal Bank of Scotland has distributed £69.8 million of the £70 million allocated, and charged nothing for administration. In contrast, of the £53.5 million allocated by the Departments to Santander UK, some £5 million (9%), is allowed for administration but Santander has paid out only £2.3 million to businesses.[13]

8. The schemes' progress in creating jobs, and other outputs, has fallen well short of the Departments' expectations (**Figure 2**). To the end of 2013, Enterprise Zones created 4,649 jobs, whilst the Growing Places Fund has secured 419 jobs.[14] The Department for Communities and Local Government has also reduced the estimate of jobs to be created in Enterprise Zones by 2015 from 54,000 to between 6,000 and 18,000. The Department acknowledged that the initial estimate was wildly over-optimistic. The Department told us that the original estimate of 54,000 jobs came from information reported by Local Enterprise Partnerships, and that the Department should have challenged the numbers before they were published. The Department was "pretty confident" that Enterprise Zones would deliver numbers of jobs in line with the original estimate, but over a longer time period.[15]

11 HC Committee of Public Accounts, The Regional Growth Fund, Fifth Report of Session 2012–13, HC 104, September 2012

12 Qq33–34, Q37; *C&AG's report, Progress report on the Regional Growth Fund, para's 7.4–7.11*

13 Q38, Q41, Qq50–52; *C&AG's report, Progress report on the Regional Growth Fund, figure 4*

14 Appendix, page 15 (NAO Update Report, Funding and structures for local economic growth)

15 Q111

Figure 2: Comparison of outputs expected from initiatives and progress April 2012 to December 2013.[16]

Initiative	Initial output expected	Current Output expected	Progress to December 2013
Enterprise Zones	54,000 additional jobs by 2015.	Between 6,000 and 18,000 additional jobs expected by 2015.	4,649 jobs
Growing Places Fund	217,000 jobs, 5,300 businesses and 77,000 houses will be created through the fund.	142,300 jobs, 1,400 businesses and 61,100 houses will be created through the fund.	419 jobs, 3 businesses and 155 houses.
Regional Growth Fund	328,000 jobs throughout England between 2011 and the mid-2020s, of which 41,000 will be additional. Cost per job averaged £30,400 in Round One.	550,000 jobs throughout England between 2011 and the mid-2020s, of which 77,700 will be additional. Cost per job averaged £52,300 in Round Four.	65,749 monitored jobs

9. We asked the Departments about how this performance had affected value for money. We reported in September 2012 that the Departments had set far too low a threshold for acceptable value for money in their selection of projects and programmes through the Regional Growth Fund.[17] The value for money offered through this fund has declined since we reported in September 2012. The Departments estimated that the cost per net additional job created by the Regional Growth Fund has risen by 72% since the Fund started. In Round One, the cost per net additional job was £30,400. By Round Four this had risen to £52,300. The Departments told us this was because they had improved their understanding of the jobs which are likely to be created, compared to the estimates which bidders had set out in their original bids.[18] This suggests, however, that figures from earlier rounds may not be accurate and were over-optimistic. The Department told us that it focuses on a different measure, the benefit-cost ratio, because this measure takes on board a wider range of benefits, such as the nature, quality and longevity of the jobs created and also the wider impact on the economy through factors such as research and development. The main purpose of this Fund, however, is to create private sector jobs.[19]

2 The oversight and coordination of local growth initiatives

10. The Departments have not managed the local growth initiatives as a coordinated programme with a common strategy, objectives or plan. New structures and funds have been introduced in piecemeal fashion, with each initiative introduced with its own separate objectives, and then being monitored and managed separately. The Departments told us

16 C&AG's report, Progress report on the Regional Growth Fund, figure 4; Appendix, page 15 (NAO Update Report, Funding and structures for local economic growth); Written evidence from the Departments

17 HC Committee of Public Accounts, The Regional Growth Fund, Fifth Report of Session 2012–13, HC 104, September 2012

18 Q56; C&AG's report, Progress report on the Regional Growth Fund, figure 1

19 Q55

that there is a range of other government expenditure to support growth. It was not clear how this activity had been coordinated across government. The Departments told us that they have moved to a single local growth team that represents Departments across government, and have a programme board overseeing progress across all the local economic growth initiatives. While this is a welcome development, it has taken far too long—four years—to get to this point. Although a programme board has been in place since 2012, it had no formal programme management responsibilities, and has only recently started overseeing the development of the local growth fund.[20]

11. It is also unclear who in central government is responsible and accountable for the success of local growth policies. For example, the Accounting Officer for the Department for Communities and Local Government told us that he is now accountable for all local economic growth funding with the exception of £600 million from 2015–16, allocated to rounds five and six of the Regional Growth Fund. He explained that the £600 million is specifically focused on national support for businesses for which the Accounting Officer at the Department for Business, Innovation and Skills is accountable.[21]

12. The Departments told us that they are monitoring each of the initiatives separately. The Departments considered that the initiatives are very distinct, and as such not immediately comparable. The Departments agreed that there is a risk of double-counting, with the same jobs scored more than once to different initiatives. For example, the same jobs may be counted in an Enterprise Zone application, a Growing Places Fund application and a local council initiative. With respect to the Growing Places Fund we asked the Departments why they had not been providing data on transport and homes built until recently. The Departments told us that their intention was to keep monitoring to the minimum necessary, but that they have increased the amount of information requested from Local Enterprise Partnerships.[22]

