

# Value for Money Review of Performance Measurement



This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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Comptroller and Auditor General

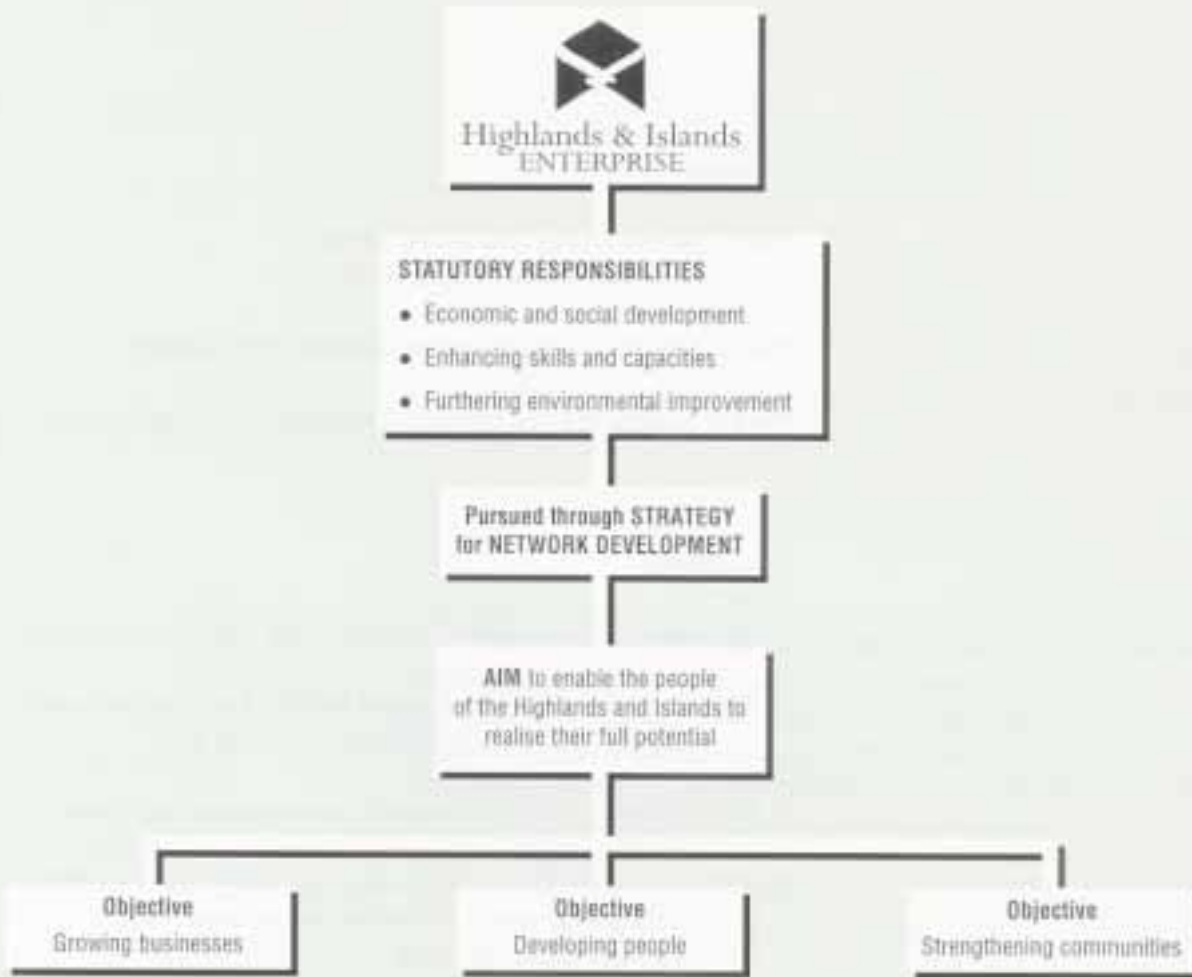
National Audit Office  
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### Highlands and Islands Enterprise responsibilities



Highlands and Islands Enterprise provide financial and other assistance to establish and develop businesses through programmes such as Estate for Business



Highlands and Islands Enterprise operate government training programmes such as skilteekers



Highlands and Islands Enterprise provide grant assistance towards projects which enhance community life

