House of Commons

Business, Innovation and Skills Committee

Oral evidence: Government Support for Business

HC 770-ii

Tuesday 18 November 2014

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Witnesses including written evidence where submitted:

At 9.30 am

- Naomi Clayton, Senior Analyst, Centre for Cities
- Matthew Cross, Head of Inward Investment, Invest in Bristol and Bath
- Dr Cathy Garner, Director of Strategy, Wave 2 Growth Hubs Programme, Lancaster University Management School
- Mike Palin, Executive Director for Strategic Economic Development, Liverpool City Region LEP

At 10.30 am

- Caroline Norbury MBE, Chief Executive Officer, Creative England
- Jim Farmery, Director of Business Development, Creative England
- Steve Futter, Senior Account Manager, Solent LEP

Watch the meeting

Members present: Mr Adrian Bailey (Chair), Mr William Bain, Mr Brian Binley, Paul Blomfield, Mike Crockart, Caroline Dinenage, Rebecca Harris, Ann McKechin, Mr Robin Walker, Nadhim Zahawi

Questions 55 - 140

Witnesses: **Naomi Clayton**, Senior Analyst, Centre for Cities, **Matthew Cross**, Head of Inward Investment, Invest Bristol & Bath, **Dr Cathy Garner**, Director of Strategy, Wave 2 Growth Hub Programme, Lancaster University Management School, and **Mike Palin**, Executive Director for Strategic Economic Development, Liverpool City Region LEP, gave evidence.

Q55 Chair: We are slightly early but, as we have a lot of questions and we are constrained by time, I am going to take the opportunity to start a little earlier. Can I just welcome you here? Thank you for agreeing to contribute to our inquiry. We know who you are but if, for voice transcription purposes, you could just introduce yourselves, that would be helpful.

Naomi Clayton: I am Naomi Clayton and I am a senior analyst at the Centre for Cities.

Matthew Cross: I am Matthew Cross. I am the Head of Inward Investment for Invest Bristol & Bath, part of the West of England LEP.

Dr Garner: I am Cathy Garner. I am Director of Strategy at the Wave 2 Growth Hub project at Lancaster University Management School.

Mike Palin: I am Mike Palin. I am the Executive Director for Strategic Economic Development in the Liverpool City Region.

Mr Binley: Mr Chairman, can I just declare an interest? I am a member of the board of the Northampton LEP and its vice-chairman.

Q56 Chair: Thanks. Some of the questions will be asked to you all. Please do not feel that all of you have to answer if you have nothing to add to a predecessor's comments but obviously, if you do need to either add or subtract something, feel free to do so. Others will be person-specific but, again, if you have something to add to or subtract from what they say, please feel free to do so.

I am just going to start with a general question to you all. What do you think the Government's role should be when it comes to providing support for business, if we can get a feel for your philosophical assessment of it? Who would wish to lead on it?

Mike Palin: I am happy to. The role of Government is to be an enabling agent of business, but not to presume that all businesses require support. One of the things we have been doing in the Liverpool City Region is trying to focus on specifically the type of interventions that help businesses grow. We have done a piece of work to map the over 360 publicly funded business support products available to businesses in our area, which is simply too many. Some of them do not respond to a market failure; they are simply providing business support because the business is asking for it, even when there is no need for that business to receive public subsidy.

The role of Government is to identify where there has been a market failure in business support provision and intervene in that space, but only where it is efficient and effective to do so. Too much business support, we would argue, historically, has been efficient in that it has lots of outputs, but it has not been effective. It has not changed the way the business operated or it has not encouraged an individual to start a business. Government's role is to be that enabling agent, based on market failure.

Matthew Cross: I would completely agree with that. We have a series of activities going on through round two of the Strategic Economic Plan, where there is a debate going on about how much you ask the private sector to deliver before you go to the public sector for intervention. We are finding that, the more you go through private sector channels and establish that there has been a genuine market failure, the more real and credible your case to secure public funding. This allows us to make a much more genuine case to Government.

Dr Garner: I agree on the issue of market failure, but there is also an issue around quality standards, where Government can take a view, as my colleague said, on the effectiveness of delivery that is coming through any or all of the channels.

Q57 **Chair:** You go through the private sector first. Presumably in certain cases, you will come across a situation where the market failure was profound if not terminal. You would not see it as the role of Government or the public sector to intervene there.

Matthew Cross: That is probably true. If there is absolutely no appetite from the private sector to involve itself in something, then there has to be a very cold, hard look at why you are doing it, but I do not think it is true in every single case.

Dr Garner: I would be rather nervous about that presumption, because one of the issues regarding private sector provision is potentially not guiding it in the way that bigger business strategies for the country may wish to go. They may not wish to provide that. They may not find it remunerative to provide that. Then there is an issue of impartiality. If you are charging fees, how can you give business the absolute clear and best advice when you are getting into payment for response? There are downsides in the public sector as well in that respect, but I can come on to that later, if you are interested.

Q58 **Chair:** In its approach, the Government states that there are three elements to its offer: advice, export help and finance. Which do you think has been most successful, or maybe least successful?

Mike Palin: Can I touch on the advice element? With the abolition of Business Link, there was a lot of restructuring in the advice environments. I would go back to the earlier point around market failure: the best advice is likely to come from the private sector first. But the Government's role there is to make sure that, as we have just touched on, there is an ability to broker some advice based on a quality standard, so that a business does not enter the system in one place, receive some support of some form that is not actually that useful for that business, yet is not transferred over to the right product. On the advice side, I would say that, yes, there are advice products out there, but there needs to be a greater focus on the ability to broker from one product to another and connect those products up. That is a key part of the Growth Hub concept and one of the key things where I am not sure there has been a huge amount of success so far: the actual joining up of products so that businesses can move from one to another.

Naomi Clayton: These schemes in these different areas have been looked at as part of the What Works Centre for Local Economic Growth. The second review looked at business advice support and applied the Maryland Scale of evaluation. It applied a degree of academic rigour to the review of evaluations of business support and business advice schemes. It is difficult to compare between business advice export and finance programmes, due to the overall lack of evidence.

For example, the first review looked at nearly 700 policy evaluations and, of those, 23 met the Centre's minimum standards. Of those, 17 out of 23 found positive impacts on at least one business outcome, so we do know that business advice can have a positive impact.

The review on access to finance that was completed more recently found that there were far more mixed results in terms of improving businesses' access to finance. Seventeen out of the 27 evaluations that met the minimum requirements found at least one positive outcome, but there was a difficulty in making the link between improvements in access to finance and improvements to firm performance.

Matthew Cross: My only observation is that the principles of the Government's approach to business support are correct, but there is a lot of—"failure" may be too strong a word—difficulty in the delivery and too much fragmentation, just as Mike was saying. The Growth Hubs are beginning to bring that together. We are seeing a coagulating effect coming from that, which the local Chamber of Commerce is beginning to draw itself into. There is funding coming out the SEP for the Chamber of Commerce, which ties it into the LEP strategically. The export advice that Business West is providing on behalf of UKTI brings that in as well. There is beginning to be a harmonising of the services that are provided, but there is still a long way to go.

Dr Garner: Naomi's given the academic evidence, but it is very important to look at this from a business perspective. In Lancaster University's work with the Wave 2 Growth Hubs, which I am sure we will come on to, we have been very focused on trying to get that customer journey, focusing on the customer and this issue of how one moves between different support schemes, using an understanding of what the business needs. That can be hugely variable. From my own experience in running a major programme for creative and digital businesses in London on behalf of the University, often when small businesses in particular come forward, they have an understanding of what they may need but, sometimes, when you get into a very deep conversation with them, there is something else that they also need or they need several things brought together at the one time. That brokerage and co-ordination, but with really deep advice, becomes really important to help businesses on their journey.

Q59 **Mr Binley:** Am I right in thinking that the big corporates are always easy to get to and, in fact, most of them come to you, whereas SMEs are a totally different kettle of fish? My view, from what I have learned so far, would be that the ability to outreach to SMEs, which are the businesses that most want advice, where the jobs are going to come from and where the growth is going to come from, in many respects, is very patchy, to be kind. To be unkind, it is not very effective at all. Is that an unfair comment?

Matthew Cross: It is a lot more complicated than that. My role, just to make it clear, is mainly around inward investment, but we have four guys who give us two days a week, who are very embedded within the most strategic sectors that we feel are in our region. That means they spend the rest of their time doing their day job, out and about in their sector. They bring us the small high-growth technical businesses that are doing that growing. They do not necessarily bring us small businesses that are just trundling along doing the thing that they have been doing as a family business for generations, but we do get to the high-growth businesses. Going back to the point of a Growth Hub, that is what it is able to do.

Again slightly contradicting what you are saying, some of the big businesses are difficult to get to and we would like to get to them a lot more comfortably, particularly those foreign-owned businesses and those businesses that are not headquartered in the region.

Those that are headquartered in the region have much more of a vested interest to be engaging with us, but sometimes there are difficult businesses to engage with on the big side.

Dr Garner: From a university perspective and specifically from Lancaster's point of view, Lancaster University is probably the university of the greatest engagement with SMEs among the research-intensive universities. We have dealt with over 5,000 SMEs and run many programmes that have been very successfully evaluated.

The programme that I was talking about in London had to specifically reach out through those business networks to the very small creative and digital companies. We created a three-stage process to reach out to them to inspire them to think about growth, to think about role models, to find people who inspired them, to find inspiration from each other, and then provide them with more detailed support and then brokering into deep innovation, etc. We were very much of your view that we had to reach out and get as many people to recognise the possibilities of that support as we could do across London.

Q60 Chair: I want to move on to discussing the Regional Growth Fund and its relationships with LEPs, but just a quick answer if possible: what do you think the Regional Growth Funds add to the business support ecosystem that might otherwise be absent? Matthew, you have touched on this before.

Matthew Cross: I think it is positive. Our experience with the RGF has mainly been around the West of England RGF, which was £25 million drawn down from the national RGF, which has been distributed to local businesses around the region, up to £1 million over three different rounds. Some of that has gone to inward investors; some of that has gone to local businesses that are growing. The pick-up has been really strong. There is a bit of a challenge, as we always expected, in terms of making sure that they draw down the money, but there is a very clear and tangible impact that is coming through now, so it is very positive from our point of view.

Dr Garner: Obviously the Wave 2 Growth Hub programme led by Lancaster University is using £32 million of the Regional Growth Fund. We have found the Regional Growth Fund to be extremely valuable in that context. It has some very clear objectives, which are about creating jobs and drawing in private sector investment. In comparison with some of the more complex funding regimes, such as the European Regional Development Fund, it allows you greater flexibility to work with business to enable them to do that.

The Wave 2 Growth Hub programme, which has accelerated 15 out of the 22 Growth Hubs to be established in less than a year, has allowed not only the co-ordination and advice role but delivering. Eighty per cent. of the funding had to go into direct business support. Locally, we have been able to tailor, or rather the Growth Hubs have been able to tailor, that support to the needs of their local businesses in their local areas, so everything from marine in Portsmouth and Solent to process industries in the North East. The flexibility of the Regional Growth Fund has been, for me, a big contrast because it is very clear on what its objectives are and not too detailed on how to achieve those objectives.