13. The Departments stated that they will carry out individual longer-term evaluations for each of the local economic growth structures and funding arrangements. However they have only taken action to schedule an evaluation of one of the schemes, the Regional Growth Fund. The Departments told us that a scoping study is reporting on the best techniques to use in an evaluation of the Fund in March 2014. It will therefore have taken nine months to complete the scoping study, in contrast to the very large and complex evaluation of the Sure Start programme which was completed in around six months. The Departments went on to explain the scoping study will be used to set up an evaluation contract in summer 2014, which will produce an interim report in 2017, and a full report in 2020.[23]

14. The Departments told us that the current model of local economic growth will change in 2015–16. The new model, the Local Growth Fund, will replace some, but not all, of the current structures and funding arrangements set up following the 2010 White Paper. The Local Growth Fund is part of what are known as 'growth deals' being negotiated between

20 Qq53–54, Q103; *C&AG's report, Funding and structures for local economic growth, paras 4.2–4.3*

21 Qq1–2; Q53; *C&AG's report, Funding and structures for local economic growth, para's 16 and 4.4*

22 Q53,Qq65–67, Q80, Qq112–114, Q117

23 Qq65–67

the Departments and Local Enterprise Partnerships. The Local Growth Fund itself will provide some £2 billion of funding in 2015–16 to Local Enterprise Partnerships and a government undertaking to continue this level of funding for five years. The Departments told us that this encompasses a number of different funds. The Departments stated that no further funding will be allocated from Departments to Local Enterprise Partnerships, local authorities or Enterprise Zones through the Regional Growth Fund. However, the Departments will continue the Regional Growth Fund for businesses. The Department told us that the Growing Places Fund will end in 2015. However, in reality the Growing Places Fund will continue because 83% of the funding given out by Local Enterprise Partnerships has been given to end beneficiaries as loans, to allow for recycling of the funding. Enterprise Zones and other local growth funds will come under the new single growth team.[24]

15. We asked the Departments about Local Enterprise Partnership's accountability arrangements. The Departments rely on local authorities to provide assurance over the funding that Local Enterprise Partnerships control. Specifically, one or more local authorities may be nominated as being accountable for a Local Enterprise Partnership's funding. The Departments gain assurance as local authorities are subject to the same transparency and accountability rules as other public bodies. The Departments do not, however, have any evidence to suggest that this system is working. For example, they could not tell us if a local authority has ever stopped a Local Enterprise Partnership from spending. We expressed concern about the lack of transparency of Local Enterprise Partnerships and the reliance on self-reported information. The Departments told us that they are putting together information from local Enterprise Partnerships setting out how they have performed, for example on the numbers of jobs created, in relation to the Regional Growth Fund, Enterprise Fund and Growing Places Fund.[25]

24 Q2, Q4, Q7, Q53, Q108; *C&AG's report, Funding and structures for local economic growth, para 3.26*

25 Qq85–86, Q88, Q109; *C&AG's report, Funding and structures for local economic growth, para 4.9*

Appendix: Funding and structures for local economic growth: update report from the National Audit Office to the Public Accounts Committee

Introduction

1. Our report, Funding and structures for local economic growth, was published in December 2013. This briefing note sets out the subsequent changes to the funding data and numbers of jobs created quoted in our report which have been provided by the Department for Communities and Local Government and the Department for Business, Innovation & Skills. An amended version of Appendix Three, summarising spending on local growth programmes, is attached. There are no changes to our conclusions and recommendations.

2. The main changes to data, and reasons for changes, are as follows:

Enterprise Zones

- **Overall funding for Enterprise Zones** for the period 2012–13 to 2014–15 has decreased from £325 million to £300 million.

- **Funding from national non-domestic rates, known as business rates.** The Department for Communities and Local Government has published revised information on the level of business rate increases from Enterprise Zones retained by local authorities and the business rates discounts awarded to business in Enterprise Zones. This has resulted in a reduction in funding for Enterprise Zones in 2012–13, 2013–14 and 2014–15. Funding data for 2012–13 is now based on information certified by auditors; data estimates for 2013–14 have been revised by local authorities; and the Department has revised its estimates for 2014–15.

- **Other funding for Enterprise Zones.** The Department for Communities and Local Government has provided updated information on other funding for Enterprise Zones. The main change is an increase to 'Pinchpoint funding' in 2013–14 and a slight increase from other funds in 2014–15.

- **Jobs created in Enterprise Zones.** In our report we said that by the end of 2012–13 the zones had created 3,080 jobs. The Department for Communities and Local Government, based on information from Enterprise Zones, has reported that between April 2012 and December 2013 the zones had created 4,649 jobs. The Department also reports 2,965 construction jobs filled in the period April to December 2013.

Growing Places Fund

- **Survey.** The information in our report is based on a survey conducted by the Department for Communities and Local Government in June 2013 which they published in a report, The Growing Places Fund Investing in Infrastructure, in November 2013. The Department conducted a new survey in January 2014.

- **Funding from the Growing Places Fund.** From the January 2014 survey, the Department's estimate of payments to end beneficiaries in 2012–13 has increased from £56 million to £69 million; their estimate of payments in subsequent years has reduced with an increase in funds remaining to be paid after 2014–15.