# Overview

## Background

- 1 Highlands and Islands Enterprise were established in 1991 to assist the economic and social development of the Scottish Highlands and Islands, to enhance skills relevant to employment there and to improve the environment. They are managed by a Board appointed by the Secretary of State.
- 2 The Scottish Office Education and Industry Department delegate authority for operating expenditure programmes and activities under a Management Statement which sets out a strategic, financial and operational framework for Highlands and Islands Enterprise. Within this framework Highlands and Islands Enterprise have developed their Strategy for Enterprise Development aimed at enabling the people of the Highlands and Islands to realise their full potential, through growing businesses, developing people and strengthening communities. Some 80 per cent of the programmes and activities are delivered through contracts with 10 private Local Enterprise Companies.
- 3 Highlands and Islands Enterprise have received wide recognition as a progressive public agency from sources such as the Committee on Standards in Public Life, and through the award of the Charter Mark and Investors in People status.
- 4 The Management Statement recognises the need to judge Highlands and Islands Enterprise's overall success in terms of their statutory role and provides a framework under which performance can be monitored. Performance measures for monitoring Highlands and Islands Enterprise's functions are developed in more detail through the Strategy for Enterprise Development and Annual Operating plans; and an assessment of the effectiveness of Highlands and Islands Enterprise expenditure is undertaken through a rolling programme of economic evaluations set out in the Operating Plan.
- 5 This report records the results of a National Audit Office examination of how Highlands and Islands Enterprise measure their performance and evaluate the results of their expenditure programmes.

## National Audit Office findings and conclusions

- 6 Assessing the impact of economic development assistance is notoriously difficult and agencies such as Highlands and Islands Enterprise face considerable challenges in devising the means to do so. Since 1991 Highlands and Islands Enterprise have spent almost £400 million and objective assessment of achievement is required to safeguard the taxpayer's interest and to inform decisions about the value for money to be derived from alternative assistance measures.

### Meeting targets and measuring performance

- 7 Highlands and Islands Enterprise's performance framework provides a comprehensive assessment of their activities. Their reported results show that they have been predominantly successful in meeting increasingly challenging targets and indicate that good value for money has been achieved. Highlands and Islands Enterprise should continue to develop measures within the framework including aggregation of Projects and Marketing activities and enhanced mechanisms for recording environmental improvement performance and for assessing jobs housed in their property. They also recognise the need to develop, with National Audit Office support, a system for weighting performance results in terms of priorities.
- 8 The nature of Highlands and Islands Enterprise's activities may limit the scope for their performance framework to provide a complete assessment of achievement. It is therefore important that steps already in hand to improve the link between performance measures and strategic objectives continue. This will improve the information available for judging the overall success of Highlands and Islands Enterprise.

### Evaluating expenditure programmes

- 9 Highland and Islands Enterprise undertake evaluations of their expenditure programmes in order to identify ways of improving the impact of the expenditure. These evaluations are essential, given the complexity of economic development activity and the long lead times before change can be measured in some areas. The rolling programme of evaluations has been successful in identifying significant impact, cost effectiveness and value for money. Where recommendations for improvement have arisen Highlands and Islands Enterprise have taken appropriate action in relation to the specific expenditure programme. Where evaluations have indicated relevant general improvements for managing programmes, such as in prioritisation of resources or in project appraisal, Highlands and Islands should use the opportunity to apply them in other programmes.