Mike Palin: It was a source of funding at a time when there were not many other sources of funding available to local areas to come forward with activity that they might want to deliver. That was its key asset at that time.

Naomi Clayton: Obviously the Regional Growth Fund is quite wide-ranging in terms of the types of schemes and programmes that it has funded, and the Business Growth Hubs are very positive from the point of view particularly of helping SMEs to navigate what is often seen as a very complex system, partly because it lacks an overall structure. There is a difficulty in seeing exactly what it does offer over and above existing support, partly due to a lack of co-ordination at national level and consultation with local partners. There have been movements to improve both of those; they can continue to be improved.

Q61 **Caroline Dinenage:** Cathy, I have quite a lot of experience of the Solent Growth Hub, because that is my part of the world. The whole concept of this one-stop shop for business advice is fantastic and saves businesses being sent from pillar to post to find the advice and guidance that they need. The problem we have is getting the message across to small businesses, because they often do not know that it exists. What would your advice be to Growth Hubs around the country as to how they can best spread the word to the small business community? A lot of them do not engage with the Chambers of Commerce, the FSB and the traditional business networking groups.

Dr Garner: We obviously work with central Government—Business, Innovation and Skills, and the Cabinet Office—and the local growth programme on that. One of the conditions of the funding is the engagement of the Chambers and the Federation of Small Businesses. There has been quite a lot of engagement with those business-facing organisations. As we have developed each of the Growth Hubs, we have been what I might call critical friends. We have been looking at their progress over time in that set-up, and the engagement of local stakeholders has been a critical thing that we have been looking at, trying to encourage them to do more of that. They have also had to undertake quite intensive marketing and promotional campaigns in their local area.

The hubs have been going for less than a year now—the funding was set out in January—and we have something like over 25,000 businesses linked up to the hubs and a real sense of progress there. Of course, they are variable across the country and they are at different stages of development but, in advice to others, it is about trying to bring those partners together around a facilitator or broker, as my colleague mentioned, and to see it again from the business end, the customer journey—making that as simple and as straightforward as possible, and helping the customer. If you get that focus, you begin to bring partnerships and you begin to use all those channels, so that they are not competing. Some of the dangers of funding streams can be that you are set up in competition with others for how many businesses you are dealing with. The Growth Hubs have the opportunity not to compete, or to try not to compete in that respect, but to try to do the best for the businesses in their local areas.

Q62 **Caroline Dinenage:** Just to paraphrase you then, businesses that are already engaged with the local Chamber of Commerce or the local FSB are already quite proactive at seeking the help and guidance that they need. My concern is the small businesses out there that are floundering and do not access those channels. Basically your answer is that they are doing a lot of marketing and it is also word of mouth from satisfied customers.

Dr Garner: It is word of mouth and it is promotional events. For instance, one of the hubs is Oxford; the Venturefest reaches out and brings in good speakers and role models that invite companies in. As you have said, word of mouth is very important.

Chair: Just to explore further the issue of the RGF and LEPs, I am going to bring in Rebecca now. I am conscious that you may be surprised to know we are still only on question one and we have another 11 to go. Please make your answers concise. Equally, be disciplined with questions.

Q63 Rebecca Harris: I will try to make my questions as concise as possible. Broadly speaking, LEPs and the Regional Growth Fund have taken over the work of the old Regional Development Agencies. What have been the advantages and disadvantages of that change, compared with the old RDAs?

Mike Palin: I was Strategy Manager for the RDA in the North West and moved over to the LEP when that was formed. There were clear advantages that the RDA had a single pot of money handed over to it, which meant it could bend that money and use it in different ways for local needs. In the current regime, where the funding is largely from the centre with a set of rules attached, you cannot bend it to the same extent locally as you might like to do.

There is a huge difference in terms of the total resource envelope, which limits what they can do. If you take the North West Regional Development Agency, in its final year, its grant-in-aid budget from Government was £400 million. The five LEPs in the North West now receive £250,000 capacity funding each, which immediately constrains what they can do, but it does mean they have to be more innovative. They have to engage with the market better in going out there and delivering business advice. It was too easy to throw a big chunk of money at a programme because it was fashionable at a point in time.

That is a useful thing from the transition, but it does leave a capacity deficit in doing the joining up and going out there and engaging with businesses. We have 37,000 businesses, a deficit of 18,000 against the national average but, if we want to engage with 18,000 businesses—that might not even need support at the end of it, so do not have an output attached—it is a huge cost. For me, it is bringing some innovation into the system, but there is still a need for some capacity that is effective to allow businesses to be engaged in business support processes.

Matthew Cross: Consistency is an issue. Whereas some LEPs are getting themselves quite well organised, others are further behind and more challenged. Some have natural economic boundaries; others have slightly cobbled-together boundaries. We come from a LEP that is quite economically coherent and makes sense, but some of our neighbouring LEPs are just a bit more difficult and harder to define, so they have some challenges. That makes it difficult for some of the national services out there, like UKTI, to engage with the 39 LEPs and all of the very different approaches to life that they have. It is going to take a while for that to normalise and come through. In that process, there is probably a lot of wastage that does not need to be there, but there are many elements of it that work and are justified as well.

Q64 Rebecca Harris: LEPs have not been able to apply for the recent Regional Growth Fund funding rounds. Can you comment on why LEPs are excused and whether it has been a problem, or has the Local Growth Fund been an adequate replacement?

Mike Palin: It is probably worth commenting, because I led the bid from our LEP area into the Local Growth Fund. It has been a problem excluding LEPs and other local authority collectives and partners, as appropriate, from the Regional Growth Fund process, because it presumes flexibility in the Local Growth Fund. If you look at what the Local Growth Fund was spent on, the vast majority was spent on transport schemes and skills capital schemes, and that is because the source funding was the Department for Transport and the Skills Funding Agency. The presumption that the Local Growth Fund could be used flexibly for business support as a reason for preventing local areas from bidding into the Regional Growth Fund did not work.

The problem that causes is a lack of continuity and consistency in approach. The Regional Growth Fund programme in the Liverpool City Region ends in March of next year. It has been highly successful, but we could not bid into round six to continue it, so the programme ends in March of next year. It is as simple as that. We are now bidding into Local Growth Fund 2 for a continuation of business support products, but it will mean that Government needs to make the Local Growth Fund flexible to fund the priorities of local areas and not be constrained by the source budget into the Fund in the first place.

Naomi Clayton: I would agree certainly with the point made about long-term sustainability, particularly of the RGF. Some of the figures for LEPs that are delivering RGF are really very positive. They may not be comparable on a like-for-like basis but, for instance, the cost per job in the Leeds city region is around £7,110, which compares with £37,000 at the national level. Of course, there is the issue of whether that is a like-for-like comparison, because much smaller funds are being distributed, but some of those numbers are very positive. In terms of the public-to-private investment ratio as well, the figures are quite positive at the local level.

Dr Garner: Three of the critical areas going forward have already come up. The flexibility issue has been really important in the Regional Growth Fund for local delivery. If I were to say what I think the biggest risk is at the moment, it is that sustainability and the waste of effort and experience that have gone into that. That coming to an end is a bit of a tragedy. On value for money currently, and this is ongoing, our current cost per job is between £6,000 and £12,000 compared with some of the national costs, which are much higher. I agree with Naomi on that local ability, but sustainability is a major issue.

Q65 **Rebecca Harris:** What are your practical experiences of the Regional Growth Fund, as an initiative? Is it easy to understand and use? To what extent are businesses in your areas aware of it?

Dr Garner: I cannot comment.

Mike Palin: Businesses are aware of it. The £1 million limit is an issue, because that immediately skews the whole programme to the largest businesses, which is why the programmes brought forward by LEPs or collaborations with Chambers, local authorities, etc., are quite important. It means that smaller businesses can start to engage with the process.

From a practical point of view, there is one issue with the relationship between appraisal, the drafting of a contract and then contract management. The appraiser seems to be writing the contract currently; that then gets passed on to a contract manager, who has no experience of why the contract was written in the way it was. The local area is then having to up-skill the contract manager in why it was drafted the way it was. Given in earlier rounds the appraiser and the contract came from the Department for Business, Innovation and Skills, but the contract management was provided by CLG, it felt like you could not get the two Departments to talk to each other, because CLG was holding the money as well. We had a situation where we were being performance-managed against the contract by BIS, and they were telling us we were underperforming and, therefore, could not apply for a later round of RGF, when CLG had asked us to re-profile our spend because they did not have enough budget within the year. We did not know which of the two was in charge of the process, and that was an issue for us at the practical level.

Q66 Paul Blomfield: Following up on the points that Caroline and Brian made about small businesses in particular, but in the context of LEPs, Naomi, last year your policy briefing on business support said about LEPs that you thought "their effectiveness in addressing the needs of local businesses is still unproven". Do you think that is still the case?

Naomi Clayton: This relates to Matthew's point about variability. There is a high degree of variability in terms of capacity and performance of LEPs across the country. In places like Manchester, they have had a Business Growth Hub since 2011, and it is worthwhile looking at the lessons that can be learned from them in terms of establishing that well-known brand and engaging with SMEs. On the whole, there is a degree of variability across the country.

Q67 Paul Blomfield: You do not think that has changed since you made that comment a year ago.

Naomi Clayton: There has been a lot of progress made by individual LEPs, certainly with the establishment of the Business Growth Hubs, as just one example of the work that they are doing. It goes back to the point that there is still a large degree of variability.

Q68 Paul Blomfield: That is certainly true. It is a comment that we have made as a Committee when we have looked at LEPs in a wider context. What more do you think could be done?

Naomi Clayton: We need to look at the relationship between LEPs, the new combined authorities and the overall structure of governance in this country, and potentially review the role of LEPs. Sustainability of funds is an issue, and the constant bidding processes that LEPs have to go through is an issue. There is limited ability to plan over the long term because of the lack of sustainability. That is an issue. Increasingly, we need to ensure that LEPs are able to demonstrate the impact that they are having, and that relates to evaluation and comparability of data across different schemes.

Q69 Paul Blomfield: I will come back to the issue of funds in a minute but, if I can widen it out, the Federation of Small Businesses has said that they thought that Government should provide a clearer vision for LEPs, in terms of what they are meant to be and the framework for their development. Do the rest of you agree and, if so, what would that vision look like?

Matthew Cross: There was a point that just triggered a thought in my head when Naomi was talking. There is a fundamental terminology issue in what we mean by Growth Hubs.

Wave 2 Growth Hubs are very clear, and they are about small business engagement and fostering growth within the community and so on.

Our Growth Hub, which was negotiated as part of City Deal, which we unlocked £2.25 million for, was specifically about creating greater rates income, so that we could create a bigger pot of City Deal. The interpretation that our region made was that that was probably more from inward investment than local growth, so they set up the organisation that I now run, which is Invest Bristol & Bath, primarily to work on inward investment. There is some local business engagement within that, but in a way to foster greater inward investment. That terminology mismatch has an impact on what you guys are reviewing.