- **Jobs and other outputs from the Growing Places Fund.** In our report we note that the fund had created 112 jobs in 2012–13. From the January survey, the Department reports that the fund had created 419 jobs by December 2013, including 381 jobs in 2012–13. The Department has also reduced its estimate of the jobs, businesses and houses to be created through the Fund.

Regional Growth Fund

- **Jobs created through the Regional Growth Fund.** In our report we note that 32,000 monitored jobs were created or safeguarded by the end of 2012–13. In Progress report on the Regional Growth Fund we report that the total to the end of December 2013 is 44,400.

- **Funding from the Regional Growth Fund.** Twenty-nine bids for projects and programmes, totaling some £74 million, have withdrawn since the data in our report was compiled. As a result we cannot identify where this money has been allocated geographically. In Progress report on the Regional Growth Fund we report that a total of £136 million of withdrawn projects and programmes from rounds one to four have not yet been awarded to alternative bids. The total value of the Regional Growth Fund is unchanged and the Department advises that there is no impact on the spending profile.

3. Updates to individual paragraphs and figures in our report are set out below. Changes in the text are underlined.

Key facts

4. Updates to key facts on page 4 of our report are as follows:

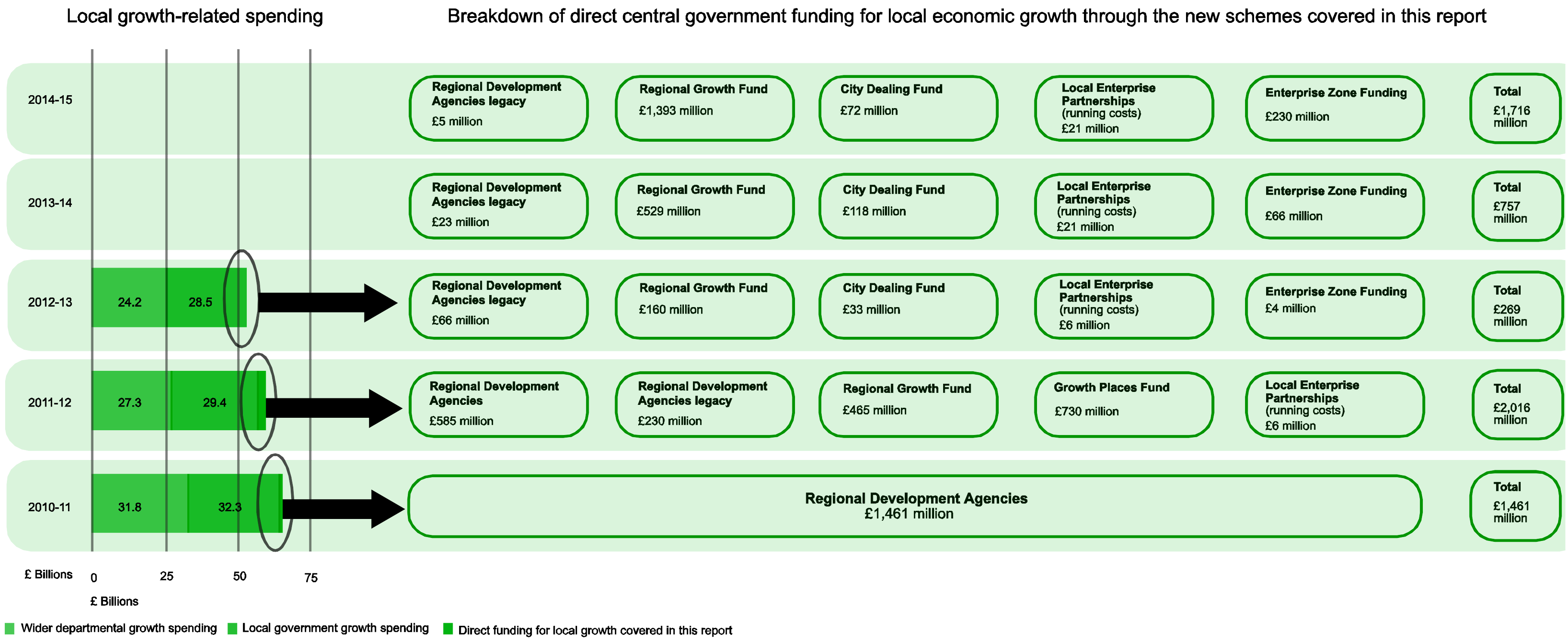
32,000	jobs reported to have been created or safeguarded directly through the Regional Growth Fund by the end of 2012–13
44,400	jobs reported to have been created or safeguarded directly through the Regional Growth Fund by the end of December 2013
£599 million (89 per cent)	capital element of the Growing Places Fund allocated to local projects by Local Enterprise Partnerships from the Department's June 2013 survey
£606 million (90 per cent)	capital element of the Growing Places Fund allocated to local projects by Local Enterprise Partnerships from the Department's January 2014 survey

Summary

5. **Figure 1** has been updated to reflect the changes in funding for Enterprise Zones

Figure 1

Changes to funding for local economic growth, 2011–12 to 2014–15



NOTES

1. Reflects actual (before 2013–14) and forecast (2013–14 onwards) spending by departments on the new local growth programmes covered in this report; Regional Development Agency legacy spend is forecasts only. City Deal spend is estimates only. Recycling of funds used for loans is not reflected. The data is also at Appendix Three.
2. Wider growth-related spending by central and local government (see paragraphs 2.14 to 2.15) is shown as context but is not available for 2012–13 onwards.