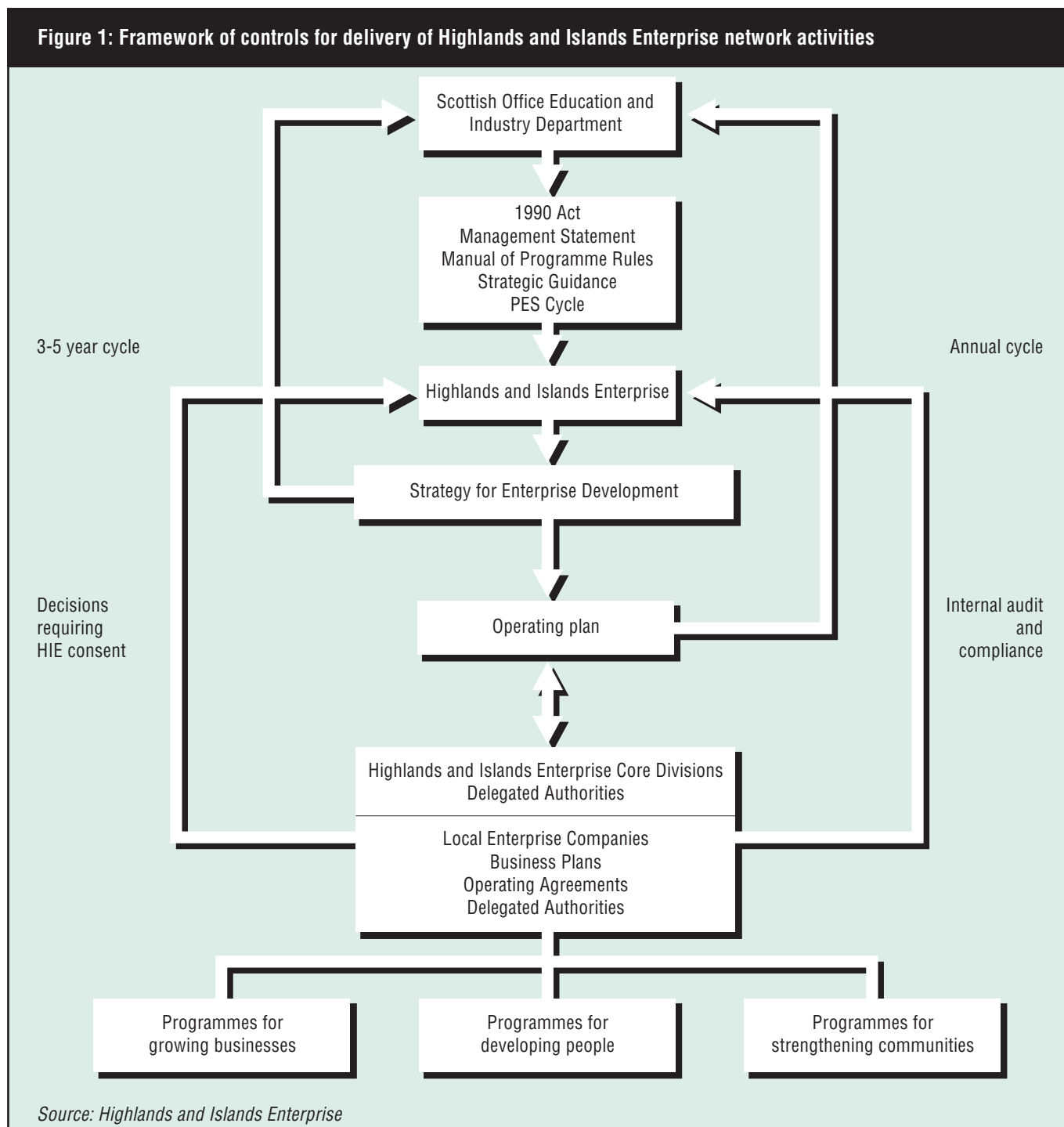
## General

- 10 The performance measurement framework records the outputs of expenditure programmes on an annual basis and shows trends over time. The rolling programme of evaluations provides an assessment of the value for money and impact of that expenditure. The National Audit Office examination provides assurance that, taken together, the framework and the evaluations represent a generally robust measure of the value for money achieved by Highlands and Islands Enterprise. Further developing performance measures and applying relevant recommendations from evaluations will continue to enhance that information.
- 11 Highlands and Islands Enterprise are committed to further developing their performance measurement system, and have refocussed their strategic objectives to enable a fuller picture of their achievements to emerge. They are now developing, with National Audit Office involvement, key strategic indicators to assess, on a three to five year cycle, whether strategic expectations have been achieved.
- 12 Highlands and Islands Enterprise are aware of other economic development agencies' interest in performance measurement and evaluation. They are also aware of the value, in order to maintain their place amongst the leaders, of liaising actively with the other agencies to ensure that where possible improvements in performance measurement are shared and developed. Notwithstanding the general difficulty in measuring progress in the complex area of economic and social development, this could offer the scope for benchmarking the results achieved across different agencies and development activities.

# Part 1: Introduction and scope of the National Audit Office's review

- 1.1 The Scottish Highlands and Islands is an area representing one sixth of the land area of the United Kingdom and with a population of 370,000. It contains many remote and economically fragile communities with income levels substantially below the UK and European average, and has attracted Objective 1 European Community status. Recent trends have shown growth in population and employment in the Highlands and Islands but the problems of fragility, over-dependence on seasonal activities and declining traditional industries remain.
- 1.2 Highlands and Islands Enterprise were established in April 1991, under the Enterprise and New Towns (Scotland) Act 1990, as an executive non-departmental public body responsible for:
  - preparing, concerting, promoting, assisting and undertaking measures for the economic and social development of the Highlands and Islands;
  - enhancing skills and capacities relevant to employment in the Highlands and Islands and assisting persons to establish themselves as self-employed persons there; and
  - furthering improvement of the environment of the Highlands and Islands.
- 1.3 The framework of controls governing the delivery of Highlands and Islands Enterprise activities is set out in Figure 1.
- 1.4 The Act provides for the management of Highlands and Islands Enterprise to be directed by a Board, whose members are appointed by the Secretary of State. The Board's responsibilities include the approval of strategic objectives for Highlands and Islands Enterprise's operations. In 1991 Highlands and Islands Enterprise published their first Strategy for Enterprise Development, setting out the overall aim and seven strategic objectives listed below (Figure 2).





