Public Accounts Committee

Oral evidence: Local Economic Growth and the Regional Growth Fund, HC 1110

Monday 10 March 2014

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Members present: Margaret Hodge (Chair); Mr Richard Bacon; Guto Bebb, Jackie Doyle-Price, Chris Heaton-Harris, Meg Hillier, Stewart Jackson, Austin Mitchell, Ian Swales, Justin Tomlinson.

Amyas Morse, Comptroller and Auditor General, National Audit Office, Helen Booth, Director, NAO, Aileen Murphie, Director, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Martin Donnelly, Permanent Secretary, Department for Business, Innovation and Skills, Debbie Gillatt, Senior Responsible Officer, Regional Growth Fund programme, Department for Communities and Local Government, and Sir Bob Kerslake, Permanent Secretary, DCLG, gave evidence.

Q1 Chair: Welcome. We are coming back to the regional growth fund, and we are also looking at all the other local growth funds and policies. I am going to start with the obvious question, Sir Bob. Who in central Government is responsible for the success of all these local growth policies?

Sir Bob Kerslake: The person most directly responsible is me. I am the accounting officer for a substantial part of the funds that we are talking about here. I am the accounting officer for RGF rounds 1 to 4, the growing places fund, the enterprise zones, EU funding—the ERDF—the city deals and the local growth fund. Martin is the accounting officer for RGF rounds 5 and 6.

Q2 Chair: Why?

Sir Bob Kerslake: Because the funding model changes for those rounds. Rounds 1 to 4 were a mix of project and programme, which is to say that they directly funded businesses and programmes that were often run by local government. Given that mix, I took on the accounting officer role. With the creation of the local growth fund, which takes on a wider role for the relationship with LEPs and local authorities, we now have a smaller fund for rounds 5 and 6, which is specifically focused on national support for businesses. It therefore makes sense for Martin to take on that role. It is a different use of the RGF fund.

Q3 Chair: It might make sense bureaucratically, but we must hold you to account for the expenditure. It looks to me like it might be messy.

Sir Bob Kerslake: No, I do not think it is. As I say, out of all the funds that I have just spoken about, it is only the regional growth fund—

Q4 Chair: The local growth fund comes from the regional growth fund, doesn't it?

Sir Bob Kerslake: The local growth fund is a successor, if you like, to rounds 1 to 4, but it is a very different kind of fund, because it encompasses a whole set of different funds.

Q5 Chair: So it is not new money. Honestly, this is why we get so muddled. So the local growth fund for rounds 5 and 6 will be the regional growth fund plus the extra £600 million that was promised in some past autumn statement or Budget—I cannot remember which.

Sir Bob Kerslake: The way to think of it is that the various funds ran up to 2015, up to that period, and then they ended, so things like the growing places fund went to 2015 and finished. What the Government then did was to create a wholly new fund, an all-embracing fund, on the back of the Heseltine review, which was the local growth fund, and that starts from 2015-16. That is the principle funding for local growth, going through to local enterprise partnerships.

Q6 Chair: So all the enterprise zones and all the other things that we talked about—

Sir Bob Kerslake: All of that would come under the auspices of local growth, a single team and so on.

Q7 Chair: And will growing places come under that?

Sir Bob Kerslake: The growing places fund ends and will be subsumed within that overall model, basically. It becomes very simple, in a way. You have the local growth fund from 2015, and a continuation of a very specific use of regional growth fund through BIS to direct support to businesses. That is the way to look at it. In simple terms, other than that one element, which is £600 million, all of the funds—

Q8 Chair: Which £600 million?

Sir Bob Kerslake: The £600 million is rounds 5 and 6 of the regional growth fund. All of the other funds come under me as the accounting officer.

Q9 Chair: Out of the £2.6 billion that went on the regional fund, if we take that first, only £492 million—less than half a billion—has so far reached projects. Do you accept that?

Sir Bob Kerslake: Yes, that was the figure as at the end of December. It has moved on since then.

Q10 Chair: I appreciate that, looking at the regional fund review, things are slightly better, but that expenditure against profile is still disappointing.

Sir Bob Kerslake: It is certainly less than we had forecast, and we have been up front about that. What we have tended to focus on is the allocation of the funds and then reaching final agreement with the various projects and programmes. That is the trigger point for action from those projects. It is important to bear in mind that the funding we are using from the regional growth fund does not just stand alone. It sits alongside private sector funding as well. We have always wanted to leverage in money from the private sector alongside the regional growth fund.

If you take the money you have just described, we are now at about £600 million—adding an extra couple of months that have gone to beneficiaries—but it is worth saying that that £600 million leverages in about £1.7 billion of funding from the private sector. The reason I mention that is that it is not just whether we are ready to fund organisations; it is whether they are ready to go with the projects that is often the issue. That is why it typically is the case that our funding will come behind and come later. Am I concerned about that? Obviously, we would have preferred to get the profiling right from the start, but am I concerned that we will not deliver the projects? I do not think so, because, as I said, we have reached final agreement on the vast bulk of the money in rounds 1 to 4.

Q11 Ian Swales: What is not clear from the Report is whether you have actually done any analysis of the time line for these projects. Talking to bidders to the fund, the impression I get is that there is a degree of slow pace, bureaucracy and so on, and particularly the under-resourcing that happened at the start has been part of the issue. There was an initial staff of 12 full-time economists. I could make a joke. I don't know how long it takes 12 economists to agree on anything, but my point is, have you analysed the time line? If you had to deliver this as fast as possible, what would you be doing differently?

Sir Bob Kerslake: There are two points to make on that. Yes, we have analysed the time line, and I'll explain what we learnt from rounds 1 and 2. I'll get Debbie to come in in a minute as the SRO on the regional growth fund, but what we found on rounds 1 and 2 was that the process of getting to final agreement was taking too long and we had not actually set a deadline for that bit of the process, from the point of offer, so in round 3 a target was set of six months to get that done, and that had a pretty galvanising effect when you coupled it with extra resources going into the team, Debbie. If you look at rounds 3 and 4, 68% of the negotiations on round 3 were completed within the six-month period and 90% were completed on round 4—sorry, 74% were completed; I read out the wrong number. So 68% of round 3 and 74% of round 4 negotiations were done within the six months. That was an immediate acceleration of the process to get to final agreement. When we are at final agreement, it is then about the projects being ready to commence and draw down the funding, so actually, far from slipping back, we have brought forward the timing.

Q12 Ian Swales: But in a way that just underlines my point—the fact that there was no targeting in the first two rounds and that people appeared to think that life could just roll on, instead of saying, "We've got to get this done as quickly as possible." That was the feeling that we all had, observing the process, and you're kind of underlining that.

Sir Bob Kerslake: That would be a little unfair. There was certainly a lot of pressure to get things done quickly, but it was a learning process for both us and the companies and the programmes that we were funding. What I am saying is that one of the learning points was not that we were not putting pressure on, but that we needed to have a hard deadline by which we expected projects to be ready to sign or else step back from the project. The introduction of that hard deadline has speeded up the process, but what I would say to you is this. We are at a point where the vast bulk of the money has now reached the final agreement stage for rounds 1 to 4, so we are at the point where projects have got the final offer and signed up to the final offer and it is now about funding them as they move forward with implementation. I don't know whether Debbie wants to come in on that.

Q13 Chair: Well, Debbie might pick up this question. You might be at that stage, but you have to get the money into the projects by the end of the financial year 2014-15 or you lose it, and there is a chart in both reports—figure 6 on page 23 in the "Funding and structures" report—that shows that all the expenditure has been driven to the right and you are expecting almost to triple spending from 2013-14 to 2014-15. That just seems to me completely unrealistic and unachievable, particularly because most of that is capital spend, isn't it? Over 80% is capital spend, which is even more likely to be difficult to achieve. Perhaps, Debbie, you can come back on both those issues.

Debbie Gillatt: By all means. We recognise that next year is a challenge, but we don't think it is insurmountable, as Sir Bob has said.

Q14 Chair: Well, it's pretty insurmountable if you haven't done it to date. Sorry to interrupt you, but given your record to date, there is nothing that provides the confidence to think you can do it.

Debbie Gillatt: The key issue in many ways is, as Sir Bob has said, that we have signed agreements with almost all the beneficiaries in rounds 1 to 4 at this point, and each of those agreements contains a set of agreed points at which they are going to be measured against outputs and are going to draw down claim. So we have agreed arrangements with every project virtually—

Q15 Chair: Answer the point. How do you get from the anticipated £529 million in 2013-14, which you may not meet, to nearly £1.4 billion?

Sir Bob Kerslake: The point is that, in contrast to previous years, we have signed agreements with all the projects—*[Interruption.]* No, this is an important point. We didn't have that previously. We now have signed agreements with all the projects, where they have said when they expect to draw down the money, and our forecast of spend is based on those signed agreements.

Q16 Chair: And the fact that it's a capital project?

Sir Bob Kerslake: Well, they are now geared up to the point where they have signed those agreements; it is for them to spend. If they change their plans and say, "We don't actually need as much money as we thought we did," all of those things may impact on the spend in the year. But our estimates now are not based on us still needing to assess the projects and finalise the agreements. We have final agreements in place for most of the money. If we do not now spend the money it is because the projects themselves, for other reasons to do with the company or the programme, do not progress in the way that they are expected to. That is the point I am making.