Source: National Audit Office analysis of departmental data

6. Information in **Paragraph 11** has been updated to reflect a change in the profile of funding provided to end beneficiaries via the new local growth programmes with an increase in 2012–13 and 2014–15.

> 11 **The transition from the Regional Development Agencies to the new local growth landscape covered in this report shows a marked dip in funding.** In 2012–13, £330 million was provided to end beneficiaries via the new growth programmes, alongside £66 million of Regional Development Agency legacy spending. This compares to £1.5 billion spent by the Regional Development Agencies two years previously in 2010–11, and estimated payments to end beneficiaries of £2 billion through the new local growth programmes in 2014–15. There are two main reasons for this dip. First, government closed the Regional Development Agencies rapidly, as planned to realise savings, but introduced the new local growth programmes gradually over a different time frame. Second, the Regional Growth Fund had a slow start and government has not allocated funding as quickly as originally planned (paragraphs 2.5 to 2.11).

7. **Paragraph 14, third bullet** reports, based on its June 2013 survey, the Department for Communities and Local Government's estimate of spend and jobs created through the Growing Places Fund in 2012–13 as follows:

> - Local Enterprise Partnerships allocated £599 million (89 per cent) of capital funds to 305 local infrastructure projects by mid-2013. However these projects only spent an estimated £¬56 million and created 112 jobs in 2012–13 (paragraphs 3.17 to 3.19).

8. From its January 2014 survey, the Department for Communities and Local Government now estimates that projects spent £69 million and created 381 jobs in 2012–13. The Department also reports that Local Enterprise Partnerships had allocated £606 million (90 per cent) of capital funds to 309 projects by December 2013 and that these projects created 419 jobs by December 2013.

9. **Paragraph 14, fourth bullet** reports the number of jobs created through the Regional Growth Fund. With respect to the Regional Growth Fund, our report says:

> - The Department reported that the fund created 32,000 jobs by the end of 2012–13 against a target of 31,500.

10. The Department for Business, Innovation & Skills reports that a total of 44,400 jobs had been generated by the end of December 2013.

11. The Departments have provided the following update to **paragraphs 16 and 4.3** regarding the governance of local economic growth initiatives:

- **Single local growth team:** The Departments have established a single local growth team, comprising officials from the Department for Business, Innovation & Skills, the Department for Communities and Local Government, and the Cabinet Office cities policy unit under a single director.

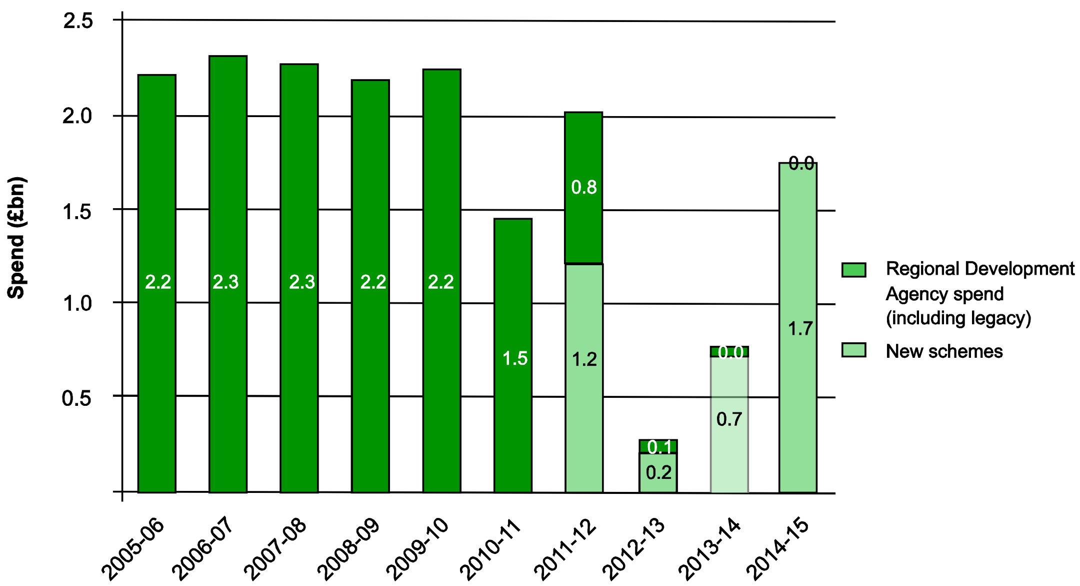
- **Growth Deals:** Governance arrangements are in place for Growth Deals. The new local growth director is the Senior Responsible Owner and chair of the programme board, which held its first meeting on 6 February.
- The Departments are forming a senior **Local Growth Strategy Board** to work across the wider local growth agenda. The first meeting will be held in March 2014.
- The Departments have also formed a **senior officials group** to support the local growth cabinet committee. The group held its first meeting on 20 February 2014.

Part Two

12. Figure 4 in our report has been updated to reflect changes in funding.

Figure 4

Government spending on Regional Development Agencies and new local growth funds and structures, 2005–06 to 2014–15 – payments by departments. There has been a marked dip in government funding



Notes

1. Spending by Regional Development Agencies is from their annual reports and accounts and excludes closure costs.
2. Data for 2013–14 onwards is budget data. Earlier data is outturn.
3. Figures have been rounded.