1.5 In January 1996, after a widespread consultation exercise, Highlands and Islands Enterprise produced a revised Strategy of Enterprise Development re-iterating the original aim of enabling the people of the Highlands and Islands to realise their full potential and replacing the seven objectives with three: Growing Businesses, Developing People and Strengthening Communities. The re-focused strategy also identified four sectors, Food and Drink, Manufacturing

**Figure 2: Highlands and Islands Enterprise Strategy 1991-1996**

To enable the people of the Highlands and Islands to realise their full potential by means of: stimulating business development; encouraging training and learning; strengthening communities; enhancing the environment; and raising the quality of life.

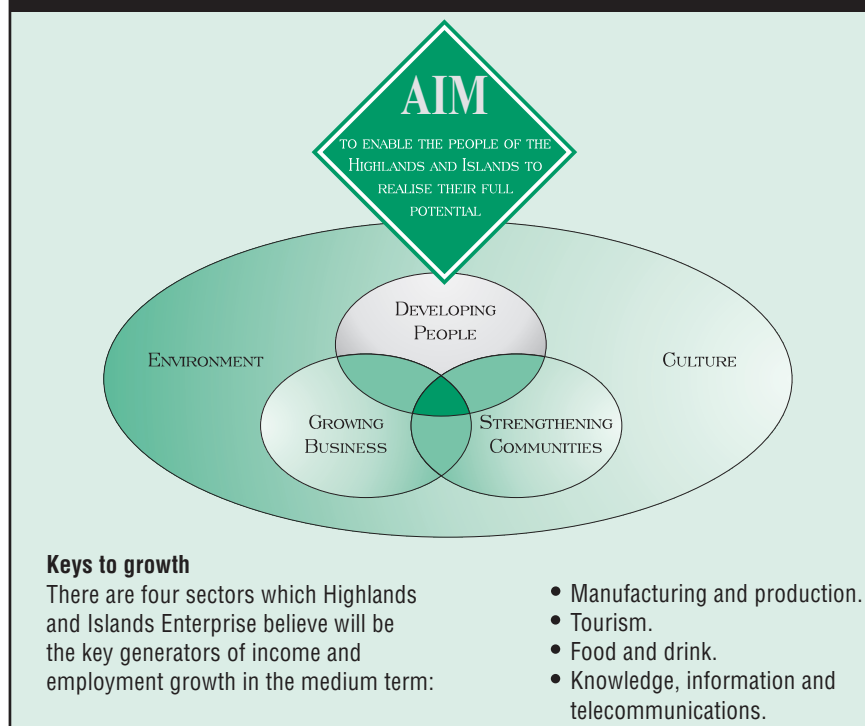
**Objectives**

- To increase personal benefits (both monetary and non-monetary) for the people of the area.
- To increase the number and profitability of private sector businesses in the area.
- To improve the quality, availability and volume of training and learning opportunities in the area.
- To create conditions in which successful and lasting development provides the basis for long-term economic growth in the area.
- To strengthen and diversify the economic base of individual communities in the area.
- To improve further the attractiveness of the area's natural and man-made heritage.
- To maintain and develop the social, community and cultural values of the different parts of the area.

and Production, Tourism, and Knowledge, Information and Telecommunications, as the key generators of income and employment growth for the future (Figure 3).

1.6 Since 1991, Highlands and Islands Enterprise have spent £381 million, of which £303 million was funded by grant-in-aid from the Scottish Office Education and Industry Department. The