Debbie Gillatt: To add to that, we are very conscious that there is a short time available and if these projects start to go off track, that's potentially a problem for them and for the fund. We also now have in place a system where, at least quarterly, we review the risk status of every project and programme. We have a special team that will go in if there are signs of a project or programme getting into trouble.

Q17 Chair: How many projects do you have to spend your £1.4 billion on in the next year? How many are we talking about—hundreds?

Debbie Gillatt: Yes.

Q18 Chair: How many?

Debbie Gillatt: About 400, roughly.

Q19 Chair: And how many of those have a red traffic light?

Debbie Gillatt: At the moment it is about 30.

Q20 Chair: Only 30 out of about 400? Are they big ones?

Debbie Gillatt: Some of them.

Q21 Chair: So what proportion of the value has a red traffic light on it?

Debbie Gillatt: I couldn't tell you off the top of my head.

Q22 Mr Bacon: Let's just look into this a bit more, because it is very interesting. You are saying that there is £1.393 billion sitting there. When you said it could be a problem for the fund, what you meant is that it could be a problem in terms of spending the money quickly enough. That is what you meant.

Debbie Gillatt: If the private sector partners do not perform according to what they have agreed with us, yes.

Q23 Mr Bacon: And according to how much money they would put in, alongside this £1.393 billion.

Debbie Gillatt: Yes.

Q24 Mr Bacon: What is the total, then? Sir Bob mentioned £1.7 billion being leveraged in on top of the public sector money, but specifically in relation to the £1.393 billion, how much extra private sector investment is that supposed to bring in?

Debbie Gillatt: I would have to write to you with that, in terms of a figure for the year.

Q25 Mr Bacon: Really? I am surprised you do not have that at your fingertips, actually, because that would be quite an interesting number. You are saying that there are 400 projects to which this £1.393 billion is going to be allocated, and that about 30 of those 400 are at a level of red on the traffic lights system. So the other 370 are not red. Are they all green?

Debbie Gillatt: No, they are not all green.

Mr Bacon: So are we talking about green and amber, or amber and red? If you break up this 400 and 30 of them are red, what are the other 370 of them?

Chair: There is value.

Q26 Mr Bacon: I am going to come on to value. What are the other 370 like in terms of traffic light colours?

Debbie Gillatt: A significant proportion are on amber, which means that we are watching and monitoring them more closely.

Q27 Mr Bacon: How many out of the 370?

Debbie Gillatt: Let me just see if I can find you the exact figure. It is 110.

Q28 Mr Bacon: That makes 140 all together. Then you have 260 that are green?

Debbie Gillatt: Yes.

Q29 Mr Bacon: Okay. It is not a bad thing if they are amber—that you are watching them is sort of reassuring, in a way. On value, could you repeat what you were saying to the Chairman a minute ago? If you divide £1.393 billion by 400 you get £3.48 million each, but presumably that is not how the distribution goes, so could you describe how the distribution is, roughly, between the big, the medium and the small? If you take the £1.4 billion, how is that being broken up?

Debbie Gillatt: It is a huge range. The RGF awards range from £1 million to £70 million, for some of the larger programmes.

Q30 Mr Bacon: If you take the top 10, what is their total combined value?

Debbie Gillatt: I could not tell you that off the top of my head, I am afraid.

Mr Bacon: Again, that is the sort of thing I would think you would be intimately familiar with—how much is going where.

Q31 Chair: To be honest, looking elsewhere at where the jobs have been created, they are all in the top five or 10.

Sir Bob Kerslake: Just as a guide, if you look at programmes, in figure 4 on page 28—

Chair: Which report?

Sir Bob Kerslake: It is your Report—"Progress report on the Regional Growth Fund". You have a list of the highest value programmes. Now, there may be projects, of course, that fit in this—there will be—but that gives you an indication of some of the biggest programmes, anyway.

Mr Bacon: You are neatly bringing us on to a different question. Shall we do administration costs now?

Q32 Chair: Before we leave that point, the criticisms in the Report are, first, you haven't got the money out, and I think you are putting far too much emphasis on success in spending it at the end. The second criticism, which comes to that, is—this is all about creating private sector jobs, particularly in areas that depend on public sector employment to date—that all your success is concentrated on very few projects. I bet you that this value figure that Richard is after is hugely important.

Sir Bob Kerslake: It is. Let me just come back on both points. On the first point, about whether we have got the money out, we said earlier that, on the first two rounds, we needed to tighten up the process. I think we have done that on rounds three and four, and we have reached the point where we have final signed agreements related to pretty much all the funding. I don't think it would be right for us to force the money out under any circumstances—

Q33 Mr Bacon: On that point, you are absolutely right: it would not be right to force it out under any circumstances. But one immediately thinks of the House of Lords report on the DFID target of 0.7%. The House of Lords Economic Affairs Committee said that, if you have a target like that, the risk is that you will be shoving it out the door too quickly. One immediately thinks of the Office of the Third Sector, where the NAO Report said specifically that charitable bodies were saying, "Please don't give us the money, because we are not ready to receive it," and it was shovelled out none the less at high speed. What assurance can we have that you are not, in order to meet the target and not lose the money, going to shovel it out too quickly?

Sir Bob Kerslake: Let us be clear. The target for me is not to spend the money under any circumstances. If projects, having signed an agreement with us and agreed a phasing, then changed their plans or slipped, they know that one of the consequences may be that funding is not going to be forthcoming.

There are no circumstances in which we will pay out money under any cost, if you like. That is not what we are going to do, and it would not be right. For me, a test of success here isn't that we spend to the penny, but that we run an effective process; that we capture and properly evaluate the schemes; and that we get to a signed final agreement as quickly as we can, and then support projects that are ready to take the money.

As I said earlier, we are only one part of the funding for these projects. It is really important to have that in mind. When a company is thinking about moving ahead, it is thinking partly about, "I need to take my grant," but it is thinking much more, "Is this the right commercial judgment for me?" If they are not ready, and they change their mind, so be it. We will not get to a point where we just pump the money out, because that is not the test of success.

Q34 Ian Swales: Can I tease this out a bit further? With the conversation that we are having, it is quite easy to imagine the issues if we are dealing with a single company project. However, as paragraph 6.4 reminds us, 60% of the money you are now putting out through programmes. Part of the purpose of programmes is because the RGF core team could not cope with the sheer number of SME-type projects out there.

The sort of assurances you are giving the Committee might sound quite good, but my question is about the 60% that is going out through intermediaries. How on earth are you controlling that? Have you considered clawing back money from intermediaries that are failing to deliver on the time scales that they said they would?

Sir Bob Kerslake: There are two different points here. First, it needs to be clear that we did not go down the programme route, because of some thought that we could not deliver the money to business projects. It was always part of the plan to have a mix of direct funding to projects and programmes. Part of the programmes bit was to link into the wider local growth work of the emerging local enterprise partnerships. It was always part of the deal from round one onwards; it is important just to say that.

Secondly, we did, as you know, pay some funding over to a number of the intermediaries through the so-called endowments in advance of need. That was related to very specific circumstances for rounds one and two. That will not happen in the future for rounds three and four. We pay the funding out, linked to need. Those programmes—I think it would be fair to say, Debbie—are under the same obligations to move ahead their programmes of delivery as the projects are. So there isn't a situation where we are paying money to programmes in advance of need either now.

Q35 Ian Swales: With respect, I think you are slightly rewriting history. Round 1 never mentioned programmes, did it?

Sir Bob Kerslake: It was always part of the plan to have programmes in the mix.

Q36 Ian Swales: Because there was a lot of criticism about the £1 million threshold in the early days—that a lot of projects would therefore be excluded—and then the programme idea emerged.

Sir Bob Kerslake: No, it came through in round 2 in terms of activity. In terms of the plans, we always intended that. The reason we did not do it in round 1 was not because we did not think of doing it. It was because that was done at rapid pace and it gave time for the programmes to develop.

Q37 Ian Swales: Okay. Going back to the programmes, then, there is certainly an implication in the Report about this endowment, and "Managing Public Money" having to be rewritten—in slight doublespeak—to criticise it. My question is about this slow spending. A lot of it is in programmes and a lot of them are about small and medium-size businesses. You are finding that some of these people have been awarded programmes.

Figure 4 in the Report shows the 10 biggest that are barely spending any of the money. If we look at page 28, if you exclude RBS, we have a huge amount of money out there, very little of which has been spent. What are you actually doing about it, where your people are not the prime people dealing with the actual projects that this is funding? You are only dealing with the programme owners, as I understand it.

Sir Bob Kerslake: Again, Debbie will come in on the detail of it. The programmes divide between two types. One is where we funded them through the endowment policy, which was paid in advance of need for rounds 1 and 2. This list in figure 4 has essentially six of those. You can sort of see them, because the amount paid is the same as the amount allocated. There is a separate group of programmes that came subsequently or were not part of the endowment programme, where we have not paid in advance of need, and they only get the funding when they spend it.

You are absolutely right to say that for our programme to deliver next year, both projects and programmes have to spend as planned. As I said earlier, that is part of the monitoring that the team does. On the endowments, where we have paid the money in advance of need, we also track those closely. We track them on both their delivery and admin costs. We have the ability, if they do not deliver according to the agreed plan, to claw back the money from them.

Q38 Ian Swales: That was an expression I have already used. Let's take a specific. You have given Santander £53.5 million and agreed to take 9%—that is £5 million—of administration costs, and so far they have paid out £2.3 million. I know you may not want to talk about specifics, but what are you are doing about these programmes that are simply not working? That was a round 2 one.