Source: National Audit Office analysis of departmental data

13. **Paragraph 2.6** has been updated to reflect a reduction in spend on local growth programmes in years 2012–13 and 2013–14.

2.6. Spending of £1.2 billion on the new schemes in 2011–12, alongside spending linked to Regional Development Agencies, raised total spending on local growth programmes to £2 billion for that year. This compares with spending of <u>£269 million</u> the following year, and <u>£757 million</u> in 2013–14.

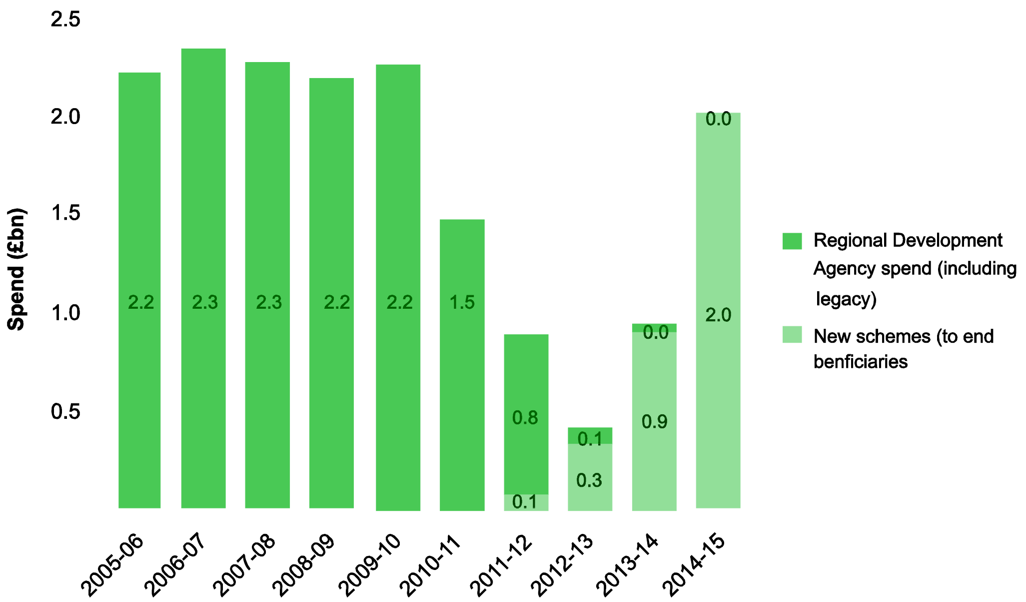
14. **Paragraph 2.8** has been updated to reflect a reduction in spend reaching end beneficiaries in 2012–13.

2.8. Consequently, while the departments spent £1.2 billion on the new funds and structures in 2011–12, only £53 million reached end beneficiaries in that year (see Figure 5 overleaf and Appendix Three). An estimated £330 million reached end beneficiaries from the new funds and structures in 2012–13. This means that of the funding currently allocated by government to these programmes, a further £3.5 billion remains to be paid to local projects; £1 billion by intermediaries and the balance held by the departments.

15. Figure 5 in our report has been updated to reflect a reduction in spend on local growth programmes in years 2012–13 and 2013–14.

Figure 5

Government spending on Regional Development Agencies and new local growth funds and structures, 2005–06 to 2014–15 – payments to end beneficiaries. An estimated £330 million reached end beneficiaries from new schemes in 2012–13.



Notes

1. Spending by Regional Development Agencies is from their annual reports and accounts and excludes closure costs.
2. £357 million of Regional Growth Fund currently remains with intermediaries. It is not included in this figure but has to be paid to end beneficiaries by the end of 2014–15.
3. Excludes £57 million in revenue funding via the Growing Places Fund.
4. Figures have been rounded.

Source: National Audit Office analysis of departmental data

16. **Figure 7** in our report has been updated:

- due to changes in the funding of Enterprise Zones;

- to reflect new information from the Department for Communities and Local Government providing more of the funding data broken down by Local Enterprise Partnership area;
- to reflect the withdrawal of successful bids from the Regional Growth Fund; and
- to use the latest available 2012 population estimates published by the Office for National Statistics since our report, which used estimates for 2011.

17. The category ranges used in Figure 7 are based on half the standard deviation from the mean for the Local Enterprise Partnership growth funding per head of population. The ranges have been adjusted to reflect the new mean and standard deviation.

Figure 7

Funding per capita from local growth initiatives covered in this report. Areas with highest growth funding tend to be in the North, major cities and the South West.