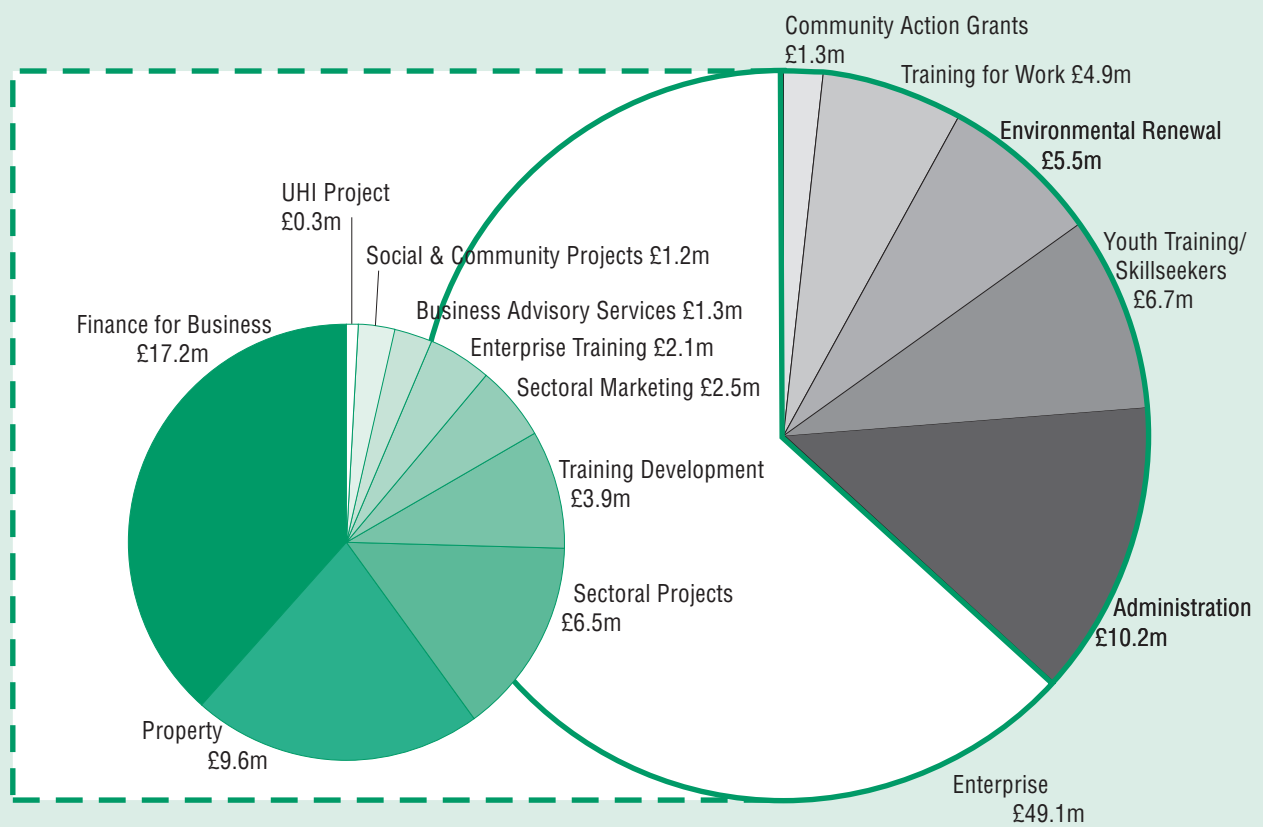
**Figure 3: Highlands and Islands Enterprise revised strategy from 1996**



remaining £78 million was funded from property rents, proceeds from disposals and loan interest. At 31 March 1996, Highlands and Islands Enterprise held land, buildings and investments valued at £34 million, the majority of which are income generating. The Comptroller and Auditor General is the statutory external auditor of Highlands and Islands Enterprise.

1.7 Highlands and Islands Enterprise operate within a financial, strategic and operational framework set by the Secretary of State and contained in a Departmental Management Statement. The statement provides for Highlands and Islands Enterprise expenditure under six blocks (Figure 4). Each year, under the Public Expenditure Survey process, the Secretary of State approves the allocation of resources to these blocks. Highlands and Islands Enterprise's proposed pattern of expenditure is contained in their Operating Plan which reconciles allocations to programmes and activities with resources from budget blocks.