Sir Bob Kerslake: Clearly, Santander is one that is somewhat behind the curve. Let's put it that way.

Q39 Chair: But the point is that they are spending £5 million on admin and £2.3 million on programme projects. That is not on.

Sir Bob Kerslake: No; what they have spent so far on projects. If they do not accelerate then, as I said earlier, we have signed agreements and the ability to claw back.

Q40 Ian Swales: Knowing a little about this, I can understand that with some big capital projects, like one or two that I am familiar with in my local area, there have been real issues about raising the rest of the money or the board changing their minds or whatever. But we are talking here about collections of SMEs. I know the RBS scheme was a specific, but they have had the money and they have basically dealt with it. What is the learning from that?

Sir Bob Kerslake: The mix here is that some have done extremely well, such as the Royal Bank of Scotland.

Chair: One has done well.

Sir Bob Kerslake: There are quite a few, as I said earlier, who are not spending at a rate that I would feel comfortable with. We are closely monitoring them. We have an assessment of which ones are performing as we would want them to, and we are challenging and testing them and have the right to claw back.

Q41 Ian Swales: If you are to meet these targets of acceleration, with people out in regions—you name a programme and it is probably going on in my area of the Tees Valley, so I see a lot of this happening—how is this message that, for example, Santander are sitting on a huge amount of money getting out to the people desperately looking to invest?

Debbie Gillatt: Perhaps I can say a little about it. The Santander scheme is one of those where, in fact, there is not an expectation that all of the money goes out by next year; it is a nine-year scheme and it is two years in, so they have got a longer planned time over which they are expected to put this money out. But they have underperformed, and we have not sat back on that. We have had experts going in there, trying to work out what is going on and help them get past it. Where necessary, with schemes of this sort, what we will do is help them to improve the administration and, potentially, if we can do this without decreasing the value to the taxpayer and the performance against the fund, change what they can do

Q42 Ian Swales: Hold on. Apart from the administration costs that we just spoke about, are you seriously suggesting that we need to send civil servants into a bank to improve its administration? Is that what you said? Is that one of the things that we would really do?

Debbie Gillatt: If necessary to support the fund, yes we will.

Q43 Ian Swales: Well, surely if they do not know what they are doing, the answer is to take the money back off them.

Mr Bacon: And give it to somebody else.

Ian Swales: Have you taken any money from anybody yet?

Debbie Gillatt: Yes.

Ian Swales: On programmes, not on specific—

Debbie Gillatt: Not on programmes.

Ian Swales: Not on programmes.

Debbie Gillatt: Not as yet.

Q44 Ian Swales: I know you have gone after one or two companies, but you have not taken a penny back from any programme—is that true?

Debbie Gillatt: I think that that is right.

Q45 Mr Bacon: So none of these programme operators listed in figure 4 have yet had you say to them, "You've been hanging on to the money for too long for any good that you have been doing—we'll have it back, please." ***Debbie Gillatt:*** No, but we have made it clear that we will do that, if they do not—

Mr Bacon: Okay.

Ian Swales: I will tell you why I am raising this. There is a programme that did not quite appear here, which I think was for £30 million in the north-east, who have spent almost all of their money and are wanting more. They have so many projects that they want to do in a part of the country that desperately needs them. I do not know whether they will get that, but here we have people who have had money who are not spending it, and it does not seem right.

Q46 Chair: These are your top 10 highest-value programmes, of which only one has spent. Is there another one that you are happy with? They all look pretty grossly underspent.

Sir Bob Kerslake: As Debbie said, some of them were on longer timetables anyway, so Santander was nine years—

Q47 Chair: But do you agree, Sir Bob, that, out of those 10, it is only the Royal Bank of Scotland? I do not even know which other one might have done a little bit—

Sir Bob Kerslake: I think the Business Angel one, but even they are lower than—

Mr Bacon: They have not spent 80% of it.

Sir Bob Kerslake: No.

Q48 Chair: None of them. And these are your biggest programmes. None of us wants to waste money, but the purpose of the programme was to get money into areas where you are trying to encourage private sector job growth, and you are failing to do it.

Sir Bob Kerslake: As I said earlier, the thing we can do from Government is identify the projects, analyse them, take decisions on them and reach final agreement. Where we think that they will not reach final agreement, or they are not likely to spend the money, we can take it off them and move it around. We have done that on projects, as you said earlier, and we are closely tracking the programmes. If we believe that they are going to fail to deliver, then we will take money away, cancel programmes—

Q49 Chair: Too late. We are in the middle of 2013-14 and this money has got to be out by 2015.

Sir Bob Kerslake: That is a matter of judgment, Chair, and we do not believe that we are too late in that process.

Ian Swales: Just for the record, Business Angel is the only other round 1 project on the list, along with Royal Bank of Scotland, so that does not stand up to comparison very well.

Q50 Mr Bacon: Before Mr Jackson comes in, I want to ask one question about Royal Bank of Scotland. Their performance is so different from everyone else's that that suggests either that they have taken it seriously and, uniquely, managed to find a whole series of different projects where everyone else has not, or that their method of operation was quite different. Does this £70 million represent a very small number of very large projects? How many is it?

Debbie Gillatt: It will be at least 140, because the maximum until now that they have been able to award in any one case is £0.5 million.

Q51 Mr Bacon: Right. So that £70 million is composed of at least 140 projects. And they are charging 0% administration for all of that.

Debbie Gillatt: That is right.

Q52 Mr Bacon: So it is accurate to say that they have done much better than all of the others. They have found a method of operating where they can align this fund to loans that they were making anyway, or to support loans that might not otherwise have been fully viable and made it happen and got it out the door. That is very encouraging but makes it all the more startling that the others have not managed to do that and are charging whacking great fees. I have just added them all up, based on these percentages. The total fees in that last column—that is a percentage column, showing the proportion of allocated fund to be used, by programme, for administration costs—are over £18 million divided between these 10 institutions. As you say, that may be over some years.

The Santander one, you said, was nine years; well, that is £4.8 million over nine years. It is roughly £500,000 a year for nine years. It sounds quite a lot. It is a number of people working full-time just on administering this, and the Royal Bank of Scotland manages to do it much more quickly without any cost; but it is £18 million all together. It is not obvious—do you know how much of that £18 million has already been spent? It is an allocated amount. Some will have been spent, some will not have been spent. Do you know how much has been spent?

Debbie Gillatt: Ten million.

Mr Bacon: Ten million has been spent?

Debbie Gillatt: Has been paid out.

Mr Bacon: So far.

Debbie Gillatt: By us. Yes.

Q53 Mr Jackson: Looking at the general themes that come out of the Report, and aside from specific issues, which we will come on to later, such as the fact that to generate jobs in the latter rounds is going to cost substantially higher—I think the figure is 72%, which worries me, simply because the Department does not know why that is—and the over-concentration on a small number of organisations and businesses at the beginning, given that the overall raison d'être is to rebalance the economy, can you, Sir Bob, answer this specific point: do you think that there is both a quantitative and a qualitative issue here?

In terms of the qualitative issue, I know that the Report says that effectively you have got no central template for the measurement of the effectiveness of decision making at local level. That is how I read it, and I think it is a substantial weakness. That is paragraph 4.5 of the Report on local economic growth.

The other thing that is probably even more fundamental is the paucity of accurate data. What came through this Report is that two or three years in you still do not have reliable management information systems in place in order to measure the effectiveness and efficacy of each of these local schemes. Finally, I would say that the Departments are not working that well together, so there is not the co-operation you need, there are not the data that you need, there is not the leadership and template that you need, and there is an over-reliance on some organisations. To me it looks like a recipe for disaster.

Sir Bob Kerslake: There are quite a lot of questions in that one question. Can I decouple them?

Mr Jackson: You can.

Sir Bob Kerslake: The first question relates to the Regional Growth Fund, and what the NAO Report does is identify the top five projects, some of which are programmes, by the way, which secure quite a large amount of the money. I do not think that is entirely surprising. Most programmes will have a mix of a smaller number of big projects and a long tail of smaller projects, so I do not personally think that of itself is an issue. We know which the big ones are. As we said earlier, we are monitoring and tracking them, and where we think there is an issue of progress—and some, as you have highlighted, are not making the progress we would want them to—we will take action to take money off them and redistribute it. So that is the first point.

On the second point, that really relates to the range of different initiatives on local growth that we are initiating—not just the Regional Growth Fund but the growing places fund, and so on. What I would say to you is that all of those initiatives are quite distinct initiatives that are measured in different ways, so the Regional Growth Fund is essentially a programme that is run nationally, and which you have a separate Report on, where there is quite a lot of detailed analysis. As the NAO Report points out, we have improved and strengthened the systems of monitoring that.

In relation to the Growing Places fund, it was very distinctly a fund where we passed it out to local enterprise partnerships and their members to take the local decisions on what were the most important projects. We have data on how that fund is going—they have supplied it to us on a regular basis, and we know how much money they have allocated and the impacts of the projects.

The third area is the enterprise zones. We track very closely where they are and what progress they are making. We have reasonably good data on each individual programme about where they are and what they are achieving.