Dr Garner: Thank you for the comments about the Wave 2 Growth Hubs. Lancaster University has put a lot of effort and additional support into that acceleration, and we have been able to feed back and they have been able to share expertise. We have brought in expertise that was needed. In terms of some of the LEPs and the Growth Hubs, there will be a major capacity and capability issue.

For instance, regarding the future ESIFs, the European Structural and Investment Funds that are coming, the LEPs will not have a great deal of experience, many of them, compared with Manchester, Liverpool and places that have been going for a very long time, in using that funding. Some of the smaller LEPs are going to have a real challenge to use such complex funding in the best way possible to support business. The funding is very complex.

What we found on the 15 hubs that we have been working with is our ability to help to raise that capacity and to deliver good practice and to help them to look at themselves a bit reflectively. That will not be in existence after June and, again, it goes back to that sustainability issue just falling off the cliff in some senses. Although there is some continuation funding, it is only for 20% of the hub; it will not be for the 80% bespoke money.

Q70 **Paul Blomfield:** Again, I will probably come back to that in a moment but, Mike, I wonder if you would like to share your comments, particularly on the FSB.

Chair: Could I just intervene? We are running badly over time at the moment. If you could make your responses as concise as possible, I would be grateful.

Paul Blomfield: I will take that point on board, Chair, but particularly, Mike, I am looking at the FSB statement about Government providing a clearer vision about what LEPs are for and the framework for their development. I will come back to the capacity and resources issue in a minute, briefly.

Mike Palin: There are two points I would make. First, LEPs should be different from one place to another, because the economies of one place to another, and therefore the priorities of one place to another, will be different. Secondly, the institutional capacity in each place varies very considerably. I would not want a framework that constrained a local area's ability to do what is best for their local area.

In terms of setting the objectives of LEPs from a national policy perspective, that is very loose at the moment. There may be scope to tie that down a little more. I have been in meetings with other LEPs where they have said their number one priority is food security. Now, for the Liverpool City Region with a 90,000 jobs deficit—and I am quite frank—I am not going to spend any time on the food security issue when I have that greater priority in front of me. There has to be some clarity about the overall objective, but there has to be flexibility to meet the local need.

Q71 Paul Blomfield: It is something that we could explore further, but I will not. Incidentally, let me just ask you all: out of all those answers, there has been an issue about resources, both in terms of current capacity but also sustainability. A straightforward question: do you think LEPs have sufficient resources to meet the expectations placed on them?

Matthew Cross: Not at the moment—not yet.

Paul Blomfield: There is a general agreement then.

Mike Palin: I would agree.

Mike Crockart: They are taking your advice to heart, Chair.

Mike Palin: One very short caveat is the number of expectations put upon then. If I list the number of agencies of Government that have written to our LEP asking us to do something for them, there are just too many. It drains the capacity straight away.

Q72 Mr Binley: A concise supplementary, Mr Chairman: how then should they be resourced? I think we are talking about £500,000 for the administration and use of each LEP. LEPs vary sizably in terms of size and geography. How should they be resourced? Should it be a percentage of the amount of money that they are spending on given projects? How should it happen?

Matthew Cross: My view is—and this is my view and not necessarily the LEPs' view—that the Heseltine pot and the principle of no stone unturned was excellent. The delivery of it begged too many questions.

Chair: This is a really good question, but you might want to take it away. If you could send us some supplementary written evidence on it, it would be helpful, because it does merit more thought than you may be able to give just in an off-the-cuff answer.

Q73 Mr Bain: Initially it was reported that the Regional Growth Fund was extremely slow at processing applications. The Department claims that this has now improved. They say they have introduced a six-month timetable for completing contracting and due diligence procedures. Is that the impression that you have on the ground from the people who you speak to, Cathy?

Dr Garner: I guess I can only speak from my personal experience in terms of the Wave 2 Growth programme, and I would say that it was very fast and it was very diligent, but it happened very rapidly. We went through the process very thoroughly but very quickly, and it has been very efficient since then. I have no complaints at all.

Q74 Mr Bain: That is good to hear. Does anyone have any other comments on the pace of the procedure whereby the RGF allocates funding?

Matthew Cross: I am not in a position to comment.

Mike Palin: I would say it has quickened, because those administrating it have gained more experience in the process. The issue up front was that the people being tasked with administering the programme had not had the experience of administering such a programme in the past, because that had been a devolved responsibility to the Regional Development Agencies in the previous 10 years. It took a while to get up to speed and put the capacity in place.

Q75 Mr Bain: How might the process be improved in terms of applying, in terms of assisting those organisations that might benefit from RGF funding?

Naomi Clayton: There are two issues. There is local consultation, say with LEPs and local partners, about how this aligns with other existing provision and schemes. There is still the point about strengthening co-ordination at the national level too.

Dr Garner: I am afraid I can only use my specific experience but, because the University has huge experience in relation to very complex funding, such as European Regional Development funding, we were able to apply for a programme and then put in ISO 9001 systems, which we use all the time for project management, to speed up handing over the money to each of the hubs. We asked them to apply on 8 November and they had the money by January. That was a very speedy process, fully due diligent, all of that taken into consideration, so a rapid distribution of funding. That is my only one experience, I am afraid.

Chair: Again, if you want to give further consideration to that, please feel free to give us supplementary evidence.

Q76 Nadhim Zahawi: Very quickly, just listening to all of you, you all speak from personal experience and rightly so, whether it is about LEPs or RGF. Is there a formal mechanism for systematically sharing best practice and also some of the difficulties?

Dr Garner: Is that specifically on RGFs?

Q77 Nadhim Zahawi: No, just across the country is there a platform on which you can share best practice? We are all grappling with all these things here. We grapple to define what LEPs should be doing. We can go back and say each economy is slightly different or can be very different, but maybe the best way to do it is to have a systematic way of sharing knowledge. Therefore, you level up rather than continue to make the same mistakes, over and over again.

Naomi Clayton: There are various networks that exist to share best practice across the country.

Nadhim Zahawi: But nothing formal.

Naomi Clayton: Relating to RGF, there is probably an overall lack of transparency around a lot of the figures and a lack of a comparable picture across the schemes too, which would help enable that best practice sharing.

Dr Garner: We instigated a formal network for sharing with the 15 hubs. As I say, our funding comes to an end in June. Therefore, we are not clear about how that might continue.

Nadhim Zahawi: That is at risk.

Dr Garner: That is at risk.

Matthew Cross: There is the LEP Network, which is pretty small and embryonic at the moment. There is a Core Cities Group that has come together.

Nadhim Zahawi: There is nothing systematic.

Matthew Cross: There is nothing systematic, no.

Q78 **Nadhim Zahawi:** About 20% of successful bids to the Regional Growth Fund have subsequently been withdrawn. Do you think this number of withdrawals is inevitable or an indication that the system is somehow not working, or is 20% about right?

Mike Palin: It is inevitable if you approve applications without having done due diligence, which is the current process; projects are approved and then the due diligence begins. As a result, inevitably there will be some projects that fail their due diligence stage, either because the information they provided might not have been as accurate as it was likely to be or simply the business is going to fail. Public money should be put into that business. That is one reason why there are such high withdrawal rates.

Matthew Cross: I would agree.

Dr Garner: I would agree with that.

Q79 **Nadhim Zahawi:** You think that the DD should be done first, or maybe light DD, then approval.

Mike Palin: Potentially. Historically, you would. You raise expectation when you approve something and then begin a due diligence process. Inevitably you are criticised.

Q80 **Nadhim Zahawi:** Exactly, it is a tension. Do you find that you deal primarily with large companies or with SMEs? Do you try to direct support to a particular size or type of company? This is really to Matthew, Cathy and Mike.

Matthew Cross: In terms of RGFs, it is primarily into the SME category, largely because the level of funding is not going to touch the sides of a bigger company.

Q81 **Nadhim Zahawi:** Do you have an outreach programme or do they just come to you?

Matthew Cross: There is an outreach programme. Just as Cathy was saying, you need to be marketing. There was a very intensive period of marketing last year, where we used the local papers, the *Bath Chronicle* and the *Bristol Post*, as our media partners to get the story out there. There was a big response off the back of that. Yes, it is mostly SMEs.

Q82 **Nadhim Zahawi:** What does "big" mean? Define "big". How many SMEs is that in terms of the population of SMEs in your LEP?

Matthew Cross: I will have to come back to you with that figure.

Nadhim Zahawi: Can you send us that?

Matthew Cross: Yes.

Dr Garner: As I said, the Growth Hubs have already touched around 25,000 SMEs. There has been quite an outreach. That does not mean that they have supported all of those businesses.

Q83 **Nadhim Zahawi:** Is 25,000 a good target, out of 4.85 million?

Dr Garner: It is only starting. I hope it will be a lot more, because each local area needs to take that marketing forward, but that is in a period of a few months. From my experience of running a major programme in London, where we reached out to creative and digital SMEs, we reached out to about 1,500 companies, of which we supported 500 and then 50 in really intensive growth support.

Nadhim Zahawi: One-third support.

Dr Garner: Yes. You are raising interest, but not all companies either wish to or have the internal capacity to go on to develop the requirements they need to develop innovation, new products, etc.

Q84 **Nadhim Zahawi:** How do you set your targets? How do you decide what you are going to go after?

Dr Garner: This is a European Regional Development Fund project, which sets the targets for one. At application, we said we would achieve 520-something specific intensive assists. Those are defined as 12 hours' engagement with a company. That drives a certain behaviour, which is probably not best. Many companies require more; many companies require much less. If you are driven by those targets and those requirements, you have to meet them.

Nadhim Zahawi: They are set for you.

Dr Garner: They are set by the European Regional Development Fund. Coming back to the Regional Growth Fund, the fact that they do not have this prescriptive nature of how you deliver, just on the output, is much more flexible and much more business-friendly, I would say. I do not know if others agree with me on that.

Mike Palin: With our LEP, we've existed for 20 years as a membership body, ourselves, largely large corporate members. We have strong direct relationships with many of the big businesses in the Liverpool City Region. We then engage with the network of networks. We have five and a half Chambers of Commerce—one recently took over another Chamber—we have the Federation of Small Businesses and all those other networks. We engage with them, because they can engage with far more small businesses than we can and that is just far more efficient as a way of engaging. St Helens Chamber is large; 40% of businesses in St Helens are members of their Chamber, so we could argue that, through our network of networks, we are reaching 40% of small businesses in St Helens, but they do not have a direct relationship with us.

Q85 **Nadhim Zahawi:** How many do you have direct relationships with?
Mike Palin: We have 450 paying corporate members as a LEP.

Chair: Can we move on? I am conscious that we are very short of time.

Q86 **Mr Binley:** Can I ask if there is tension between designing a business support system that has 39 Growth Hubs responding to local needs and, at the same time, trying to reduce the complexity of the support system? How do you manage that tension?
Dr Garner: I seem to be doing a lot of speaking.

Mr Binley: I should not worry about that; we always do.