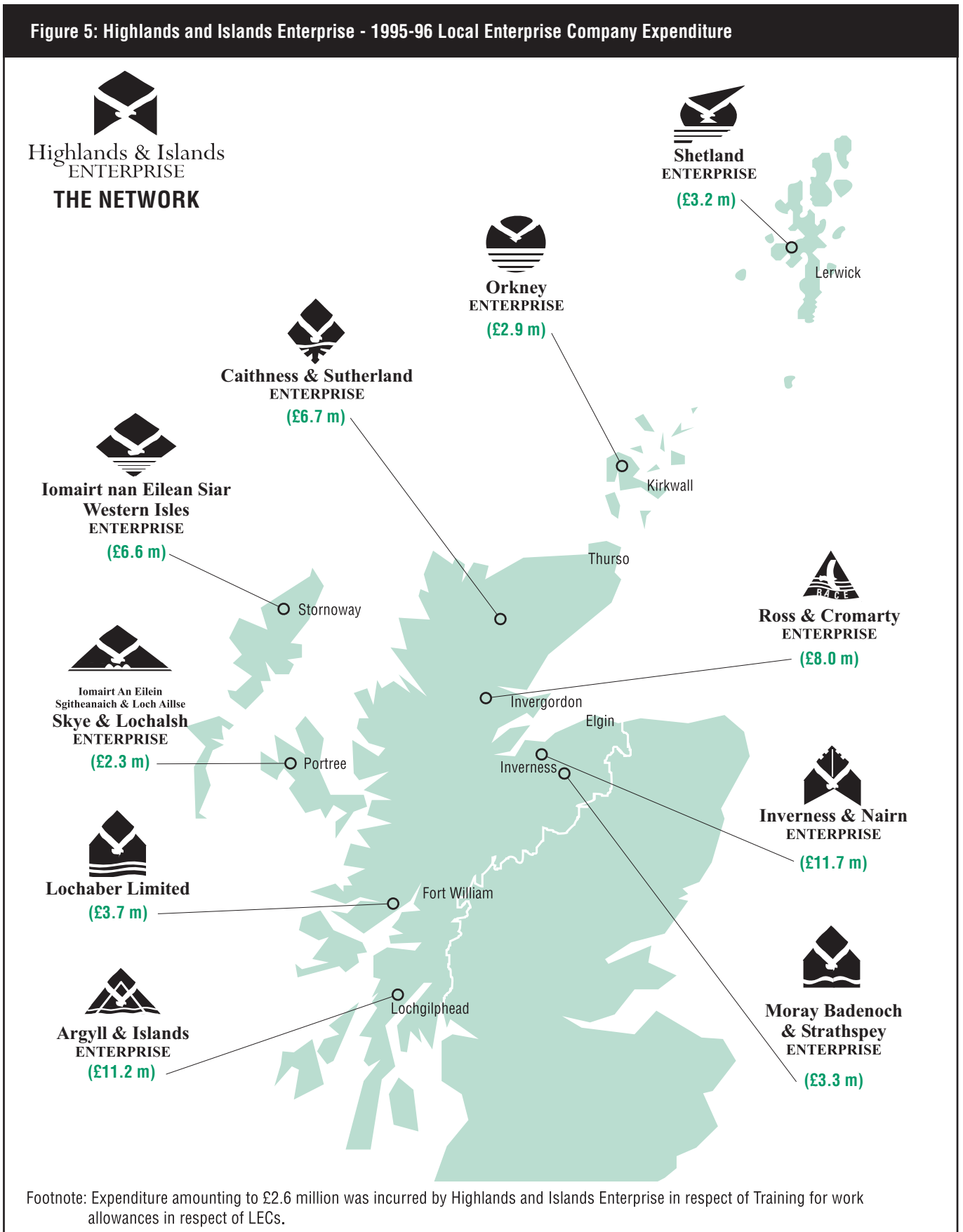
Figure 4: Highlands and Islands Enterprise network budget block allocation: 1995-96



\*Enterprise Blocks are given net of VAT and exclude irrecoverable VAT and tax payments.

- 1.8 Highlands and Islands Enterprise directly fund operations and projects of a broad or strategic nature which are undertaken in their area of responsibility. However, so that local knowledge and experience are involved in decisions concerning economic, social, environmental and training developments at a local level, Highlands and Islands Enterprise main activities, including government training programmes, are largely delivered through contracts with a network including 10 Local Enterprise Companies. These are private companies limited by guarantee with Boards of Directors drawn primarily from their local business community. In 1995-96, the ten Local Enterprise Companies spent 80 per cent of Highlands and Islands Enterprise funds (Figure 5).
- 1.9 The operational framework set out in the Management Statement provides Highlands and Islands Enterprise with a flexible mechanism through which they can discharge their duties and this has enabled them to develop their Strategy for Enterprise Development (Paras 1.3 and 1.4). The Statement recognises the need to judge Highlands and Islands Enterprise's overall success in terms of their statutory role and objectives, and provides a framework under which performance can be monitored. These include:
- As part of the annual planning process, specific performance measures and targets are negotiated and agreed annually between the Department and Highlands and Islands Enterprise in the context of the Highlands and Islands Enterprise Strategy and Operating Plan. Performance against the targets is to be reported by Highlands and Islands Enterprise in their Annual Report.
  - Highlands and Islands Enterprise are required to undertake a rolling programme of evaluations of the projects and programmes they fund. As part of the Operating Plan, Highlands and Islands Enterprise agree with the Department which programmes and projects they should evaluate, taking into account previous evaluations and lessons learnt from them.
- 1.10 Highlands and Islands Enterprise are subject to major comprehensive Policy, Finance and Management reviews by the Department at least once every five years (the Quinquennial Review). The general conclusion of the Prior Options Study of the first such review, which was published in December 1996, was that the delegation of decisions to local enterprise companies had worked well and that it was important to build on these strengths. In support of this general conclusion the report specifically concluded:
- a good start had been made by the Highlands and Islands Enterprise network in developing value for money and impact measures.