The NAO Report asks, in a sense, whether you can reach a comparative view across those different programmes. That is actually quite hard to do. I understand the point that the NAO is making, and it is perfectly understandable. However, it is quite difficult to compare an incentive-based model for enterprise zones that is not grant-based, with a loan-based model run at local level, which is what the growing places fund is, and a grant-based programme at national level. I would say that, in due course—from 2015—we will move to a new model anyway, through the single local growth fund. I think we have a pretty good—

Chair: You're moving to a new model anyway?

Sir Bob Kerslake: The move to a local growth fund has already been agreed by Government, as I said earlier. My point is that we are tracking each of the individual funds. You asked the question—we are tracking each of the individual funds and we know what is happening on those funds and initiatives now. They are co-ordinated. We have moved to a single local growth team that goes across Government Departments. We have a programme board between BIS and CLG that oversees progress across all these initiatives, and, with the exception of one fund, we have one accountable officer. I think that that is quite a joined-up system.

Q54 Mr Jackson: That would be all tickety-boo were we not four years down the line from the last election. Admittedly there was a lot of disruption in the post-election period, but as far as I can see the local enterprise partnerships were surely like little Lego blocks. You got rid of the RDAs. You had a local enterprise partnership based on a travel-to-work area—an area of more logical economic activity, which in my case meant that the cities of Peterborough and Cambridge were travel-to-work areas. You then just plugged in the different schemes and carried on measuring to see their effectiveness. It seems that no one was exercising a strategic overview of how each of those LEP areas were doing and what further help they needed, because there were so many of these different schemes. That is problematic when we have seen significant amounts of public money being spent.

Sir Bob Kerslake: We have had the programme board in place for some time now—it is not just an invention of the past few months. The new thing is the creation of the single local growth team that I spoke about earlier, but we have had a programme board overseeing things across BIS and CLG for a number of years now. That is the first point I would make.

Secondly, it is absolutely correct to say, Mr Jackson, that the Government decided to end an existing structure—RDAs—and an existing set of programmes, and to then put in place a new structure. At that point, the Government did not commit to anything other than the regional growth fund. Subsequently new funds, such as the growing places fund, were added, as were new initiatives, such as the enterprise zones. That is the story as it happened.

At official level, we have sought to have very close working between the two Departments—that has happened. We wanted a programme board to oversee all the changes—that has happened. There has now also been the creation of a single team. Frankly, I think that that is not a bad story.

Q55 Mr Jackson: Except for what the NAO Report on the Regional Growth Fund says about the estimated cost per additional job. Will you deal with that specific issue? It is a pretty worrying statistic that you did not create that many jobs at the beginning—lots of funding was set aside—and that now you have got around to getting decent management information systems, a coherent strategy and a programme board, you are not actually going to be delivering that much, in terms of taxpayer value for money, in the jobs you create or save. The cost per additional job is 72% higher than in the earlier tranches.

Sir Bob Kerslake: First of all, we have two measures of projects: one is the number of jobs created directly by the project; the other is the benefit-cost ratio. We have calculated both for the projects. Personally, I think we would want to focus on the benefit-cost ratio, because it takes on board a wider range of benefits, both in terms of the nature, quality and longevity of the jobs created and also the wider impact of research and development, for example. In later rounds, we found that wider benefits have come from the projects. If you look at the benefit-cost ratio—we have supplied this information to the NAO—we see that the median benefit-cost ratio for rounds 3 and 4 has actually stayed pretty high and is well over 2:1 and getting quite close to 3:1. The core decider of projects, which is the benefit-cost ratio, has held up in subsequent rounds. We have seen a higher cost for the individual jobs created. We say that our analysis of that—

Q56 Mr Jackson: Significantly higher?

Sir Bob Kerslake: Significantly higher, but, as I said earlier, there is a combination of reasons. First, we have got better, sharper and are more confident about what jobs are actually created, so we have more accuracy on the job creation number. Secondly, the projects that we have been approving have a wider set of quantified benefits—research and development and so on—that have been brought into the benefit-cost ratio. In one sense, you have to pick your marker and that is the one that we have gone for.

Q57 Mr Jackson: That is good as far as it goes, but I want to go back to what Mr Swales said. In the Tees valley and in Redcar, which is his area, there are significant endemic economic issues, particularly male unemployment, welfare dependency and so on. The money that you are now spending to create 72% more jobs in Wolverhampton and the west midlands, for example, could and should have been spent two years ago at a much cheaper cost to the taxpayer in Redcar and the Tees valley.

Sir Bob Kerslake: I see that point, but it suggests that we are not supporting or able to support further projects in the north-east. We clearly can and are supporting such projects, so that is not the right way of looking at it. I am trying to say to you that the test by which we approve or do not approve projects—the benefit-cost ratio—has held up for subsequent rounds. It simply is not the case that we have funded poorer-value projects in later rounds. The evidence does not back that up.

Q58 Mr Jackson: Is the methodology for that cost-benefit ratio national or regional, or is it based on other factors?

Sir Bob Kerslake: It is national. Debbie, do you want to describe it?

Debbie Gillatt: By all means. The other point that I would make, however, is that the point in the appraisal process at which that measurement about cost per net job is taken is primarily on the applicant's first estimate of the number of jobs that are claimed will be created. One thing that we have certainly identified as we have gone through the rounds is that we are not the only people who have been learning to be more accurate about what given investment of a given sort is actually likely to produce. Many of the bidders have, too. We have spoken to many of them in advance of them bidding to ensure that they are being realistic about what they forecast.

Q59 Chair: I want to come in on this benefit-cost point. I will then bring you in, Ian.

I keep coming back to this. The purpose is to create jobs in the private sector in areas that have been overly dependent on public sector jobs. Jobs matter. Under the RDA, which we looked at when you set it up, we were spending some £28,000, which we thought was too much, on every job created. If you are now telling us that the early figures on this are wrong and that the later figures of £50,000 per job are more likely to be accurate, that is a dreadful way of assessing value for money. Saying that the benefit-cost ratio is a little better is not good enough. This is about creating jobs in the private sector for people who were previously dependent on public sector jobs. It is just not good enough. It is just not working.

Sir Bob Kerslake: We are confident that we will achieve 78,000 jobs safeguarded or created in 2013-14.

Q60 Chair: At what cost per job?

Sir Bob Kerslake: It varies according to which round we are talking about.

Q61 Chair: What is the average?

Sir Bob Kerslake: I can give you the figure for 2013-14, but the point that I am trying to make is that it is not solely about job creation. It is an important part, which is why we measure it and have recorded those numbers for different rounds. The benefit-cost ratio captures other benefits. These are quantified benefits, not theoretical benefits. They are really quantified benefits.

Q62 Ian Swales: That is what I wanted to—

Sir Bob Kerslake: Sorry, can I finish the point? One of the things we were taken to task on last time was the risk of approving projects with low BCRs. You cannot have it both ways. We think BCR matters, we think the benefits we get from the type of jobs we create and the weighting of that matters, and we think the benefits we get in terms of R and D and other things will ultimately have an impact on future jobs. You should not ignore this at the wider benefits. Jobs are important, but they are not the only thing, nor was it in the RDAs, by the way.

Q63 Ian Swales: Another point that I raised last time we spoke about this, which is important in terms of how you do the calculations, is that the more advanced and complex manufacturing projects you approve and therefore the higher the capital value of those projects, the fewer jobs you create for the amount of money. If you put a complex chemical plant up, it does not employ that many people, but it can be enormously beneficial for the economy and the supply chain. I just wonder how widely you look at these things. I have a plant in my constituency which employs only 100 people, but there are 2,000 people in the supply chain. I just wonder about that prime manufacturing driving such a lot of other things.

Sir Bob Kerslake: We absolutely recognise that point about the wider benefits that go beyond the immediate job creation.

Q64 Ian Swales: Do you recognise it in your calculations?

Sir Bob Kerslake: When we can quantify it, yes. It depends on how easy it is to quantify. As you know, the calculation on the job side relates to direct jobs created for the projects, and we also try to take account of displacement and so on.

Q65 Chair: Okay. I will go to Amyas.

Sir Bob Kerslake: Sorry, can I just finish this point because it is quite important? That is why I am saying that the benefit-cost ratio is a key measure, because we take account of wider quantifiable data, including the impact on supply chains.

Amyas Morse: Given that this is also a landscape session, I want to ask you a couple of questions which go a little into the longer term. First, when David Nicholson was talking about how long it takes to get a health project going, he said that to implement something in the health service takes four years on average to reach the ground and to have any practical effect, all quite true. I would like to know how many years it takes to get a scheme like this to start producing any effects on the ground. It is a very experienced bench and normally it will obviously take a while. Is it normal that it takes quite a long time?

Secondly and on the same theme, the reason we go on about comparative measures is because, if you find yourself at the start of a Government and someone says, which of these schemes are worth keeping or getting rid of, and you cannot demonstrate that in any way other than just by talking about it, do you not want to be in a position where you can actually take a more strategic, longer-term view of all this? I am interested because it has been going on for rather a long time.

Sir Bob Kerslake: I would make two points on that. On the first point about time scales, yes it does take a long time to make a full impact, and it is why we in a sense did not get the communications right on round one in managing expectations. What we can now see is that what we are doing through, say, the regional growth fund has an impact not even just over five years, but probably over 10 years. So if we take, for example, our expectations on the regional growth fund, we expect over time that it could lever in £14 billion of private sector money, but that is not until the mid 2020s. There is a time scale on impact that does not easily fit the electoral cycle. Let's be direct about that point.