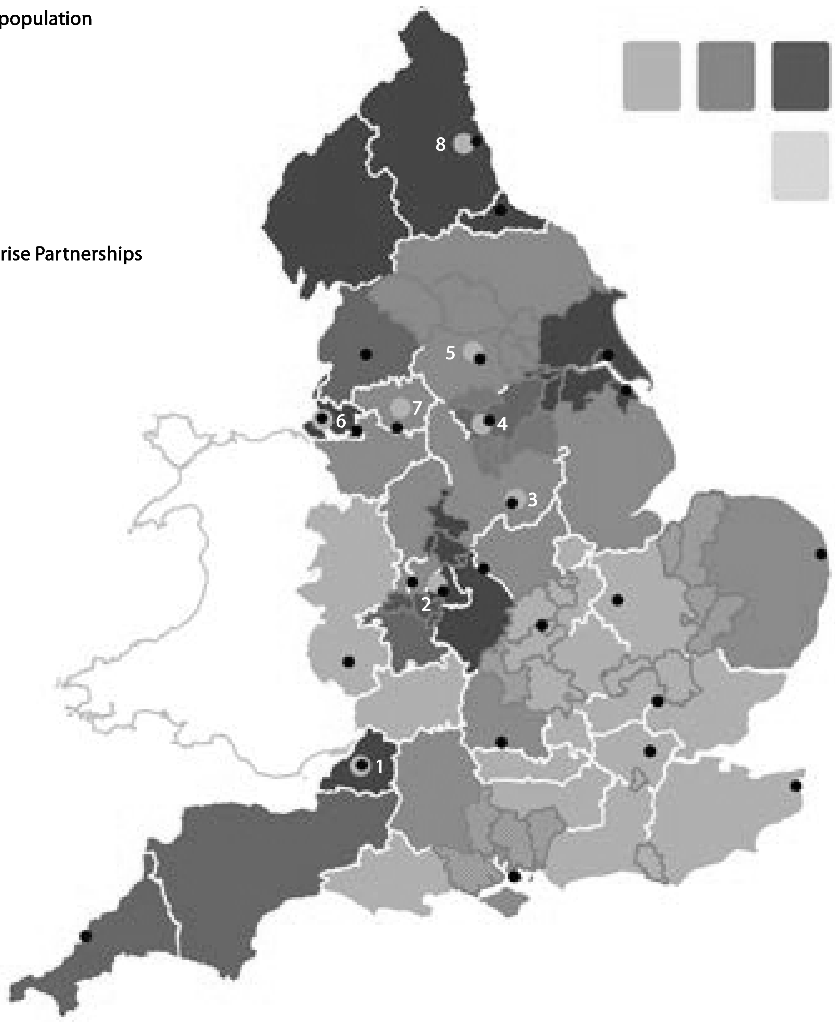
Growth funding per head of population

- < £69
- £69–108.9
- £109–149
- > £149

- Overlapping Local Enterprise Partnerships
- City Deal
- Enterprise Zone

City Deals

1 Bristol
2 Birmingham
3 Nottingham
4 Sheffield
5 Leeds
6 Liverpool
7 Manchester
8 Newcastle



Notes

1. Funding 2011–12 to 2014—15 per head of population aged 16 to 64 by Local Enterprise Partnership area.
2. Excludes 'exceptional' Regional Growth Fund, funding through national Regional Growth Fund programmes and non-allocated Enterprise Zone funding.

Source: National Audit Office analysis of departmental data

Part Three

18. **Paragraph 3.4, bullet three, and paragraph 3.14** report the number of jobs created in Enterprise Zones. Our report says:

- The government announced the new Enterprise Zones in March 2011. They were operational from April 2012. The Department for Communities and Local Government reported that only 3,080 jobs were created in 2012–13. Seventy-five per cent of these jobs were from seven of the twenty-four zones, while six zones produced ten jobs or fewer.

19. In their update, the Department for Communities and Local Government reports that 4,649 jobs have been created in Enterprise Zones in the period April 2012 to December 2013. From this updated information, two-thirds of these jobs were from seven of the twenty–four zones, while two zones produced ten jobs or fewer. The Department also reports 2,965 construction jobs filled in the period April to December 2013.

20. **Paragraph 3.4, bullet three** reports the total number of infrastructure projects supported by the Growing Places Fund, alongside the number which are under way, and jobs created in 2012–13. Our report says:

- From information provided to the Department by Local Enterprise Partnerships in its June 2013 survey, the fund is supporting 305 infrastructure projects, 159 of which are under way, and created 112 jobs in 2012–13.

21. From its January 2014 survey, the Department for Communities and Local Government reports that by December 2013, of the 309 infrastructure projects supported by the Growing Places Fund, 155 are under way and that the Fund has created 419 jobs, of which 381 were created in 2012–13.

22. **Paragraph 3.4, bullet four, and paragraph 3.23** report the number of jobs created through the Regional Growth Fund. With respect to the Regional Growth Fund, our report says:

- The government announced the Regional Growth Fund in October 2010 and four bidding rounds have been completed with the fifth currently under way. However, the Department reported that the scheme had generated only 2,145 new monitored gross jobs by the end of 2011–12. A total of 32,000 jobs had been generated by the end of 2012–13.

23. The Department for Business, Innovation & Skills reports that a total of 44,400 jobs had been generated by the end of December 2013.

24. **Paragraphs 3.18 and 3.19** report the allocation of funding and estimates of outputs from the Growing Places Fund in 2012–13 as follows:

3.18 From the June survey the Department calculates that of the capital funds provided by government, Local Enterprise Partnerships have allocated £599 million (89 per cent) to local projects. Those local projects spent an estimated £56 million in 2012–13. Local Enterprise Partnerships have allocated 82 per cent of capital funds to projects as loans and will be able to reuse those funds as loans are repaid. The Department did not ask how the £57 million of revenue spend has been used.

3.19 The Department reported, from the June survey, that 305 projects are being supported including site preparation, transport infrastructure, housing, office and commercial floor space. Based on responses covering some 70 per cent of projects, the Department estimates that 217,000 jobs, 5,300 businesses and 77,000 houses will be created through the fund and at least 21 projects fund transport infrastructure. The Department reports that the fund had created 112 jobs in 2012–13 with no information on new businesses and houses or improved transport. The Department emphasises that the figures are 'gross' estimates. They do not consider, for example, how the addition of the fund could reduce development elsewhere.