Figure 5: Highlands and Islands Enterprise - 1995-96 Local Enterprise Company Expenditure



- the current balance between central and local management, while still evolving, is an effective one.
- the rationale for the enterprise network functions, including addressing market failure, easing the long-term structural adjustment economy of the Highlands and Islands and promoting social and redistributive ends, remain valid.

1.11 Highlands and Islands Enterprise have received wide recognition as a progressive public agency. The committee on Standards in Public Life have commended them on initiatives, such as accountability through openness, which have provided a lead in the development of governance; they have been recognised for their excellence in customer service through the award of the Charter Mark; and their commitment to developing the skills and abilities of their staff is evident from their securing Investors in People status. In developing their strategy Highlands and Islands Enterprise increasingly seek to identify pioneering new approaches to rural development.

### Scope of the National Audit Office value for money examination

1.12 Since 1991 Highlands and Islands Enterprise have reported progress against their performance targets for expenditure programmes and activities. To gain assurance that these results represented a robust measure of the value for money achieved by Highlands and Islands Enterprise the National Audit Office undertook an examination of Highlands and Islands Enterprise performance measurement. The examination focused on how performance had been measured and whether reported results presented an accurate and complete assessment of achievements in the first five years of their operations. The National Audit Office's examination did not evaluate the overall economic impact of Highlands and Islands Enterprise's activities and expenditure.

1.13 This report therefore records the National Audit Office's findings on:

- Meeting targets and measuring Highlands and Islands Enterprise's performance (Part 2);
- The results of evaluations of Highlands and Islands Enterprise's expenditure programmes (Part 3).

## Methodology

- 1.14 The main evidence supporting the report is drawn from an examination of Highlands and Islands Enterprise performance measurement system, examination of project case files at Highlands and Islands Enterprise's and five Local Enterprise Companies, evaluations of three expenditure programmes commissioned by Highlands and Islands Enterprise and two further evaluations commissioned by the National Audit Office which were in Highlands and Islands Enterprise's rolling programme. The main features of the examination are summarised in Appendix 1.

## Part 2: Meeting targets and measuring performance

2.1 This part of the report examines performance measurement and reporting by Highlands and Islands Enterprise. The National Audit Office considered:

- how Highlands and Islands Enterprise report performance against targets and what results have been reported; and
- whether reported results provide an accurate and complete assessment of performance.

### Reported performance

### Measuring and reporting performance

#### Key point

- Highlands and Islands Enterprise have established a performance measurement framework to monitor progress for their functions based on detailed Operating Plans which reflect their strategic objectives.