On your second point, we will do an evaluation of each of these programmes. The regional growth fund is scheduled to have an evaluation and so on. We will do evaluations on each of them.

Q66 Chair: By when? When will you start having results from that?

Martin Donnelly: May I comment on that, Chair? We have a monitoring, scoping study under way to ensure that we are using the very best and most rigorous techniques, both in terms of project and programme in terms of value for money and wider efficiency. That will report to us later this month, and it will have input from the What Works centre. We will use it to set up the full contract later this year, which will be used to begin the evaluation process. As Bob says, it will inevitably take some time, given the time scales that we are talking about. I believe that there will be an interim view in about 2017 and a much more detailed view in 2020. I am afraid that is the time scale that you need to be clear about what is happening with the programmes.

Q67 Chair: I'm sorry, Mr Donnelly. It has taken you nine months to do a scoping study. Even when we looked at the evaluation of Sure Start, which was a massive evaluation programme, we did that in six months, or something like that. It has taken you nine months to do a scoping study, and you are not going to let the contract until April 2015.

Martin Donnelly: No, we will let the contract later this year.

Chair: Blimey. Wonderful.

Sir Bob Kerslake: I wanted to finish off the question that Amyas asked. The point I was going to make is that we will evaluate each of the individual programmes, but there are different types of programmes and I do not want to suggest that they are doing the same thing or are immediately comparable.

Q68 Chair: So come 2015, you are not going to be in a position to tell whichever Government gets in which of the programmes work.

Sir Bob Kerslake: What we can tell them is that we have good monitoring data. That is an important point. We will know how far they have progressed, what benefits they have delivered so far and what we expect them to deliver. All those things will be known to us.

The question that we were asked was about evaluation. Inevitably, evaluation is usually a more in-depth, longer-term process. I was trying to say that the programmes are distinct, and we need to consider them in their own right. The Government have already signed up to moving to a different model on the back of the Heseltine report, which is more of a city or a local deal model, with a general fund. Whatever we learn, it will not be about whether we carry on with the existing funding streams, unless the new Government changes the plans; it will be about how we implement the new funding stream. That is the point I am making.

Q69 Mr Bacon: Mr Donnelly, can I get you to clarify something you said earlier about the letting of contracts? Can I be clear that you are going to let the contracts in nine months' time?

Martin Donnelly: No, we should have the details on the best form of estimates to use in the monitoring in a matter of weeks—by the end of this month. We will then aim to let the contract—specifically on the regional growth fund—by the summer.

Q70 Mr Bacon: And the contract will be for how you evaluate, and it will be let to somebody who will evaluate on your behalf.

Martin Donnelly: Yes, for a full, independent evaluation on objective criteria.

Sir Bob Kerslake: That does not mean that we will wait until the evaluation to form a judgment about the progress and the impact, but the evaluation is a much more in-depth process.

Q71 Mr Bacon: What is likely to be the value of the contract that you are letting to whoever is going to come along and do the evaluation?

Debbie Gillatt: Given that we have not gone to tender yet, I'm afraid that we cannot reveal that.

Chair: The reality is that by the time you do the evaluation the programme will have morphed into something different. That is the madness of the situation.

Q72 Mr Bacon: You're letting a contract to evaluate something, most of the money of which you haven't given out yet. That's right, isn't it? Am I missing something? I understand that you are between a rock and a hard place, so I have some sympathy for you.

We last looked at this on 16 May 2012—almost two years ago—and I can see what would have happened if you had got your skates on and rushed to get the money out the door. There would have been a whole series of different reports about things that had gone wrong—the lack of due diligence and the fact that somebody had county court judgments against them. You can write the script for what would have happened. I completely understand your caution, but I want to be clear about the evaluation process. I am not asking you to sign your name in blood, Ms Gillatt, but in terms of the value of the whole thing, roughly how much are you spending on assurance of this kind?

Sir Bob Kerslake: Do you mean on the evaluation?

Q73 Mr Bacon: Yes, the evaluation contract.

Sir Bob Kerslake: We can't give you the amount, because we haven't yet tendered it, but we will give it to you later when we know what the sum involved is.

Q74 Mr Bacon: Who is going to do the work? Who do you expect will come along and say, "I'll bid to do this evaluation"? What sorts of organisations?

Martin Donnelly: There are some very serious organisations that have done this type of work. Our timing for doing the work—I think the NAO will agree—is appropriate for the timing of the impact of the RGF project.

Q75 Ian Swales: Are you getting outside help to get to the point of tendering? Are people helping you to decide how to tender?

Chair: They've done a scoping study.

Martin Donnelly: Yes, we've done an independent scoping study that reports back.

Q76 Ian Swales: And will any of the people who have helped you do the scoping study also be bidders for the process?

Martin Donnelly: There will be the normal rules of tender applied to the contract.

Q77 Chair: Could they bid? Could the people who have done the scoping study bid?

Martin Donnelly: They will have to follow the normal terms of tender, so nobody who would be in an unfair position of advantage would be able to bid.

Q78 Chair: Could they bid?

Debbie Gillatt: Yes, they could.

Chair: Thank you.

Q79 Ian Swales: May I ask one last thing on that? Ms Gillatt, you used an interesting word when you were asked about the likely value of this. You said, "I can't reveal that." You used "reveal" as opposed to "I don't know", which suggests that you already have a figure in mind. Is that true?

Debbie Gillatt: We have a budget—a nominal sum put to one side.

Ian Swales: You already have a budget.

Debbie Gillatt: Yes.

Ian Swales: I can understand why you might not wish to publically reveal that budget, given that it is a tendering process.

Sir Bob Kerslake: We can send it to you privately. Clearly, if we announce the budget in public here, it more or less sets—

Ian Swales: I do understand that.

Q80 Mr Jackson: I thought as the evidence went on that things were going to get better, but I have to say that they are getting worse. The Report is not great and the response is not great. It seems to be getting worse. I think Ministers need to get a grip on the whole situation. There is the idea that we are going to have a scoping exercise that will take us another three years at significant cost, which we do not know yet. Ministers have told you what they want. They want rebalancing in key areas, which will drive economic growth. We do not need your civil servants to give a management consultant their watch to tell them what the time is at public cost.

Let's remember that in December—three months ago—the NAO did not pull its punches. It said in the local economic growth Report, at paragraph 4.3, "we have seen no evidence that departments take a collective programme approach to investment decisions across the range of initiatives." You've told us, Sir Bob, that everything is going fine and we have learned lessons from the earlier rounds, but that is three months ago. What are you actually doing in practical terms to pool cross-departmental working together, so that we can limit the time it takes to get money out of the door?

Sir Bob Kerslake: Can I just deal with two different things? Are we managing and monitoring the delivery of the individual programmes? Yes. We have given you a lot of information on those programmes. They have progressed even since the NAO Report was produced, so another £111 million has been passed to beneficiaries in the two months.

We absolutely track, monitor and manage the programmes as individual programmes. That absolutely happens now. The evaluation is a different thing altogether, which is about doing a broader-based assessment of impact. Quite clearly, as was said earlier, there is not a lot of point in doing that assessment until these projects are well under way and you can truly assess their impact, which is why the time scale is as it is for the evaluation. It does not mean that we are not managing and monitoring the programmes. We are. As the NAO Report clearly identifies, a number of the issues that it raised in the first Report have been tackled and dealt with in the second. It simply is not correct to suggest that things have gone backwards. On the NAO's own—

Mr Jackson: This was three months ago.

Sir Bob Kerslake: I am coming on to your last point in a minute. On the management of the individual programmes, they are and have been strengthened in line with what the NAO recommended. The issue that the NAO raised is, should we manage all the individual initiatives as one programme? My view, as I said earlier, is that they are very distinct initiatives that are managed as part of a collective set of projects and programmes, but they do not make sense to be bundled together as one programme because they are very different. They are all overseen, as I said earlier, by a programme board—a joint programme board between BIS and CLG. They are all managed by that local growth board, and they are all regularly tracked through that board, but they are not combined together as one single programme because they are distinct and individual programmes.

Q81 Chair: Okay. Let's just get the figures on the record. The total figure for all the programmes is £3.6 billion. Is £3.6 billion correct? That is the figure in the Report for all the programmes together.

Aileen Murphie: £3.9 billion.

Sir Bob Kerslake: £3.9 would be the figure—

Q82 Chair: Out of that, you have got out £53 billion in 2011-12.

Mr Bacon: Million.

Chair: Sorry, my fault—£53 million in 2011-12 and £321 million in 2012-13. Is that correct? So you have got £3.6 billion left to allocate in the last two years.

Aileen Murphie: Yes, the £321 million is actually £330 million according to our update report.

Chair: Okay. But there still is about £3.6 billion left to allocate in the last two years.

Sir Bob Kerslake: What we've got is two distinct programmes—well, three actually, if you take rounds 4 or 5 and 6 separately. We have got £2.6 billion which is rounds 1 to 4 of the regional growth fund. As I said earlier, £600 million of that has gone to beneficiaries now, and we have the remaining sum to go to beneficiaries by the end of this year, in effect, apart from those where the funding is being taken from the endowment fund, as they will take longer. That is point number one.

Q83 Chair: Okay. I accept that. You have said that already, but to get some idea, you said this is a collective whole of £3.9 billion, of which £3.6 billion has to be allocated in the last two years.