Dr Garner: Alongside the 15 Growth Hubs, together with Business, Innovation and Skills' economic analysis department, we have put up a monitoring and evaluation framework. The hubs are expected to take a look at that to see what projects are being effective in their delivery. It all comes to that evaluation and bringing together the national products with the local products, and understanding what is delivering best value to the companies. Putting those processes in place can help to try to ensure you are delivering what is really needed.

Q87 **Mr Binley:** Does that differ?
Mike Palin: There is a lot of complexity out there. You have to pick the scale that fits the complexity. If you have top-down national products that an individual business in any part of the country can access, plus some local products, plus a variety of other initiatives—and it is even more complicated when you get to skills—you then have to pick the scale at which you want to have some sort of simplified engagement with the business community. At the minute, 39 seems about the right scale in many areas. Liverpool has 1.5 million people and 37,500 businesses. It seems the right scale. Whether that is similar across all 39 LEP areas is a question I would not want to answer, but the city region level, coming from a city background, seems the right kind of level to do the simplifying and make it easier to access.

Matthew Cross: There is a tension, but it is a transitional tension. What is important is that there needs to be commitment to the LEPs and the principle of LEPs. If it is given 10, 12, 13 or 14 years to evolve, once we have been through that, there will be a much more solid process. There will be a lot more information sharing between successful schemes that are run, and processes and systems will be normalised, which will make it a lot easier. It is inevitable that, when you are in transition—and we will be five years into a transition—it is still going to be complicated, fragmented and difficult.

Q88 **Mr Binley:** Global competition does not give you that time, so how are you going to cut that corner?

Matthew Cross: The cream always rises. The city regions, as Mike is saying, are organising themselves fairly effectively now. They are all out there doing the support that needs to be done, promoting themselves internationally and working with UKTI on a fairly even platform. From a UK plc point of view, that UK competitive position is almost where it should be. Five or six years ago, it was not where it should be. It is never going to be completely right, but where we are now UK plc is doing relatively well. There is a long way to go in bringing the weaker parts up to equalise it, but the overall national picture is relatively healthy.

Naomi Clayton: I was just going to say that local partners can play quite a complementary role in helping businesses navigate the systems, helping to plug gaps and to tailor services to the needs of local businesses. There is an ongoing need to try to simplify the structure of business support at the national level too, by introducing an infrastructure for business support and BIS taking a stronger strategic overview of all national schemes.

Chair: I am going to move on to broader business support initiatives.

Q89 Ann McKechin: You mentioned simplifying national schemes of support. The Federation of Small Businesses analysed that there were almost 900 different business support schemes operating currently in the UK. Given this level of complexity, is better co-ordination needed or should the Government be looking at radically reducing the overall number of business schemes?

Naomi Clayton: Better co-ordination is needed, certainly. As I was saying, BIS has a role to play there in having strategic oversight of all business support programmes at the national level. If there is any reduction in the number of business support schemes, it needs to be very clearly based on our understanding of what works and how it meets our objectives around supporting businesses.

Q90 Ann McKechin: Do you think 900 is a good number or a bad number to have? That is what I am trying to ascertain. Do you think it is far too many, just about right or far too few?

Naomi Clayton: As I understand it, that number is probably likely to have reduced further still and includes national and local initiatives. It is still a high number, but we need to look at whether, from the business perspective, those schemes are servicing businesses' needs and what is working, rather than just looking at the overall figures.

Dr Garner: I would agree with that last point—that we need to see it from the business-need end. If we improve co-ordination and access, it is not about a specific number; it is about the value and what is working for business that we need to focus on.

Matthew Cross: There will be a natural selection that goes on so, as regions get closer together, they will pick up and start deploying some of the best practice available, and the alignment will come from that. The Government's role is about that co-ordination and network advice.

Q91 Ann McKechin: Presumably trying to manage over 800 schemes produces a cost. Could it be used in a better way? We will let you have a ponder about it. I will go on to the next question. Should Growth Hubs be working towards a national industrial strategy, delivering a local economic strategy or responding to local business demands, or all of them? Which comes first?

Dr Garner: My view would be that it is all of those and they need to bring those together. That is part of the opportunity in creating those Growth Hubs, because it is very important, in the upcoming European funding, that we are getting some specialisation. We are seeing this through the Growth Hubs already. There are special products, for instance in marine support, in agricultural technology, etc., but it is being very clear about where UK plc wishes to go as well as that demand for business. If you do not have an inherent business base in a speciality, it will be very difficult to create it, but there are many businesses that may need support that are not narrowly defined within that strategy.

Q92 **Ann McKechin:** Do you all believe a national industrial strategy is an important priority in setting the criteria?

Matthew Cross: The first thing you would have to address is the local need. Once you have identified the local need, if you can apply a national industrial strategy to that, then great, but if a local need, for whatever reason, differs from that, then you cannot be constrained. We are now in a situation where there are still organisations that are coming to terms with the environment that they are working in, and so they are responding to local need but maybe in a way that is not optimised. A national industrial strategy or whatever you might call it might help to align that and give best practice, so the national industrial strategy could be an advantage and could be a benefit, but it would have to be set very carefully.

Mike Palin: The third of the three is probably the most important, responding to what businesses need and being client focused. If we take the population of Liverpool City Region’s business base as 37,500 businesses, and we have a national industrial strategy for automotive, there might only be five or six businesses to which that strategy is relevant. Yes, it is important, because automotive is important to our city region’s economy, but it would be an element of the local strategy. That is where you would make the join with the national industrial strategy. You would embed it in the local strategy where it is important, and then the business support environment would be responsive to what the businesses need themselves.

Q93 **Ann McKechin:** A specific question to Cathy: do you think having an overarching Wave 2 Growth Hub programme is going to provide that better co-ordination between local and national support?

Dr Garner: It has in the time that it has been there, but I will come back to the issue that it is not there forever. We hope that the network, in some ways, will continue so that they can share best practice. As the programme managers for the Regional Growth Fund, we have worked very well with central Government, as well as local, and sometimes we are able to mediate the messages or to realise that we are trying to get a complex local picture together with that national picture, which Mike has just described very well in relation to the industrial strategy.

Q94 Ann McKechin: Do you believe you are getting sufficient support from central Government?

Dr Garner: We have worked very well with Cabinet Office, BIS and DCLG, which are running the Regional Growth Fund.

Q95 Paul Blomfield: Continuing a similar theme, but a slightly different point, Naomi, the Centre for Cities has highlighted the lack of any overall infrastructure for business support. What do you think the infrastructure should look like and what would be the role of Government and LEPs in providing that?

Naomi Clayton: As I said before, the focus needs to be on business need and looking essentially at the impact of business support programmes, rather than looking at individual functions and departments. We need to get an overall view of business support from the business perspective, whether it is helping to grow businesses, whether it is helping to make businesses more productive or innovative, or whether it is helping to create more businesses. Those might be three ways of looking at it. Certainly one of the issues is that we have multiple programmes being run by different departments with quite often overlapping objectives. There needs to be greater co-ordination, and there is a clear role for BIS in providing that strategic oversight.

Q96 Paul Blomfield: I wonder if I could just develop that point and perhaps widen it to other members of the panel to share their thoughts. There have been a number of suggestions. Naomi suggested BIS; Lord Heseltine talked about Chambers of Commerce. There have been other proposals as well, in terms of who might take on that co-ordinating role for business support. What do you think would be appropriate?

Mike Palin: It will vary depending on the institutional arrangements from place to place around the country, and the maturity of those arrangements.

Q97 Paul Blomfield: You cannot vary an overall infrastructure around the country, can you? I take the point about ability.

Mike Palin: If we are saying we are going to have an overall infrastructure, each element at the national level needs to be clear what it is doing and why. We do see different Departments intervening in a broad business support space, crossing over one another with no actual clarity over what they are doing. That national framework would need to be national Government clear on its product and why it is doing those products, and then permissive almost of local areas supplementing those with what is relevant to their local areas and the institutions they have in place. I am not sure we need too much national infrastructure from a personal perspective, but we do need to enable local areas to put the right structures in place for their patch, so to speak.

The Greater Manchester model is well articulated, how that has been working for a number of years. We are moving to a model in the Liverpool City Region that engages all of our Chambers of Commerce, so they are with us in taking a lead in co-ordination within the city region, plus each local authority, plus hopefully the FSB will join the Board that we have set up.

The one point I will make is that we have to be clear of the distinction between a co-ordinating function and a delivery function. If you have the deliveries doing co-ordination, they will start to co-ordinate in their own interest, so you do need to have something and the LEPs as a strategic body can perform that role but act as the commissioning body. This is what we require and we can co-ordinate between the different providers in the marketplace, or else you end up, as we have, with 360 products, 70 providers and none of them prepared to share their 12-hour assist of business support with a partner. They all want their 12-hour assist to get their output to get their funding. It will vary from place to place around the country.

Matthew Cross: That is absolutely right. There is a really important job for the LEPs to do in co-ordinating things, and there needs to be a consistency in there and—what is the word you were using?—sustainability in being able to do that. There is a very strong Chamber of Commerce in the West of England region, but there is a self-interest issue that we need to be very careful of. A LEP is in a good position to govern that.

Dr Garner: We are seeing a lot of co-ordination. Five of the Chambers of Commerce have come together in Stoke and Stafford to be co-ordinators. Although these are very early days, the 15 Growth Hubs that we have been working with intensively are able to build out those partnerships to be inclusive, but the LEP is the co-ordinator of that, and then they are commissioning delivery agents to deliver. It is a good model. I am amazed that, in less than a year, it is up and running, and delivering real support. Others have probably said enough.

Paul Blomfield: We could pursue it further, but I am conscious of time, Chairman.

Chair: Thanks very much. I would emphasise once again: please submit any further written evidence.

Q98 Mr Walker: We have just had Export Week, and I see a local hosted the International Festival for Business. Could you just tell us a little about that and how it helped businesses in your part of the world? What role did the LEP and the Growth Hub play in supporting it?

Mike Palin: We do not have a Growth Hub yet. Our Growth Hub comes online through our Strategic Economic Plan submission, so that will be online from the start of the next financial year. The LEP led a City Deal process with Government, and this [the International Festival for Business] was one of our asks in our City Deal. The ask was, simplifying it, for £5 million of Government funding to be matched against £5 million of sponsorship and £5 million of local contribution to provide the infrastructure to run the International Festival for Business in 2014.

There were six weeks' worth of events, very well attended in majority—some were not, but inevitably this is kind of like a market anyway—with a central location that businesses could interact with and an app that allowed everyone to register and know who else was in their vicinity at a point in time who wanted to connect with them. All in all, it has been very successful.

Businesses chose to engage with it. That was the key principle, coming back to an earlier comment about choice. It was very well advertised and those businesses that wanted to engage could engage in whatever way they saw fit. The interim evaluation evidence has shown that a significant number of businesses—and I will happily send the details through to the Committee—have seen their ability to have a relationship through UKTI primarily with an export market improve as a result of the IFB.

The second thing, and arguably as important, is it helped change perception. Liverpool has come a long way. It is one of the fastest-growing economies in England, yet many people perceive that it still has many of the historic issues that it used to face. The IFB really helped change the perception of the city. A lot of people came to the city, saw the transformation that has occurred over the last decade, and said they want to come again. That is another very important benefit of hosting the IFB.