25. The Department for Communities and Local Government collates and reports information (including estimates) submitted by Local Enterprise Partnerships. From its January 2014 survey, the Department now reports that projects spent £69 million and created 381 jobs, three business and 57 houses in 2012–13. The Department also reports that the Growing Places Fund had created a total of 419 jobs, 3 businesses and 155 houses by December 2013. The Department estimates that of the capital funds provided by government, Local Enterprise Partnerships have allocated £606 million (90 per cent) to local projects to December 2013, and that partnerships have allocated 83 per cent of capital funds to projects as loans and will be able to reuse those funds as loans are repaid. The Department reports that there are 309 projects now being supported by the Fund and that 70 projects are funding transport infrastructure.

26. In the Department's January 2014 survey, the Local Enterprise Partnerships have also reduced their estimates of the outputs (jobs, businesses and houses) expected to be created through the Fund, and have provided information on the number created to date, as shown in the following table.

Growing Places Fund output estimates

Output category	Total number of outputs expected to be created by the Fund	Proportion of projects creating outputs as a percentage of total projects (%)	Number of outputs created to December 2013	Date by which outputs total expected to be reached
Jobs	142,300	70	419	2033
Businesses	1,400	17	3	2026
Housing	61,100	27	155	2033

Source: Department for Communities and Local Government survey, January 2014

27. The Departments have provided the following update to **paragraphs 3.26 and 3.27** with respect to Growth Deals:

- All 39 Local Enterprise Partnerships submitted draft strategic economic plans to government in December 2013. Officials from across a number of government departments and agencies have reviewed these plans against the criteria set out in the guidance. These criteria are: ambition and rationale for intervention; value for money; and delivery and risk.
- Ministers have been holding challenge sessions with Local Enterprise Partnerships and government has provided written feedback to each of the partnerships.
- Local Enterprise Partnerships are due to submit their final strategic economic plans to government by the end of March 2014.

Part Four

28. The Departments have provided the following update to **paragraphs 16 and 4.3** regarding the governance of local economic growth initiatives:

- **Single local growth team:** The Departments have established a single local growth team, comprising officials from the Department for Business, Innovation & Skills, the Department for Communities and Local Government, and the Cabinet Office cities policy unit under a single director.
- **Growth Deals:** Governance arrangements are in place for Growth Deals. The new local growth director is the Senior Responsible Owner and chair of the programme board which held its first meeting on 6 February.
- The Departments are forming a senior **Local Growth Strategy Board** to work across the wider local growth agenda. The first meeting will be held in March 2014.
- The Departments have also formed a **senior officials group** to support the local growth cabinet committee. The group held its first meeting on 20 February 2014.

Appendix Three

29. **Appendix Three** has been updated with the new spending profiles for Enterprise Zone funding and payments to beneficiaries from the Growing Places Fund. These changes have been reflected below.

Spending on local growth programmes

Spend by Departments (£ million)	**2010–11**	**2011–12**	**2012–13**	**2013–14**	**2014–15**	**Total to 2014–15**	**Funds remaining after 2014–15**
Regional Growth Fund rounds 1–4	0	465	160	529	1,393	2,547	63
Of which paid to intermediaries	0	418	72	-	-	-	-
Growing Places Fund	0	730	0	0	0	730	0
Of which paid to intermediaries	0	730	0	0	0	730	0
Enterprise Zones	0	0	4	66	230	300	0
City Deals	0	0	33	118	72	223	0
Local Enterprise Partnerships	0	6	6	21	21	54	0
Total spend by departments on new local growth programmes	**0**	**1,201**	**203**	**734**	**1,716**	**3,854**	**63**
Regional Development Agencies—direct spend	1,461	585	0	0	0	2,046	0
Regional Development Agencies—legacy spend	0	230	66	23	5	324	0
Total	**1,461**	**2,016**	**269**	**757**	**1,721**	**6,224**	**63**

Payments to end beneficiaries

Regional Growth Fund	0	47	218	529	1,393	2,187	63
Of which from intermediaries	0	3	130	-	-	-	-
Growing Places Fund1	0	0	69	151	251	470	203
Of which from intermediaries2	0	0	69	151	251	470	203
Other new local growth programmes	0	6	43	205	323	577	0
Total payments to end beneficiaries from new local growth programmes	**0**	**53**	**330**	**885**	**1,967**	**3,234**	**266**
Regional Development Agencies—direct & legacy spend	1,461	815	66	23	5	2,370	0
Total[3]	**1,461**	**868**	**396**	**908**	**1,972**	**5,604**	**266**

Notes

1. The Department monitored the allocation of £673 million in capital funding from Local Enterprise Partnerships to local schemes. A further £57 million in revenue funding is not recorded here.
2. Estimated based on the January 2014 survey and adjusted to remove 'over-programming' where partnerships allocate more than they have been awarded in the expectation that not all projects will go ahead.
3. Total payments to end beneficiaries from 2013–14 to 2015–16 will be larger as £357 million remained with Regional Growth Fund intermediaries at the end of 2012–13.