Sir Bob Kerslake: No, this is what I am trying to distinguish, because within that there are two different sums. There is £2.6 billion, which relates to the regional growth fund. There is £600 million, which is rounds 5 and 6, which are running for later years, and there is £700 million—£730 million to be precise—which relates to the growing places fund and has already been paid out to local authorities, within which they have allocated the bulk of the money. So the pressure point on spend principally relates to the amount we have to spend in the year ahead on rounds 1 to 4, which is the £1.4 billion.

Q84 Mr Jackson: The figures here, I think, are quite worrying—they are about the money that has gone via intermediary bodies. Paragraph 6.5 of the NAO Report on the regional growth fund states: "The Committee noted that only £12.5 million of £421 million paid to intermediary bodies had reached frontline projects". Whose fault is that? There does not seem to be much oversight of creating private sector jobs, when you have spent, on my reckoning, less than 3% of the budget in terms of the actual impact on the front line.

Sir Bob Kerslake: I am just trying to check the figure on intermediaries to date. In the NAO Report, I think it is in the back table—£144 million is now spent of the intermediary funding. The point I made earlier is that it is a mix. Some have done very well. Some have been too slow and we have said that and are monitoring them. In some cases, the funding will go out as the projects progress. So the project is committed and work is under way on the project, but they are taking the public money along as the project is implemented, and we only pay at the point at which they need the public money. There is a mix of those three things, and as I said earlier, there is a challenge to spend the money, but we have to distinguish between projects starting and being finally agreed and when we pay out the public money.

Q85 Mr Jackson: If I am being cynical, in terms of the LEPs, there is very little accountability. No one knows who they are. No one knows how they are appointed. They are not elected. They do not communicate very well with people generally. They have high-level meetings with senior civil servants in Departments. Occasionally, they might talk to council leaders. There is not really an imperative for them to open up and be transparent in the same way as local government people, councillors and officers have to be. Would you say that is an issue?

Sir Bob Kerslake: Well, the LEPs are at different stages, and we have been up front in saying that. Some are very well advanced and are making a real impact.

Q86 Chair: It is not a question about advancement; it is about accountability.

Sir Bob Kerslake: I was going to come on to that point. The point I would make about LEPs is that clearly, we would want them to be as open and transparent as possible at a local level as to what they are doing, but it is important to say that for the bulk of LEPs, the funding does not go into the LEP as such. It goes into the local authority, particularly the identified local authority responsible for those funds, which is subject to all the same rules about transparency and accountability that any other public body is. So we do have that transparency and accountability—

Q87 Chair: Has any local authority anywhere overturned a LEP decision?

Sir Bob Kerslake: They cannot—

Chair: Have they?

Sir Bob Kerslake: I would put it almost the other way round. LEPs cannot make decisions without consensus among their local authorities.

Q88 Chair: Yes, but has any local authority overturned or stopped LEP funding?

Sir Bob Kerslake: I couldn't possibly answer that question.

Q89 Chair: Do you know, Ms Gillatt? Do the people behind you know? I think this issue of accountability that Stewart is getting to is hugely important. Has anybody ever said "You can't have this money" if a LEP makes a recommendation, and turned it over?

Sir Bob Kerslake: I am quite sure they have, but I do not know the details.

Chair: Are you? I'm not.

Sir Bob Kerslake: We can certainly check.

Q90 Chris Heaton-Harris: Aren't there local authority reps on LEPs? So the conversation is slightly different.

Sir Bob Kerslake: In my experience, you do not see decisions made by LEPs that are made in the face of opposition from all of their local authorities. Very rarely. That was the point I was making. The second point I want to make is that, as I said earlier, the administration of the funds does not go through the LEP directly. The LEP makes decisions on priorities. It is essentially a strategic partnership. The actual funds are managed by a lead local authority.

Chair: I understand that. Accountability would be all right if, in that instance, a local authority said, "Hang on a minute; this isn't very good." That is why it is important to know whether there are any instances where something has been overturned. My guess is that you will come back and tell me no.

Q91 Justin Tomlinson: I will ask my questions in reverse order, to tie in a bit more nicely, and start off with accountability. I understand that the emphasis is meant to be from the business community, but I still cannot get my head around how we make sure we have the right mix of business people. From my experience of LEPs, it was almost, "Let's scrabble around". There were tough, tight deadlines—understandably, because we need to get the money spent—and it was literally the first few business people who either answered the telephone or had not left the room quickly enough. That surely, potentially, skews how the money is going to be spent.

For example, if you had your LEP dominated by people from the automotive industry, presumably they would come forward with plans that would support that industry, rather than perhaps something more suitable for that region. That is just an example. So how are we making sure we get a proper mix of business representation?

Sir Bob Kerslake: First, quite a few LEPs built on existing partnerships, so they did not come out of nowhere. What you typically found was—

Q92 Justin Tomlinson: But that presumes they were right in the first place.

Sir Bob Kerslake: Of course. I cannot say precisely whether they would have been right in the first place, but, on your point about scrabbling around to find business leaders, in many places they had established business leaders involved in partnerships of one form or another, who then naturally came into the LEP process. It is clearly a point of judgment as to whether they are the right businesses. What we have looked for is the combination of business and local government and other partners, such as the universities, to form a view about the right mix on their LEP boards. We have not prescribed that.

We have challenged on a number of issues, particularly the gender balance, for example—and on the mix, if they have not got certain obvious sectors there—but by and large we have left it to local initiative. That has its strengths, if locally owned, but it also has its challenges, as you have described. The truth is that some are very strong on their sectoral representation—they have very active and powerful business leaders on them—and some are less so, if we are really honest about it.

Q93 Justin Tomlinson: Let us say you are a business person. You have stumbled across LEPs, so you have actually heard about them. How easy is it to then apply to get yourself put in there, or do you just wait for the telephone call from the old boys network that selects them?

Sir Bob Kerslake: It will vary between the individual local enterprise partnerships how they pick their board members. Some will have more transparent processes than others. We would clearly encourage them to be as transparent as possible.

Q94 Justin Tomlinson: Looking at the formulation of the LEPs, we obviously looked for those local trading blocs together. What concerned me was that while it was better than the old RDA, where it was too big a region, it is very fixed in the sense that on some issues—in my areas, for example, Swindon and Wiltshire—Swindon might have things in common with Wiltshire on the majority of things, but not everything. Sometimes it might be to the other side of Swindon that we are looking to do things, and yet that is in a completely different LEP. That limits our ability to take those forward. Why did we not just come forward so that the Government created a pot of money, and then, project by project, local authorities would be encouraged to partner up and then go and apply directly that way, rather than having these rigid LEPs?

Sir Bob Kerslake: First of all, it is worth saying that the regional growth fund was not confined to LEP bids. Bids came in from local authorities and from individual projects, and the city deals were sometimes simply the cities themselves and sometimes with the LEP. It has not always been rigidly routed through LEPs.

The point I would make is that LEPs did not start with the issue of money. They started with the question of how you could best organise strategic leadership on local economic growth and recognise the reality that the local authority boundaries do not fit the natural economic geography. You have a number of solutions to that. You either go down the Government formation route, which is what RDAs were—they had the benefit that Government completely controlled them, but they had the disbenefit that they were often not locally owned or felt to be part of the local area, and they did not fit the natural economic geographies—or you go for the model that Government went for here, which was to encourage local leadership and the formation of bottom-up partnerships, and you live with the fact that we do not control every dimension of those partnerships in the way they operate. In some senses, you have got to make a choice here.

Q95 Justin Tomlinson: Do you not think, though, that there should be some greater flexibility? It stops where those artificial boundaries are put into place, and that can be tricky. Where you are applying for major infrastructure projects, what one side of a town might think about another side that borders on to it—

Sir Bob Kerslake: I think you raise an entirely fair point. Martin might want to say something about this, but where an economic issue straddles two local enterprise partnerships—in some places their boundaries are more perfectly formed than in others, to be honest—we have encouraged collaboration between those local enterprise partnerships in what they bid for.

Martin Donnelly: I believe we have in the system about 21 overlaps between the LEP areas, precisely to deal with the sort of issue that you raise. There are some areas—one thinks of the Tees valley—where it is much clearer. There are others where there is obviously going to be an overlap, and the LEPs themselves are working with that. We are trying to make sure that we facilitate that process.

Sir Bob Kerslake: My view is that there is no perfect solution to this. What we are trying to do is to get as much bottom-up leadership as we possibly can, both private and local authority.

Q96 Justin Tomlinson: For clarification, 2.4 on page 19 refers to the fact that new homes bonus money was still being used for LEPs. I thought that that had stopped.

Sir Bob Kerslake: New homes bonus money was changed, although I am not sure of the timing of when that was written. We took out the new homes bonus money for all bar London, in effect. In London, there is still a top-slice that is going to the Greater London authority. That is on a separate consultation, I think.

Q97 Justin Tomlinson: That is a good thing. Finally, we were talking about the assessment and how much it costs per job, and I know that there are other things that you look at, particularly in terms of the supply chain, as Mr Swales highlighted. Mr Jackson rightly pointed out that this is all about rebalancing where investment goes in the country, and I absolutely get that. What we seem to have done, however, is to have created this huge administration budget. It is better than the old system, but we still have this very expensive thing where we are competing against ourselves, so the left hand is fighting the right hand for the same pot of money.