Q99 **Mr Walker:** Do you have a breakdown of the proportion of businesses that were local and the proportion that were coming from elsewhere in the UK?

Mike Palin: I will be able to provide that. The IFB team held an event in London last week on the national benefit, and they held an event in Liverpool, on Thursday or Friday of last week, on the local benefits and a report on that. I can provide that report to the Committee. The final evaluation is set to be done next year, giving it a full year to see what the benefits will be.

Q100 **Mr Walker:** You mentioned the role of UKTI in that, which is pretty crucial. How well do you feel that UKTI engages with LEPs?

Mike Palin: It is variable, because UKTI has a number of functions. Every LEP will say it wants a more direct relationship with the manufacturing person or the automotive person in China. Every LEP will say that and it is unrealistic to expect that person to have 39 conversations. There is a challenge that will come from LEPs saying, "We want more interaction." What is important is putting in place some sort of system by which LEPs can have a strategic dialogue and, in part, hold UKTI to account for delivering for its local area. The North West Regional Director for UKTI has attended the LEP board this year to say, "This is what we are doing. This is how it impacts on your area," and then the board can hold them to account.

That is the challenge: to start to institutionalise that way of working, so that the local LEP board, which knows the local business space, can say, "That seems appropriate, but we want more of a focus on exports or we absolutely want a direct contact with the automotive expert, because we have Jaguar Land Rover and GM just outside the boundary." That is the key relationship. I would concentrate on structures rather than the day-to-day relationships.

Matthew Cross: Specifically on the point of UKTI, UKTI has been doing a huge amount to try to navigate their way around 39 LEPs. Their life was made incredibly complicated by the taking away of the RDAs and creating 39 very different LEPs. They are working very well with the core cities now. They are put under an awful lot of pressure to deliver. I take the view from our end that we have to give UKTI ammunition to help them in selling a national picture. If we do that, we will get a return out of it.

My feelings about UKTI are quite relative. We had 60-odd people from UKTI posts in the region in an event last night that we hosted, to which we brought about 30 local small high-growth businesses to get them all networking to talk about the vibrancy of the region and so on. They then go back to their posts and are able to extol the virtues in the companies they are talking to. When that thing works well, it works really well, so we are pretty positive about our relationship with UKTI at the moment.

Dr Garner: UKTI has engaged with the hubs. I was in Teesside about a couple of weeks ago, and UKTI is working very closely with the Growth Hub there, the Tees Valley Business Compass. It seems to be emerging and working.

Q101 Mike Crockart: This is a question mainly for Naomi and it is to do with the What Works report that you did in association with LSE and Arup, an excellent company based in my constituency. We could spend a lot of time chatting about it, but let us cut to the chase given the time. The basic premise was Government is good at measuring inputs and outputs. It is less good at measuring what is successful. What should success look like when we are measuring, for example, Regional Growth Funds?

Naomi Clayton: In terms of evaluation, that really should be embedded, or should have been embedded, from the outset to make sure that we are capturing the right metrics and measuring the right things. There is a need to be very clear on what the programme's objectives are. Overall, we found that business advice programmes tend to have a more significant impact on productivity and output, as opposed to employment. There is a need to be very clear on the programme's objectives and clear on what is feasible in terms of measurement and evaluation technique.

Q102 Mike Crockart: The concentration that there has been on jobs created or jobs saved, you would suggest, is perhaps the wrong measure of success.

Naomi Clayton: No, given that the objective is employment and job creation. It might have been useful to look at other measures like productivity, particularly as this year, as I understand it, a large proportion of the RGF will be directed towards capital schemes. Looking at other measures like productivity, sales and turnover may give us a better, more rounded picture of the impact of RGF.

Q103 Mike Crockart: Earlier on, you all agreed, and there was a lot of nodding of heads, that Government support should be in trying to find market failures and directed to areas where it would make a difference. How confident are you that the measures are bringing in the concept of causality? How confident are you that measuring figures out whether it is the Regional Growth Fund in actuality that has caused that difference, rather than anything else?

Naomi Clayton: This is the big question that remains, because there has not been an evaluation procedure from the start. At the moment, the main measures are around jobs not created but committed. There are big questions remaining around how we measure the additional impact and causal impact of RGF over and above other schemes that are running. It is not clear that those procedures and systems are in place.

Q104 Mike Crockart: Can I just widen out the question a little? It was particularly about the Regional Growth Fund that I was asking about in the report, in that it was very clear that the aim was creation or protection of jobs. Widening it out to business support more generally, what should success look like? What should the evaluation process be? What should we be measuring? Is it productivity, which you mentioned, or is it something else?

Naomi Clayton: As I was saying before, it comes back to what the programme's objectives are.

Q105 Mike Crockart: I suppose my question is: what should the programme's objectives be? With the best will in the world, if we set something and then measure it, then we can manage to get an end result where we say, "Yes, we are all successful and all very happy," but what should we be doing? How should we be designing it?

Naomi Clayton: It comes down to, firstly, understanding what the business need is and how that relates to firm performance and the wider economic performance of cities and city regions. Then there is clearly a need to understand what is likely to be most effective in terms of intervention, and most efficient. It is a process of mapping need, provision and looking at what works, before then going on to design, in collaboration with other partners, what that programme might look like.

Dr Garner: Obviously at the policy level, one could measure productivity growth, but you may get jobless growth. At a policy level, what are the objectives? Are we about creating jobs, jobs and growth, or just growth? That is where Naomi is trying to get to. What we have done with the hubs is set out right from the beginning what your objectives are, what measures you need to put in place and how we are going to capture those as we go through the programme, and look at progress as well as the end result.

As an academic institution at the University, we have supported each of the hubs to use techniques to be able to do that very clearly. They are called logic models. That is my academic background coming out now. We have been able to bring that in place. These are hugely complex because additionally, displacement and all of those things are very difficult to track. Going right back to the beginning, what is the policy as something that Government will be wanting to set? Is it about jobs? Is it about productivity? Is it about both of those? Then you know what you need to be measuring through that collection of information and data.

Naomi Clayton: Linked to that is this issue of short-termism. A lot of the time, partly because of programme length and the link with funding sustainability, we are not able to measure the impacts of interventions over the longer term. One of the questions from the What Works Centre review was whether, in the shorter term, we are seeing productivity increases and sales output increases. Whether that is likely to lead to employment increases over the longer term is something that remains unknown.

Chair: Sorry, I am going to have to bring proceedings to a close. We have run over time and we have another panel. Mike, is there any further question that they could perhaps do a written answer to?

Mike Crockart: I suppose it is the traditional interview question of where you see yourselves in five years' time. Where do you see Growth Hubs and business support generally in five years' time? It would be useful to have your views on what it should look like in an ideal world. That is the exam question to take away.

Chair: I am not going to ask you to answer that. You may wish to give some thought to that but, if you could submit your thoughts, we would be very grateful. Can I thank you for your contribution? We have asked you an awful lot of questions and I realise we have put pressure on you to respond perhaps more concisely than you would wish to, so do feel free to submit further evidence to us if you wish. Thank you very much.

Examination of Witnesses

Witnesses: **Caroline Norbury MBE**, Chief Executive Officer, Creative England, **Jim Farmery**, Director of Business Development, Creative England, and **Steve Futter**, Senior Account Manager, Solent LEP, gave evidence.

Q106 **Chair:** Good morning, and thank you for agreeing to help us with our inquiry. I am running behind time so I am going to bat on quickly. First, would you just like to introduce yourselves for voice transcription purposes, starting with you, Caroline?

Caroline Norbury: Hello, I am Caroline Norbury. I am the Chief Executive of Creative England.

Steve Futter: Good morning. I am Steve Futter, Senior Account Manager at Solent Local Enterprise Partnership.

Jim Farmery: I am Jim Farmery. I am a Director at Creative England.

Q107 **Chair:** Thanks very much. I will repeat what I said to the previous panel: some questions will be general to all, but do not feel you have to contribute if a predecessor speaker has said everything that you think needs to be said on the subject. Can I just start? We heard last week about the so-called "alphabet soup" of Government initiatives there. From your perspective—and if you could make it brief, I would be grateful—how easy is it to navigate the schemes available for business? How can they identify them readily? Who would like to lead on that?

Caroline Norbury: I am happy to do that. There are a lot of discussions about Government support being crowded. Our experience is that, whilst the landscape is certainly complex and multi-layered, it is quite sparsely populated in terms of the sorts of support that the businesses we work with are looking for. Obviously our experience is very concentrated around creative and digital businesses. We work across film, TV, videogames, creative and digital media. What we hear from those businesses is that they want to talk to people who have experience of the specific needs of their businesses—people who have been there and done it themselves. Our sense is that a lot of the business support that is available is very generic and may not therefore meet the needs of those very specific businesses.

Steve Futter: From a Solent LEP perspective and the businesses we speak to, the issue is not one of quality of advice or diversity of advice, but access to that relatively complex landscape and how a business navigates through that, given the sector demands that a given business may have or where they are in their journey as a business.

We have found that the Solent Growth Hub, which is relatively recently established, is making some very good inroads into that, in terms of the navigator service they offer to businesses. We certainly refer a lot of calls through the Growth Hub. We find them very useful, primarily because that draws on the local sector expertise and it enables more organic private-sector-led growth. We have found that to be quite a useful way through what looks like a reducing alphabet soup.

Q108 Chair: The FSB has recommended that we should have, as they do in the US, a small business administration to give oversight to these schemes. Do you think that is appropriate and is it a way that you think could cut across the different departmental responsibilities that you have to deal with at the moment?

Jim Farmery: I personally do not think that would be appropriate. The best model that can develop is a blend of the local, through the LEPs, and the national, through BIS, DCMS and the other national programme providers, as well as things like R and D, the Research Councils, Innovate UK and so on. All small businesses are not alike; there are very specific sector requirements. There would be a challenge that you would probably be introducing another layer in that mixture. I do think the best model that can develop is a really well engaged blend of the national and the local. That would be the optimum kind of thing for me.

Chair: You think it could add to the bureaucracy of delivery.

Jim Farmery: There is a danger it could just add another layer and another level of cost.

Chair: Can I have a view from the creative industries?

Caroline Norbury: We work together, so obviously I agree with Jim.

Q109 Chair: Can I just move on? Last week we discussed a concept of "corporate welfare". That is, the support that the public sector gives to the private sector, in various guises. From your perspective, what do you think the purpose and objectives of Government support for business should be? We will start with the creative industries.

Caroline Norbury: The issue with the creative industries is it is a very diverse sector and it is full of lots and lots of very small businesses. One of the challenges, therefore, is that when it comes to any sort of overarching planning, messaging and so on, it is quite difficult to coalesce all of those businesses and therefore for those businesses also to speak with one voice to Government. Government's role should be to create the right conditions for growth and prosperity. One of the ways of doing that is to invest in areas that the private sector will not invest in. One of the challenges with the creative industries is that often you are investing in ideas, and there is a real challenge around how you pay for and frankly how people are comfortable paying for investment in intellectual property. It is a very difficult concept; it is very difficult to legislate around, etc. Therefore, we have not really tackled how we do it, because it is hard to measure and very easy to abuse.