Source: National Audit Office analysis of departmental data

Formal Minutes

Monday 12 May 2014

Members present:

Mrs Margaret Hodge, in the Chair

Mr Richard Bacon	Mr Stewart Jackson
Stephen Barclay	Mrs Ann McGuire
Jackie Doyle-Price	Austin Mitchell
Chris Heaton-Harris	Nick Smith
Meg Hillier	Justin Tomlinson

Draft Report (Promoting economic growth locally), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 15 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Appendix agreed to.

Resolved, That the Report be the Sixtieth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 14 May at 2.00 pm

Witnesses

Monday 10 March 2014	*Question number*
Martin Donnelly, Permanent Secretary, Department for Business, Innovation and Skills, Debbie Gillatt, Senior Responsible Officer, Regional Growth Fund programme and Sir Bob Kerslake, Permanent Secretary, Department for Communities and Local Government	Q1–119

List of printed written evidence

1	DBIS & DCLG	(EGF0001)
2	DBIS & DCLG	(EGF0002)
3	DBIS & DCLG	(EGF0003)
4	DBIS & DCLG	(EGF0004)

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2013–14

First Report	Ministry of Defence: Equipment Plan 2012–2022 and Major Projects Report 2012	HC 53
Second Report	Early Action: landscape review	HC 133
Third Report	Department for Communities and Local Government: Financial sustainability of local authorities	HC 134
Fourth Report	HM Revenue & Customs: tax credits error and fraud	HC 135
Fifth Report	Department for Work and Pensions: Responding to change in jobcentres	HC 136
Sixth Report	Cabinet Office: Improving government procurement and the impact of government's ICT savings initiative	HC 137
Seventh Report	Charity Commission: the Cup Trust and tax avoidance	HC 138
Eighth Report	Regulating Consumer Credit	HC 165
Ninth Report	Tax Avoidance—Google	HC 112
Tenth Report	Serious Fraud Office—redundancy and severance arrangements	HC 360
Eleventh Report	Department of Health: managing hospital consultants	HC 358
Twelfth Report	Department for Education: Capital funding for new school places	HC 359
Thirteenth Report	Civil Service Reform	HC 473
Fourteenth Report	Integration across government and Whole-Place Community Budgets	HC 472
Fifteenth Report	The provision of the out-of-hours GP service in Cornwall	HC 471
Sixteenth Report	FiRe Control	HC 110
Seventeenth Report	Administering the Equitable Life Payment Scheme	HC 111
Eighteenth Report	Carrier Strike: the 2012 reversion decision	HC 113
Nineteenth Report	The dismantled National Programme for IT in the NHS	HC 294
Twentieth Report	The BBC's move to Salford	HC 293
Twenty-first Report	Police Procurement	HC 115
Twenty-second Report	High Speed 2: a review of early programme preparation	HC 478
Twenty-third Report	HM Revenue & Customs: Progress in tackling tobacco smuggling	HC 297
Twenty-fourth Report	The rural broadband programme	HC 474
Twenty-fifth Report	The Duchy of Cornwall	HC 475
Twenty-sixth Report	Progress in delivering the Thameslink programme	HC 296
Twenty-seventh Report	Charges for customer telephone lines	HC 617
Twenty-eighth Report	The fight against Malaria	HC 618

Twenty-ninth Report	The New Homes Bonus	HC 114
Thirtieth Report	Universal Credit: early progress	HC 619
Thirty-first Report	The Border Force: securing the border	HC 663
Thirty-second Report	Whole of Government Accounts 2011–12	HC 667
Thirty-third Report	BBC severance packages	HC 476
Thirty-fourth Report	HMRC Tax Collection: Annual Report & Accounts 2012–13	HC 666
Thirty-fifth Report	Access to clinical trial information and the Stockpiling of Tamiflu	HC 295
Thirty-six Report	Confidentiality clauses and special severance payments	HC 477
Thirty-seventh Report	Supporting UK exporters overseas	HC 709
Thirty-eighth Report	Improving access to finance from small and medium-sized enterprises	HC 775
Thirty-ninth Report	The Sovereign Grant	HC 665
Fortieth Report	Maternity Services in England	HC 776
Forty-first Report	Gift Aid and other reliefs on charitable donations	HC 835
Forty-second Report	The Charity Commission	HC 792
Forty-third Report	Progress at Sellafield	HC 708
Forty-fourth Report	Student loan repayments	HC 886
Forty-fifth Report	Excess votes 2012–13	HC 1068
Forty-sixth Report	Emergency admissions to hospital	HC 885
Forty-seventh Report	Contracting out public services to the private sector	HC 777
Forty-eighth Report	Department for Communities and Local Government: Council Tax support	HC 943
Forty-ninth Report	Confiscation Orders	HC 942
Fiftieth Report	The rural broadband programme	HC 834
Fifty-first Report	Programmes to help families facing multiple challenges	HC 668
Fifty-second Report	BBC Digital Media Initiative	HC 985
Fifty-third Report	Ministry of Justice and National Offender Management Service: Managing the prison estate	HC 1001
Fifty-fourth Report	COMPASS: Provision of asylum accommodation	HC 1000
Fifty-fifth Report	NHS waiting times for elective care in England	HC 1002
Fifty-sixth Report	Establishing Free Schools	HC 941
Fifty-seventh Report	The Ministry of Defence Equipment Plan 2013-23 and Major Projects Report 2013	HC 1060