Surely, it would have been better further to explore the enterprise zones, and we might have said, “What we will do, to bypass the complicated administrative process, is to zero-rate business rates in that area to help it grow.” Businesses do not want increasingly complicated schemes. Mrs Hodge highlighted that these titles are for ever changing. Surely, it would have been better to get the money directly to business, and we would have seen growth come a lot quicker.

Sir Bob Kerslake: You are absolutely right to say that the task was rebalancing, both geographically and between private and public. What you have here is a particular set of funds that relate to local-level funding. That is only one part of a much bigger funding scene on growth—in excess of £50 billion. It is worth having that in mind.

I would make a couple of points about what you say. We have looked to put more support into the enterprise zones in terms of infrastructure funding, to unlock them, but we have said that it is not just about enterprise zones. Let us take the growing places fund. That has tended to unlock individual schemes at local level—for example, the access road into Robin Hood airport is one I know about—that do not fit the enterprise zone but are really worthwhile projects. I think it was right to have a mix of different routes to get things to happen—a regional growth fund directly to help businesses; enterprise zones to concentrate effort in particular areas; and the growing places fund to allow the local partners to support projects. I do not think that any one of those was wrong. In a sense, we are simplifying the landscape with the new local growth fund, which will be introduced from 2015.

Q98 Justin Tomlinson: I get all those, which is why I was focusing on the LEPs. I still cannot get my head around the fact that, in effect, you have created all these different bodies and that they are competing with themselves, at a cost to the taxpayer, for the same pot of money. If we are saying that Teesside needs some money, surely we do not need other

LEPs in other areas competing with Teesside and saying, "Actually, we need the money for this sort of thing." Surely you should have just given the money—

Sir Bob Kerslake: To be fair, the growing places fund was allocated on a formula basis, so that was not competed for, essentially. We had some conditions on it, but that is a different point. The enterprise zones were identified not as a source of competition; there was one in each LEP, so there was not competition in that sense. The regional growth fund has been more about the quality of the bids than about saying that one part of the country has to compete against another. The one thing we have done is skewed the regional growth fund money to those areas where there was a predominance of public sector jobs.

Q99 Justin Tomlinson: But you just said it yourself: you said it was the quality of the bids. It could be that an area that is doing pretty well economically, fortunately, happens to have a very good LEP that puts forward a much better bid than another LEP in an area that needs the money to rebalance.

Sir Bob Kerslake: Well, not quite, because as I was just saying, yes we have looked at quality, but there has been a clear steer for the regional growth fund to focus on those areas, principally in the midlands and the north, that have high public sector job dependency. No matter how good the quality of the bids, that will be taken into account. In Peterborough, for example, six bids were submitted in round 2, none of which was agreed, because it was not felt to be the right place to fund RGF schemes.

Mr Jackson: I will not hold it against you.

Sir Bob Kerslake: No, no; that was just to illustrate the point that it has not been entirely competitive. The challenge for Government is really this: if we proceed purely on the basis of allocations, in a sense we are giving money to places whether or not they are geared up and ready to go. If we do it competitively, there will be a risk that money does not go to the places where it is needed most. In truth, we are always trying to balance those two things, as we will have to do in respect of the local growth fund.

Q100 Chair: Why do you allocate, according to page 8, paragraph 12, five bids worth £34 million in the fourth round, where the organisations were shown to be not delivering? If you care about the quality of bid, why on earth have you given them 34 million quids-worth?

Sir Bob Kerslake: Debbie, do you want to say a bit about those specific bids?

Debbie Gillatt: Yes. Two of them have not been proceeded with, because those involved were not able to satisfy us that, in respect of the funding they had already got, they could get back on track adequately enough for us to be comfortable with giving them further funding. In the other cases, the problems that had previously arisen were state aid-related, and it was apparent from the nature of the bids we were dealing with this time around that they would not face the same problems, so past performance was not a criterion.

Q101 Austin Mitchell: From the point of view of the long-suffering north, it looks like a bit of a mess to me. Yorkshire and Humberside is one of five areas where our contribution to GDP has shrunk. Those five areas, Yorkshire included, were more dependent on public spending than the other more prosperous parts of the country. In come a new Government, who cut public spending, so that we have got less coming in, but also—I could see no reason for this at the time—scrap the regional development agencies and replace them with structures that take time to get going, and which are allocated less money. They are still being allocated less money, and they have not been spending all the money that has been pumped out.

This has given us a very basic disadvantage. I wonder why we have been treated in this fashion, when we were the area with most desperate need. For instance, at paragraph 5.8 of the progress report on the regional growth fund, I see that by the end of December 2013, some 24% of the bidders selected in the first and second bidding rounds—18% by value—had withdrawn their bids. The fund was deluged with applications. It had a lot more applications than it had money, yet it granted money to bids that were then withdrawn. Why is this?

Sir Bob Kerslake: May I deal with your two questions in order? On the first point, as I said earlier, you have to look at Government action in relation to growth across the whole field of what they did, not just the local growth funding. A policy decision was made to end regional development agencies and to end a number of programmes at the same time. That was directly linked to a pretty significant reduction in spending as part of the deficit reduction programme. The judgment of the Government was that we were more likely to see progress if we replaced that regional model with one based on local economic footprint. That was the focus.

The time scales to close RDAs and create local enterprise partnerships were quite short—around two years. What was then done was the introduction of a number of initiatives to support local economic growth of which the regional growth fund was one, but there were others, like the enterprise zones. Yes, some of them have taken longer to come to fruition than was originally expected, but they are now all under way and making an impact. Some of the latest data, at least in relation to jobs, suggest that there has been progress across the country in job growth since 2010. I will happily let Martin come in there. So, yes, there was a period of transition. It is inevitable that if you end one whole structure and replace it with something radically different, it will take time to have an impact, particularly if you combine that with the ending of the programmes that related to it.

Q102 Chair: But do you accept that the report says that it was not orderly? The report criticises you for not having an orderly transition.

Sir Bob Kerslake: I do not agree with that, for two reasons. One is that the process of completing the close-down of the RDAs was done to time scale and at less than budget. The creation of the LEPs was done to a very fast time scale. The second reason is that the test that the NAO puts on this point is whether we had an even position on spend, and that was never possible, either a test we put on ourselves—

Q103 Chair: If you could just move your eyes from the bureaucracy, from the point of view of growth, which is what this is all about, the fact that you had a dip in expenditure to support growth is what matters. It does not matter how you managed the bureaucracy; that is for you. What matters is the money that is out there supporting growth.

Sir Bob Kerslake: What I would say, with respect, is that there was a whole raft of Government initiatives to support growth and a whole set of expenditures—in excess of £50 billion. There were initiatives around freeing up the planning system and so on.

Q104 Chair: Hang on a minute. According to the report, overall Government spending on growth is less. In 2012-13, it was £11.4 billion less than it was in 2010-11. However you cut this cake, the fact is that, for whatever reason, the impact of the bureaucratic changes meant less money out there supporting growth in our communities.

Sir Bob Kerslake: There are two points I would make. One is that the policy decision was to reduce Government spending. That was the decision by Government and that is what happened. That is not a disorderly thing but a decision by Government taken to tackle the deficit.

Q105 Chair: It was not to cut this. If you look at the graph we had, 2011-12 and 2012-13 look dire. You hope 2013-14 will be a little better, then 2014-15 is where you want it all spent.

Sir Bob Kerslake: And that is my second point, which is that Government took the decision to close down the RDAs and programmes. They did not say, “We will now set up a whole new set of programmes that will maintain the same spending.” That was not the decision of Government. They closed down a set of programmes and in effect only really at that point introduced one new programme, which was the regional growth fund. The enterprise zones and the decision to create the growing places fund came later. The dip in spending was an inevitable consequence of the decisions on the emergency Budget.

Chair: Can you deal with the other point that Austin raised?

Sir Bob Kerslake: That is not about poor management. It is a policy choice.

Q106 Chair: I hear that. I think that is why the Report criticises not necessarily you, but the way that the decisions were taken, which meant that there was a dip. Can you deal with Austin’s other point about round 1, when 36% of bidding bodies withdrew, and in round 2, when 27% withdrew? That is massive and again represents waste and delay.

Sir Bob Kerslake: I will get Debbie to come in on the specifics, but as someone who watched the process as it progressed, there was a new funding regime, and we had to learn, and so did the businesses and programmes bidding. We found that some of the bids stacked up on the initial appraisal, but as we went into due diligence and then the final deal, a number fell away. My personal view is that obviously you would like that number to be as low as possible—

Q107 Chair: It is not a "number"—in round 1, over a third of bodies withdrew, and in round 2, the figure was 27%.

Sir Bob Kerslake: Well, let us say that you would want the percentage to be as low as possible. My point is that, for a new programme, it is not surprising that as you move into due diligence and final offer, quite a number of bidding bodies decide in the end either that they do not need the funding, or that they cannot deliver the project as they originally intended.

In one sense, I am not surprised that there was quite a lot of fallout, because, frankly, there was when I ran similar programmes in south Yorkshire through the European funding. As people work through the detail, and test their ability to deliver, they then decide whether they need the money. I am not sure that is a bad thing, but clearly you would like to keep that outcome at the lowest percentage possible. Debbie, do you want to add anything?

Debbie Gillatt: I do not think that there is very much to add, other than to say that when somebody decides to withdraw, any funding that becomes available again is put back into the RGF pot, and we get it out again as quickly as we can.

Chair: Get it out before 2015.