In terms of the challenges around the creative industries being lots and lots of voices, the Creative Industries Council has made huge leaps in terms of pulling together that one voice, but it is still very challenging. If you work in aerospace and automotive, yes, the supply chain is very diverse and complex, but you can get five or six people around the table from the big companies, who are at the top of the food chain. You cannot really do that with the creative industries and, therefore, you need a much more nuanced approach in terms of how you reach those businesses within the supply chain.

Government is doing a really excellent job at the moment, in terms of the steps it has made with the Creative Industries Council and, in particular, some of the tax credits have absolutely helped to make the UK much more competitive internationally. With some particular sectors, it has halted a flight in terms of talent and capital, and it has made the UK much more attractive to work in. Our creativity is our USP; it is one of the things that the UK excels at. As I said, it is quite a hard concept to grasp, when it comes to how you develop that business-wise.

Chair: Of course the Council was put in place as a result of a recommendation from this Committee.

Caroline Norbury: Thank you very much.

Chair: I felt I did have to make that point. Steve, do you have a very quick comment on this?

Steve Futter: I would agree broadly with the comments of other panel members and the previous panel too, on that role of Government in enabling and supporting business growth primarily. That is through advice and also finance.

While I was sitting listening to the first panel, I was trying to think of local examples from the Solent. There has been a site, a disused airfield at Daedalus near Gosport, which has now been designated as an Enterprise Zone. It had previously been marketed and it fairly comprehensively failed to market successfully, and now, through significant public sector investment, the infrastructure and enabling works have taken place. As a result of that, we now have the CEMAST College, which is an extension of Fareham College, focusing on manufacturing and advanced skills training. There is also a business incubation innovation centre going on there in the coming months. That is a good example of where public sector investment has stepped in and driven the provision of utilities, broadband and public transport, which has created a much more appealing area for businesses to invest in.

Q110 Chair: Can I move on to a question for Creative England again, which has been partly covered by your previous response? You wrote to say, "The mechanisms deployed by the Government to support the creative industries have never constituted an overall industrial strategy." Now, you have touched on this, but could you briefly say what schemes in this area have worked well from the Government and what could be improved?

Caroline Norbury: Perhaps Jim might be able to give a bit more detail. All I was going to say is that we have managed to make the Regional Growth Fund work for our businesses, because what we have been doing is getting small amounts of money to small businesses that need it, whereas one of the challenges with the Regional Growth Fund is that it is not necessarily very small-business-friendly. Perhaps Jim can talk a little bit more in detail about how we have managed to do that.

Jim Farmery: I am more than happy to do that. One of the things I was going to say was, if you look at other sectors, one of the things that I look at with a degree of envy is the

Manufacturing Advisory Service, in terms of the consistency and support, and the focus that that has been allowed to bring in that manufacturing sector, which is very diverse in its own sense. That is a result of the use of Government funding to direct a particular sector programme and sticking at it, investing over a number of cycles of Government. MAS has been going for more than 10 or 15 years, I would have guessed. If you look at that for other sectors, there is not the same level of sector provision or sector-specific support, as Caroline was saying. They do pull together the primes from the top of the supply chains, and are able to provide a diffusion of Government support, but also a generation of different ideas and different approaches as well. The Creative Industries Council has done a fantastic job, but it has only been around for two years. It has then had to look for other sources of funding to enable the actions that have come out of the Creative Industries Council.

Q111 Chair: I am going to bring in Brian in a moment with a supplementary, but effectively do you find yourself acting as a sort of MAS for the creative industries?

Jim Farmery: We perform some of that function.

Caroline Norbury: But without that money.

Jim Farmery: We are not paid to do that. We are in the middle of our second RGF programme. We use the fact that we are running reasonably scaled RGF programmes as a way of communicating that message to those businesses and a way of connecting them to other programmes that are available as well.

Chair: I am going to bring in Brian. You might like to perhaps submit written evidence to give us one or two examples of this.

Q112 Mr Binley: I am worried about what you have just said, because the Manufacturing Advisory Service is much more about more established and stable industries. You are working right at the frontier very often. You are creative, and the very nature of creativity is to be at the frontier. I just wonder whether your example of the Manufacturing Advisory Service is a good example to suit you and whether it might clog you down in bureaucratic terms.

Jim Farmery: With things like the games industry, sometimes there is a slight confusion over the fact that the games industry has been around for decades now. The very first consoles were developed 30 or 40 years ago. It is changing all the time. There are new platforms being developed.

Mr Binley: I was old enough to play Pac-Man; I understand that.

Jim Farmery: The same is true of manufacturing. What is really important is that consistency of offer, consistency of support and the degree of specialism within those terms that has been allowed to develop and has not been put at risk because of changes in Government and changes in political direction. That has been a consistent support platform. There is a lot to be learned from that approach in itself. Even within manufacturing, you have things like additive manufacturing, composites, 3D and a whole range of equally cutting-edge developments in the manufacturing world that are finding their way through supply chains, just as there are in our industry.

Mr Binley: Can I stop you very quickly? I come from Northamptonshire, where we are very much involved in autosport, aerospace, composites and so forth. They do not want too much overseeing, quite frankly; they just want some help to ensure that they can finance their schemes. We have to be a little bit careful. That is the only point I am making.

Q113 Chair: This is really just a quick question, and basically it may be to Caroline or you, Jim. Are you calling for the Government to introduce an industrial strategy for your sector?

Caroline Norbury: Create UK, which was published in July, is a strategy. It puts forward a series of recommendations for both Government and for industry, and we would absolutely sign up to supporting the recommendations there for Government to look into.

Chair: Okay, we will look at that. Can I bring in Brian?

Q114 Mr Binley: Again? The Brian Binley show, but only for three minutes, Mr Chairman, not even 15, as Andy Warhol said. You have all been engaged in the Regional Growth Fund in different ways. Can I ask what your experience is in assessing RGF money and how it works?

Steve Futter: Yes, certainly. I am happy to talk about that. As the LEP, we applied from round one all the way through to round four. Our initial bid in round one was unsuccessful, and the perception, certainly from an LEP perspective, was that the notion of trying to rebalance the economy in favour of private sector jobs is a great thing, but it was used as something of a blunt instrument at that point. It missed some of the local detail around the urban areas in the Solent region, areas such as Gosport for example, where the job density is very poor. We felt that, as a LEP, we have access to that knowledge but were not assessed on the fact that we had provided that.

Having said that, from rounds two to four, we applied for a number of different funds and were successful. Whether that was a change in our approach—we certainly had a lot of support from Caroline in terms of developing an application called Bridging the Gap—or whether there was a change in that assessment process is difficult to say. Certainly from that point forward, it has been relatively easy to access that funding.

Q115 Mr Binley: A quick supplementary: I get the impression that, if you had been successful with the first tranche, you would have had a much greater chance of being in the pot for the second and following tranches. I am concerned, however, that some people are slow on to the game and they have been left behind because they were not so good in the early days. Is that a concern?

Steve Futter: Possibly. Certainly as a LEP we have applied for funding, but what we also do is look at bids from other businesses that have come into the RGF and written letters of support. That is a case of us reviewing their bid and, depending on our perception of the strength of that bid, we will either decide to support or not. The majority of the 12 or 14 that we have written letters of support for have been subsequently supported by BIS, which is great. Whether there is something in that about coming to the game late, I am not too sure. There is certainly an issue in terms of that £1 million minimum level of funding, which is exactly why we applied for Bridging the Gap, so we could take that £1 million chunk of money and slice it down into smaller grants, from £5,000 to £75,000, for which there is a significant appetite locally. That has worked really well for us.

Jim Farmery: If I could comment quickly, we are delighted to have been successful twice for RGF funding and, as I said, we are in the middle of our second programme right now. It was very clear to us from the outset that RGF was not designed for the kind of programmes we were putting forward initially, and we had to do a huge amount of convincing in that there was a demand for the products that we wanted to deliver—that there was the private match funding out there and that we were a capable delivery organisation as well.

Now, because we have delivered one successfully, on time, ahead of target in terms of our jobs created and so on, we have proved the model in terms of there being the pent-up demand for SMEs to invest in projects in development themselves, but we still face that challenge against larger corporates that are investing in large capital programmes, which have the capital sitting there ready to invest. Ours is much more based on incremental programmes with individual SMEs. We are working with hundreds of SMEs as part of our RGF programme, rather than just one large corporate.

Q116 Mr Binley: Did your changes make you more successful or was it the Regional Growth Fund that changed themselves in terms of what they were considering?

Jim Farmery: We met halfway, if I am really honest. They recognised they needed to be more flexible to try to hit the companies we were working with, and we have proved that we can do it—there is the demand out there—and we can run a successful programme. They brought in a bit more flexibility.

The other thing I would definitely mention is the timing. With the first programme that we were running, we heard that we were successful in autumn 2011. We were not contracted until April 2012, which was when the programme was due to begin. We had the contract three weeks after the programme was due to begin and we had to hit all our targets on a two-yearly basis from a standing start.

The second time we were successful in RGF 4 that time was halved, so BIS absolutely recognised that they needed to do things more effectively. They outsourced initially the DD in the first round that we ran. They did it all in-house, because they had developed more expertise in the DD work. Also, we had a track record as well in the level of DD; they were not just talking to somebody brand new. However, they definitely recognised that they needed to speed up the process, and that has been fantastic.

Q117 Mr Binley: I am delighted to learn that, at the interface, flexibility has been achieved. That is good. Very quickly, what other changes might we ask the Regional Growth Fund to improve on?

Jim Farmery: At the moment, we are bidding for round six, so we are right in the middle of a bid process. Unless we are successful, the programme we currently run will end in March next year. I absolutely think that they should be looking to do contract extensions. At the moment, we are bidding on a blank sheet of paper along with everybody else. There is a recognition that we have done a good job and we have hit our targets, but we are going through exactly the same process as somebody bidding for the first time. If you are in business and you are working with an existing supplier who was doing a good job, it is very unlikely you would continually go out to re-tender that. You might want to revisit it and perhaps test the market but, at the moment, there is not even any room for them to do that.

Mr Binley: You equally cannot afford to be complacent. At least I am happy that you are keeping on your toes all the time. If you become complacent, then that does not achieve what the Regional Growth Fund wants you to achieve.

Jim Farmery: I recognise that.

Q118 Caroline Dinenage: I am going to start with Steve, please. Have there been any problems associated with the fact that LEPs have not been able to apply for the latest rounds of the Regional Growth Fund?

Steve Futter: From our perspective, I do not think there have. Our local Growth Deal has £12 million - £2 million for the next six years - to enable us to effectively extend our Bridging the Gap programme, which, as I said earlier, was funded through the Regional Growth Fund. We have been able to form a plan to effectively continue building that pipeline of projects that we know locally is very strong and be in a position to continue to fund them.