Q108 Austin Mitchell: I am grateful for a voice from the south apart from the long-suffering north, because we are suffering. Clearly, problems were caused by the transition from one system of regional aid to a variety of systems. Another of the problems was the delay in getting the money out. The LEPs allocated funds from the growing places fund—£599 million was allocated to 305 local infrastructure projects by mid-2013. However, those projects only spent an estimated £56 million and created only 112 jobs in 2012-13. The new system was slow not only to get the money out, but to get the stimulus going.

Sir Bob Kerslake: We did not set an absolute timetable for it, but I can tell you that it did take a while, but we are now at the point where £625 million of the £730 million has been allocated to 309 specific projects, and 155 of those are under way, and they have leveraged in £2.5 billion from other partners. They expect the outputs to be about 142,000 jobs over time. In fact, 83% of that money has gone by way of loans, not grants, so when the money comes back in it will be able to be recycled, which is exactly what we intended through the growing places fund. Yes, it did take a bit of time to get under way, but in part that is because we were moving to a different model of not just handing out money, but putting money in through a revolving fund, in the way that the growing places fund now operates. Given the point at which the fund was introduced, that is not bad progress by local authorities.

Q109 Austin Mitchell: You had a self-reporting system by the LEPs on their performance and how they well they are doing. We have got figures for each individual constituency about the expenditure and the contribution made by the LEPs. In Humberside we seem to be doing quite well in terms of money per capita spent, but why can't we have a table of LEPs' performance, to show which has had the most money, which has created the most jobs in terms of their per capita population and which have financed the largest number of big projects that seem to provide more jobs than smaller projects?

Sir Bob Kerslake: What we can do, by LEP area, is show you—I am just testing this with the team—how they have done in relation to the regional growth fund, where they are on their enterprise zone and jobs created, and where they are on the growing places fund. We will try to pull together that sort of information for you.

Q110 Chair: Thank you. Why did you reduce so dramatically the number of jobs you expected to create in enterprise zones?

Sir Bob Kerslake: We never set a target for jobs on the enterprise zones.

Q111 Chair: A figure of 54,000—where did that emerge from?

Sir Bob Kerslake: That came from the initial estimates by the enterprise zones of the number of jobs they could create by 2015. Actually, the truth is that it was wildly over-optimistic. We know that now. When we came to test those numbers it was clear that it was far too high. My personal view is that over time they will deliver that scale of jobs, but to think they would have delivered them by 2015 was over-ambitious on their part. While, as I say, we did not make that a target, with the benefit of hindsight we would have been better going back and challenging that number before it was published, to be honest. I want to reinforce the point that they will not deliver that number by 2015, but over a longer period they will deliver the numbers we are talking about, I am pretty confident.

Q112 Ian Swales: My question relates partly to that. If we look at figure 8 in the funding and structures for economic growth, I think I have got every single one of them in my area, except you cannot have both the last two, because they are both city deals. I am worried about double counting. You have just given a big number—around 54,000 jobs in enterprise zones. When I hear people in my local area talking about all these different schemes and the number of jobs, and I add to that European money, local council initiatives, money spent on infrastructure, I think it is going to be El Dorado. I think that quite often we are talking about the same jobs. I wonder how you see that.

Sir Bob Kerslake: I'll be blunt: there is a risk of that. We do not audit every number that comes out from a LEP or a local authority on jobs created. We can as far as possible—and I think it does happen at the programme board, Debbie—try to isolate our jobs so that we are not double counting on our schemes. I do realise that is a risk. If you take an enterprise zone, it might have a business that is getting a regional growth fund grant. I think that is a fair challenge.

Q113 Ian Swales: I do not want to talk down initiatives in my own area, but don’t you think it is important, where public money is involved and when job creation is one of the prime aims, that we should be a bit more rigorous about what we are counting?

Sir Bob Kerslake: We are trying to strengthen our systems on that. As I said earlier, there are very different types of funding streams. It is not always easy to isolate where there is an interdependency. If you take the growing places fund, it might be well be one part of a funding package for an initiative that includes European funding, for example. I gave the example of that in Doncaster. It has always been quite tricky to avoid that double counting, but we do take it seriously.

Martin Donnelly: May I just add one very important point? It is ultimately about the jobs created sustainably. The programmes are only meant to be helping that to happen. We have had relatively good news across regions, including Yorkshire and Humberside, in terms of private sector jobs growth being slightly higher than the national average over the past four years. In Tees valley last week, your excellent University of Teesside got an award at the palace for supporting digital start-ups. It supported more than 400. They are creating real jobs. They are not necessarily directly related to a scheme but they are related to the whole system of support we are aiming to provide.

Sir Bob Kerslake: Your question is a fair challenge. I don’t know if Debbie wants to add anything.

Debbie Gillatt: We do look at that very carefully indeed with any RGF application. They are required to declare what else is involved.

Q114 Ian Swales: My point is not so much about an individual RGF application. It is the fact that the same jobs might be in an enterprise zone application, a growing places application and a local council initiative.

Sir Bob Kerslake: Martin is right to say that in the end the overall question is by how much jobs are growing in an area.

Ian Swales: Yes, and we have European money to add to that.

Sir Bob Kerslake: We will try as far as possible to avoid that double counting.

Q115 Ian Swales: I wanted to talk a bit more about who your resources are and how much private sector experience they have, but I do not think we have time, so I will ask a question about enterprise zones. You wrote to the Chair on the 4th—I have got a copy of the letter here, and there is an interesting table about enterprise zones. I am sure the Prime Minister will be pleased to see that one of the most successful is Oxfordshire. My question is about Tees valley. I have three enterprise zones in my constituency—my office is in one. I want to ask about the performance of Onsite, the organisation that DCLG half-owns, which owns some of the enterprise zones in Tees valley and does not seem to want to develop them.

Sir Bob Kerslake: I truthfully cannot answer your question about Onsite, but I am happy to follow up with a note to you.

Ian Swales: If you would, because it is a specific issue. There is a guy with £500,000 burning a hole in his pocket who wants to double the size of his factory, but he cannot get your part-owned organisation to talk to him.

Sir Bob Kerslake: We will follow up immediately on that question.

Q116 Mr Jackson: The growing places fund is an integral part of the rebalancing of the public sector and private sector in the economy. Some of the results in the Report that we saw in December are relatively poor—112 jobs in 2012-13. My final questions are twofold. In what ways are you sharing the best practice of the local enterprise partnerships that are engaging with businesses, working well with local authorities and bringing forward visionary business people to make a difference to their local area? How are you disseminating that information, and are you learning and capturing the best practice?

At the other end of the spectrum, will you sack any LEPs that, frankly, are useless and do not get the money out, or will you wait until 2017? We have already discussed the thorny issue of openness, transparency and accountability to council tax payers, taxpayers and local authorities. If a LEP is completely failing to meet the terms and objectives of its business case, what powers have you got? Will you invite Ministers to reconfigure or close down the LEP?

Sir Bob Kerslake: There are two or three points on what you have said. As I said earlier, although progress in the early period was quite slow on the growing places fund, the more recent numbers on the allocation of those funds through loans are quite encouraging. Needless to say, the companies will not draw down the loans until they absolutely need to.

Q117 Mr Jackson: Except that you were not providing data on transport and homes built until recently. In terms of providing a strategic overview of the impact of the scheme, that was not good.

Sir Bob Kerslake: That is a fair challenge. Our desire was to keep the amount of monitoring of the fund to the minimum necessary, but we have strengthened the amount of information that we get back from LEPs. On your second point about what we do if LEPs fail, we are moving to a new model, which involves each of the local enterprise partnerships submitting strategic plans for what they want to do in their area and whether they will bid for local growth funding. One part of our assessment will be the capacity and effectiveness of the local enterprise partnership. Where we think there are issues, we will challenge them about their effectiveness. In extremis, if they are absolutely terrible, we will have to think about whether we allocate them any money through the growth fund.

Martin Donnelly: We also encourage them to network among themselves, and the British Chambers of Commerce has helped to facilitate that. The LEPs are thinking about how best to take that model forward. Some are working with the What Works centre to help build capacity there, too.

Sir Bob Kerslake: I should have mentioned that. We did directly fund the British Chambers of Commerce to support the leaning and exchange of information. That programme ends soon, and we are talking to the LEPs about what model they want in the future.

Q118 Mr Jackson: There is always a lot of reinventing the wheel in these situations. I used to work for a training and enterprise council, then I worked for Business Link, then I worked for Super Business Link.

Sir Bob Kerslake: I suspect that I have been through every agency that you have been through.

Mr Jackson: Well, you are the ultimate greybeard, Sir Bob. I mean that in a positive way.

Chair: There is a wonderful figure in this Report, which to me says it all, going back right back to the Heseltine days of the very early regeneration stuff. It is just a vanity project for every new Minister who comes in, I am afraid.

Q119 Mr Jackson: I do not know how you can put vanity and Heseltine in the same sentence. The point is that a lot of these guys and women have accumulated skills, knowledge and experience through working with business over many years. Many of them have been out-placed with these new arrangements. That knowledge and experience are very useful.

Sir Bob Kerslake: They are. I go around the country a lot, and I was in Oxfordshire on Friday. The person leading the local enterprise partnership is Nigel Tipple—somebody I knew very well, as he was a key player in the South Yorkshire European fund. People move around, and whatever we change in the model, that expertise and a lot of the key players remain the same.

Chair: Okay. Thank you very much indeed.