The only challenge that presents is that we are shifting from a model that is a mixture of capital and revenue investment—that is what we are used to and what businesses locally are used to—to a 100% capital model under the Growth Deal. That may present some problems locally, but it is too early to tell. Having said that, I would say that around 80% of what we have funded has been capital anyway, with smaller amounts of revenue funding that enable that activity to take place, so I do not foresee any major problems with that, fingers crossed.

Q119 Caroline Dinenage: Chairman, I need to just declare an interest, because I was involved in the setting-up of the Bridging the Gap fund. With that in mind, you have already alluded to it a couple of times. Could you just outline for the panel basically how it works?

Steve Futter: Bridging the Gap was initially focused on SMEs in Portsmouth City, Gosport and Havant, with access to funding between £5,000 and £75,000. Each applicant had to create a certain number of jobs based on the amount of funding they were seeking to access and also had to leverage in private sector investment as well. That has been running in Portsmouth, Gosport and Havant since 2012, and in Southampton, the Isle of Wight and the Waterside Parishes of the New Forest since 2013.

I have some figures to date in terms of investment. We had two separate RGF contracts for those two funds. The total of that was £4.1 million. We have committed £3 million to date under Bridging the Gap. We have supported 90 businesses and, as a result, created over 400 jobs. Interestingly, that has also leveraged in another £6.5 million of private sector investment, so appetite for the fund continues to be really strong. We were lucky enough as a LEP to be awarded some exceptional RGF funding to extend the fund across the Solent as a whole, which is hugely useful in terms of simplifying our funding to the SME community. Obviously there is a criticism around the multiplicity of schemes out there, so now we can say we have Bridging the Gap. The strength of it has been the fact that it is very vanilla, as much as anything else. Any business can apply. There is no sector focus; as long as they are based in the Solent area, creating and safeguarding jobs in the Solent area, they can access funding.

Q120 Caroline Dinenage: It was done in partnership with local newspapers, which was the key, because it was meant to attract businesses that may not have been engaged with some of the more formal business networking communities.

Steve Futter: Thank you for the reminder. It was one of the real strengths of the scheme, delivered in partnership with the *Daily Echo* on the Southampton side and the *News* on the Portsmouth side, both of which have given significant in-kind investment, in terms of free marketing not just for the fund but also in running full-page interviews with successful beneficiaries. That has been hugely positive. We were also lucky enough to get support through Portsmouth University, which through their business support services can help people to apply for the funds.

Q121 Ann McKechin: If I just come back to you again, Steve, you have been talking about the Bridging the Gap fund. What has been your experience in matching the Regional Growth Fund with private funding? Have you found an appetite among private funders?

Steve Futter: Yes, we have. The just over £3 million investment from the fund and £6.5 million in private sector leverage have been really heartening. Since we launched Bridging the Gap 1 up to now, we have seen those percentages of funding increasing, if anything, so there is more appetite to fund. When the panel sits down to consider these applications—and we have private sector businesses and SMEs represented, the Federation of Small Businesses and the banking sector—they have been really heartened to see the variety of funding coming through attached to this project.

Q122 Ann McKechin: I suppose to some extent you select and you sift through the applications, so that private funders can have some assurance about the level of risk that they will be taking and investing with.

Steve Futter: Yes, and that is one of the great things around the RGF as a whole, because it de-risks to a degree that private sector investment and makes everyone more comfortable that they are putting money into something that has a good chance of success. Locally, we have tried to mirror the national RGF principles of competitiveness primarily, so we know that the strongest applications are being supported and the pipeline continues to be strong. Irrespective of that, it is the strongest applications that come through.

Q123 Ann McKechin: Obviously your own experience is a very interesting example, but one of our concerns is that the Government told us that more than 22% of successful RGF bids were withdrawn. There has been some talk early this morning about the issue of due diligence after the application, but many were withdrawn because they were unable to secure the match funding required to proceed. I just want to ask the whole panel if that requirement is an obstacle to supporting businesses or does there need to be some sort of link mechanism such as the Solent practice has looked at? I would be interested in the view from the sector side.

Jim Farmery: The beauty of the approaches that we have taken is that you want to encourage that investment and stimulate that investment, whether in new project development, developing your own IP or expanding the business into other areas. We have been using the RGF that we have been managing to encourage other businesses to then invest themselves. There is a real danger if you do not try to stimulate that other investment. They have to be in the game. They have to be willing to take the risk as well. The RGF, in every case that we have been putting in, is de-risking and pushing them over that decision to invest their own money. I know at a larger scale for some of the large capital projects, the RGF is there to do a similar thing. I personally think that is quite appropriate, to be honest.

Caroline Norbury: If I can just add a supplementary to that, it is important to bear in mind that what we are trying to do is address areas where people have not been successful. For example, one of the things that we do via the RGF is we have what we call "repairable grants", but they are basically people who have been turned down by banks for lending, because of the inherent riskiness of what it is that they are doing. Jim is absolutely right that people need to have some skin in the game but, equally, if the purpose of the Regional Growth Fund is to work in difficult areas, to encourage businesses that would not otherwise have a chance of flourishing, then one again has to bear that in mind and not just go for the easy wins. What we are trying to do is intervene to create growth.

Ann McKechin: And probably encourage more risk-taking amongst private funders ultimately.

Caroline Norbury: Absolutely. With the creative industries in particular, there are a lot of myths about the riskiness of it. A lot of what we are trying to do is to give more confidence to people who might not otherwise look at those businesses.

Q124 Mike Crockart: You will not be surprised—you were in the room when I was asking before—that my questions are about how we judge success. Steve, the Bridging the Gap fund on the website says that it will "create over 125 new jobs and safeguard at least 75 existing jobs". Do you think that employment is the primary way of assessing the impact, or is that just because it is Regional Growth Fund money and that was the aim behind it, so that is what you have to measure?

Steve Futter: The previous answer that you had was telling. That is something that needs to be considered up front. Certainly in the contracts that we have for delivery of RGFs, it is about those private sector jobs that are created or safeguarded, and also the private sector funding that is leveraged as a result.

There are other possibly more interesting measures. Solent, in terms of business start-up rates, is lower than the national and regional average, and it is the same for business survival rates. There may be something in there that would be interesting to measure but, certainly from a national perspective, we do report primarily on the number of jobs created and safeguarded, and the private sector funding.

Q125 Mike Crockart: Are there views about other things that should be measured?

Jim Farmery: In our space, most of the investment that companies raise goes on people. It goes on developers and technical expertise or commercial expertise in the business, pretty much in every case, because the businesses we are dealing with are usually micro or small businesses. There are very few that are 50-plus; there are some, but not many. Also, they are not investing in large pieces of capital equipment, so they are very different from the manufacturing businesses, pharma businesses or any of those others that are investing in large pieces of capital equipment. That is not what they are using their money for, so there is a direct connection with the investment they are raising and expansion, and it is usually about people on the ground.

I personally believe that the leverage of investment is really fundamental. I believe that that is the most important thing you could do to encourage them to de-risk that investment for others and encourage them to invest in their own businesses as well. I personally think that that is more important than creating the jobs. In other sectors, not in ours necessarily, you do get that element of jobless growth. If you invest in a new production line, it might reduce the headcount but safeguard the rest of the people in that team. That is not the case in our industry at all. It is still quite labour-intensive as an industry.

Caroline Norbury: I would obviously endorse everything everybody has said. I would also say that, with the creative industries, there is a huge concentration of those businesses around London. Obviously there is an awful lot of noise around Tech City and everything that has managed to achieve. If you are in Huddersfield, Wakefield or Bromsgrove, bumping into a venture capitalist, understanding anything or knowing where you are going to go to talk to somebody who knows something about private equity is very difficult. Creating a better mechanism for unlocking regional capital and creating a conversation about regional capital and getting that investment into businesses is hugely important.

That goes to Jim's point, I suppose, about not just people putting their own resources in and unlocking matched funding, but a much more sophisticated approach to how we fund those types of IP businesses, which are the drivers of the growth of this country. The creative industries are worth something like just under £71.5 billion to this country. The creation of intellectual property assets is absolutely at the heart of what is going to drive this economy, and it cannot just happen in London and the South East. Therefore, our industrial strategy has to reflect that objective.

Q126 Paul Blomfield: I wonder if I can return to the issue of the role of the LEPs and perhaps direct this to either Jim or Caroline initially. In the Creative England submission to us, you said that the Government should explore ways of incentivising LEPs to collaborate with private and public sector bodies, and with each other to avoid duplication. What specific incentives did you have in mind?

Jim Farmery: There is one particular area that we are facing at the moment, which is the ERDF funding. The way that the ERDF is structured is at a LEP level. At the moment, we run three successful ERDF programmes under the old regional system. In many cases, there is a real danger that, if you are developing an ERDF-backed programme and you are only doing it in one particular LEP area, there is a massive resource issue there. You could easily run in multiple LEP areas with the same level of resource. In terms of the cost of running it, there is a much more efficient way of running a much larger programme, but also there is the scale and the impact that you could create.

We are talking to a number of LEPs at the moment about a content fund across a number of LEP areas to encourage investment in games, film and TV projects as well. You could create something of huge international scale if you could then draw in resources from a number of LEP areas. There is a real interest in doing that but, at the moment, the mechanics of unlocking particularly things like ERDF would force you, or force us if we were the applicant, to apply individually, so the whole scheme would rely on us being successful four or five times with individual LEP bids. I would imagine that, in other industries and other areas, there is an equal challenge.

I live in Leeds and I work in Manchester, so I experience the transport issues week to week commuting around the M62 and using the train network, so I know that there is a real willingness to collaborate amongst those LEPs, because it is happening right now, in transport, skills and other areas as well.

Q127 Paul Blomfield: Can I interrupt you, Jim? You are describing the problem very well. As a Member of Parliament for Sheffield, I understand exactly what you are saying. In terms of the solution, you talked about incentivising. What specific incentives did you have in mind?

Jim Farmery: Sometimes it is the mechanics. It is the structural process. ERDF is a good example. I am not sure, and if there is one it has not been explained to us so far, that there is a way of applying for ERDF, for example, across five LEP areas. At the moment, you would physically have to apply in each LEP area, because that is the way it is structured right now. Ultimately, it is a shared responsibility, I guess between DCLG and BIS, in terms of management of ERDF, together with the LEPs. There could be a look at that process and structure. They would not necessarily have to incentivise them. They are quite keen to work together, but sometimes it is trying to unlock that process.

Q128 Paul Blomfield: If we get the process right, that would be the incentive. Thanks for that. I wonder if you could share with us any specific examples of how you think LEPs have been collaborating well.

Jim Farmery: The obvious one at the moment is very timely. It is things like transport. There is absolutely an acknowledgement from people like me, who might live in Yorkshire but might have an office in Manchester, and equally might live in the North West and work in Yorkshire, Huddersfield or somewhere, that there are lots of ways that a shared approach to those kinds of transport issues can unlock a huge amount of investment and potential.

Q129 Paul Blomfield: Are there any examples from the creative sector?

Jim Farmery: There has been an interesting development with the BBC move to Salford, because you have supply chain development growing across the North of England now, genuinely. You have people and businesses building careers and businesses based around relationships that span different multiple LEP areas. We work with them all the time. Investing and having a shared approach to things like transport can only encourage and support that because, if you make that easier—if you physically make that easier to happen on a transactional basis—you can encourage investment and growth, because businesses will have a firmer sense of their future if they have access to much better transport infrastructure. I absolutely acknowledge and welcome any development that can go on there.

Paul Blomfield: When we are talking about the Manchester-Leeds link, let us remember Sheffield as well.

Q130 Mr Walker: Coming back to Steve, the Solent LEP website states that you want to "create an environment that will bring about sustainable economic growth and private sector investment in the Solent". That is quite a broad aim. How do you measure progress against that target?

Steve Futter: That is a really challenging question. In terms of economic development and trying to create the right atmosphere for that to flourish, we will be measured on the strength of our partnerships as much as anything else. We are locally focused and private sector led, with that local knowledge and understanding of what the local economy needs. The entire notion of a LEP is predicated on the sense that it should be underpinned by a functional economic geography. We are lucky to have quite a mixed economy, but there is a strong focus on advanced manufacturing, marine and maritime businesses in the Solent area, so it will be around how we engage with businesses and what funding comes into the area to address and support the development of that coastal functional geography, as much as anything else.

Q131 Mr Walker: How can you measure your success without a counterfactual of what life would be like without the LEP? Do you measure yourself against neighbours or peers competing in the same sectors?

Steve Futter: Again, it comes back to that point of a functional economic geography. The LEP area makes sense. There are other LEPs where perhaps that is not quite so obvious, so I would be interested in comparing progress against other areas that have a similar economic base, as much as anything else.

Q132 Mr Walker: In April 2013, this Committee published a report on LEPs that recommended that LEP boards should seek to widen their membership to better reflect the regions that they are in. How do you feel you are doing on that front and particularly with regard to small and medium-sized businesses, which often do not seem to identify with the LEPs so much as the larger businesses?

Steve Futter: We are doing quite well. The board is democratically elected and there are directors from the business community, the local business community importantly, local authorities, the higher education sector as well as the third sector. It is quite a broad representation. They stand for a time-limited term. In fact, all of our board members will be standing down in January of this year, I believe, to go through the re-election process. From a demographic perspective, it is good.

In terms of how we engage with the SME community, we are quite fortunate. Bridging the Gap has worked as a really good visible brand for the LEP. The SME community understands that it is for them and, as a result, the application rates have been very high, and we are also lucky to have the Federation of Small Businesses and SMEs represented on the decision-making panel itself. That, plus the board, plus our ongoing open consultation events to help shape our European funding bid and our local Growth Deal have been really positive and always really well attended, so I think we are doing a pretty good job.

Q133 Mr Walker: Another report that this Committee produced was on the high street and the future of retail. One of the things that we discovered during that report is that retail seems to be very poorly represented on LEP boards in general, despite the fact that it represents a very high proportion of jobs. Have you ever done an analysis as to the different sectors represented on your LEP and the proportion of the jobs market that they represent?

Steve Futter: What an interesting question. I certainly do not have that to hand, but it is something I can ask back in the office and submit something on later.

Q134 Mr Walker: Is there any retail representation on your LEP at all?

Steve Futter: Off the top of my head, I do not think so, but I will double-check.

Chair: If you could, send in some written evidence. Could I just explain that the attrition of members is not due to the quality of your responses? It is due to the fact that questions are now in the Commons and some Members will have questions on the order paper. However, we just have a couple of questions now from Caroline. I know Paul has to go to an urgent meeting as well so, if we can get things over quickly, I would be grateful.

Q135 Caroline Dinenage: It feels like an Agatha Christie movie, Chairman. Can I talk about access to finance, particularly with regard to Creative England? When it comes to accessing finance, you have been critical of the Government, saying that "the systems and mechanisms … don't acknowledge the specific characteristics of creative companies". Could you talk us through that in a little more depth? Do you think the Government has taken too much of a broad-brush approach to this?

Caroline Norbury: There is a very clear knowledge gap amongst both creative businesses but also amongst the finance sector. I do not think there is enough done to navigate that or to improve information on both sides of the divide. I do not know that it is necessarily solely something that Government has to intervene in. In the last six months, since we published the Create UK strategy, we have made quite a lot of movement in terms of having a very good discussion with both the Intellectual Property Office, the British Bankers Association and so on, around getting a dialogue going about what those particular issues are.

There is a perception problem here, which is a lot more complex than is often reported, in that, yes, creative businesses, particularly parts of the sector such as films and games are quite risky, but one's perception of risk is cultural, is it not? There has been a lot of conversation over the last five years in terms of banks and risk. We feel more comfortable with that than we do around investing in ideas. There is a lot more that could be done to improve the knowledge base of creative businesses around finance, the different types of finance and how to navigate that. Equally, there is an awful lot that could be done to improve the knowledge base of investors, financiers and lenders around the opportunities within the creative and digital sector.

There are particular Government interventions that could help. For example, there is a very useful tax credit, the R and D tax credit, which is not applicable to businesses from the creative sector. One could look at that. We have done some initial work looking at whether or not that could be expanded to include creative businesses. The Patent Box is another Government intervention, which is under a spotlight at the moment in terms of higher powers, looking at whether or not that is an eligible support mechanism. I suppose the gist is that there are existing mechanisms for other parts of the economy, but we have not really looked at whether or not they are fit for purpose for creative businesses.

If you look at the resources within Government, within the Department for Business, Innovation and Skills, there is one civil servant who has "creative industries" in their job title. Given that this is a massively expanding part of our economy, I do not know that that reflects the opportunity that we have for this sector.

Q136 Caroline Dinenage: That is really useful. Steve, do you think that this problem expands beyond the creative industries or is it something that is more limited to that?

Steve Futter: In terms of access to finance?

Caroline Dinenage: And some of the strong Government initiatives not necessarily being applicable to every kind of industry.

Steve Futter: My experience primarily is of the Regional Growth Fund and what that has enabled us to do locally. Access to that particular funding has been hugely useful. We talked earlier about de-risking private sector investment, so that is a real strength. One of the other things we like about the Regional Growth Fund is that there is flexibility inherent within it. As long as you are hitting those job targets and leveraging the correct amount of private sector investment, there is a real ability to promote different types of programmes. We have done that successfully across the Solent, where we have sector-specific funds focusing on advanced manufacturing, geographically focused funds, so something specifically for the Isle of Wight to drive up job creation there, or something, as I said earlier, totally vanilla, which is Bridging the Gap. It does not have to have a sector focus. That flexibility has been really welcome in terms of the Regional Growth Fund as a whole.

Q137 Caroline Dinenage: This is for everybody. What sort of problems do you have to overcome in your day-to-day dealings with companies to ensure that they are suitable for funding?

Jim Farmery: We take the businesses through a pretty rigorous due diligence process of our own. We effectively mirror the RGF process for larger businesses, but we scale it appropriately. We do it in a much more realistic time frame and we sometimes get independent advice and bring in independent expertise as well, where appropriate. We want to invest and support businesses that are going to leverage in their own money, leverage in other money and invest in projects and schemes that are going to be sustainable.

We have a very limited amount of RGF. It is a tiny amount nationally, even compared with some of the local programmes that we have heard about this morning. Our round was £5 million for two years on each occasion. I have heard discussion about £25 million just in particular areas, so it is a relatively tiny amount of money, but we want to manage it well and spend it effectively, so we want to make sure that the businesses that we are supporting are sustainable and have solid business plans. We take them through appropriate processes to look at that.

Q138 Caroline Dinenage: Do you think that there is sometimes a bit of a contradiction between needing to do all the checks and balances, needing to do all the preparation and needing to do all the due diligence, and then being able to support businesses with funding and other support in a way that is timely and enables them to capture the market?

Jim Farmery: Yes. We work really hard on turning those programmes around very quickly. We do a lot of telephone conference calls internally as a team, because we are casting the net across a wide area of the country, and with teams based out in Bristol, Birmingham, Sheffield and Manchester. We do a huge amount of legwork. We are out on the road all the time looking for different businesses. We have weekly investment sifting panels. We have monthly investment panels on a more formal basis, so we are really keen that those businesses are not hanging around waiting for us to make those decisions.

Caroline Dinenage: That is very crucial, isn't it?

Caroline Norbury: Just as a supplementary to that, your wider question, in terms of the support those businesses need, is that there is in the UK an absence of other types of risk and equity capital in a way that perhaps there is not in America. We do tend to rely very much on very established places such as banks to put in that money. Now, our money is always very early stage, and there is quite a lot of provision from 250 onwards, but it is in that space where, once you have something going, even if you might be in revenues, making that jump to the next point where there is much more available is really hard.

We can only talk about film, TV, games, and creative and digital businesses, but our experience is that is the real pinch point. Our funds within the Regional Growth Fund are not set up to do that. We are very much about taking people to that place. I would just say that where we struggle is we often have to make a decision, but without necessarily any clarity in terms of where they are going to go next.

Steve Futter: In terms of timeliness from our perspective, it is certainly something that I know applicants have got frustrated with in the past. We have tried to respond to that as positively as we can, bearing in mind that we are dealing with public funding that needs to be managed in a robust and appropriate way. We have tried to make the due diligence process reflective of the amount of funding that an applicant is seeking. The process for someone seeking £5,000, as opposed to someone seeking £75,000, would be appropriately streamlined, and that has been welcomed. At the moment, the average is between three and four months from application to the first drawdown of funding, so that has improved significantly over the time that we have been running the funds and learning from our own experiences primarily.

Q139 Caroline Dinenage: That is helpful. Thank you, Steve. Finally, and this is for everybody, the British Business Bank is now up and running. Do you think it is ready to take on the role of helping businesses find finance?

Steve Futter: That is not something I have any direct experience of so far. It is something that we may see coming in future rounds and making up the component of a funding package for a given business but, from my perspective, it is too early to tell.

Caroline Dinenage: That is a resounding nobody knows, Chairman.

Caroline Norbury: Our experience is that, when we originally started putting together our bids for the Regional Growth Fund, it was very difficult to get any information out of the British Business Bank, in terms of their support for the sector. There is now much more information available. They are very willing to have a dialogue. They have been incredibly helpful in terms of providing information and so on, but these are very early days. They have a huge remit, which is big but also very diverse. In terms of whether or not they are set up to deal with some of the issues that we specifically have raised, I am not sure, because their mantra is very much a generic approach and we are obviously lobbying and campaigning for something that is slightly different. So far, we have an awful lot more information from them. It seems to me that their systems are up and running, in terms of being able to collect the right sort of data around businesses.

Q140 Mr Walker: Just very quickly on that, you put in your written evidence that you are recommending the development of a creative content fund for the British Business Bank. Is that something that you have had any feedback from them on?

Caroline Norbury: Not officially, no. We are in early discussions.

Chair: Thank you. That concludes our questions. Once again, I thank you for coming before us today. That has been incredibly helpful. We will be looking at this. If you feel that, in retrospect, you might have said something that you did not, please feel free to submit it in further evidence. Equally, if we feel there is a question we should have asked you but did not, we may write to you and would be grateful for a response. Thank you very much.