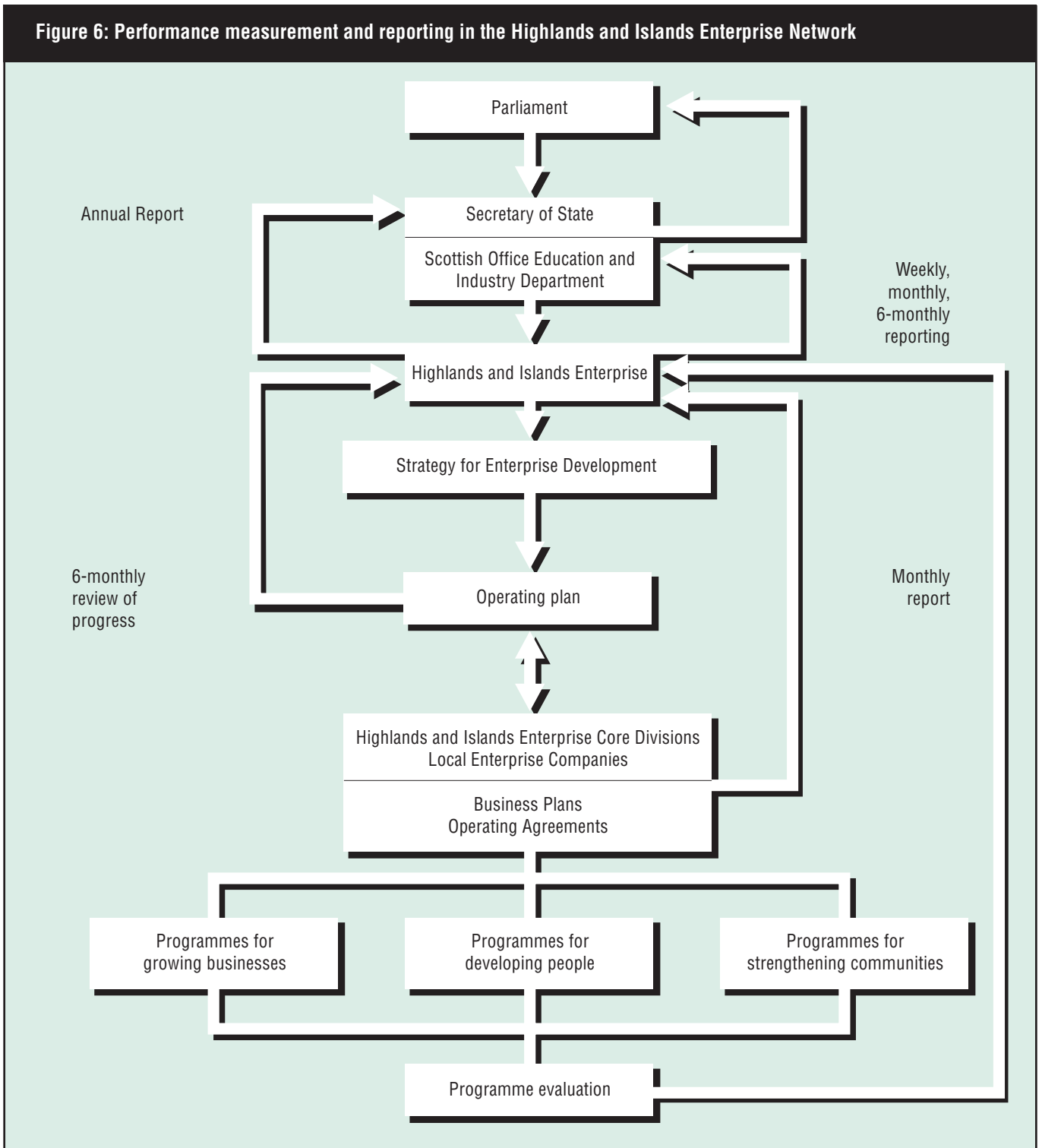
2.2 Highlands and Islands Enterprise operate within a performance measurement and reporting framework established by the Management Statement to provide regular monitoring of progress against annual targets for specific functions (Figure 6).

2.3 Each year, the Department approves a five year Operating Plan for Highlands and Islands Enterprise. The plan provides an operating base which the Department and Highlands and Islands Enterprise have agreed provides a structured approach to Highlands and Islands Enterprise planning down to programme level. It includes expected outturn for performance measures related to a range of Highlands and Islands Enterprise activities. Appendix 2 sets out the 41 measures included in the Operating Plan 1996-2000.

2.4 Targets for each of the measures are used by Highlands and Islands Enterprise and the Department to monitor performance. Highlands and Islands Enterprise formally report performance against these to the Department every six months and more frequently through the



Figure 6: Performance measurement and reporting in the Highlands and Islands Enterprise Network



medium of Board and other papers. The Department use the information to measure progress, consider flexibility in the allocation of funds between budget blocks, and inform policy formulation.

2.5 In their Annual Report, presented to Parliament, Highlands and Islands Enterprise report their outturn against targets for a selection of the performance measures (Figure 7). The number of performance measures reported upon rose from 25 in 1991-92 to 29 in 1994-95. For 1995-96 the Highlands and Islands Enterprise Annual Report recorded results in a new format which did not compare outturn against target in a single table although performance output for individual Local Enterprise Companies was recorded. A full table of outturn against target consistent with the Highlands and Islands Enterprise Strategy and Operating Plan will be published in the 1996-97 Annual Report.

### Targets and results

#### Key points

- Highlands and Islands Enterprise performance results show that they have been predominantly successful in meeting increasingly demanding targets for their activities;
- Targets are driven by the desire to set challenges for more efficient delivery, by negotiations between the Department and Highlands and Islands Enterprise, and by detailed management judgements of what could be achieved, and are supported by assessments of local economic conditions;
- Analysis of achievements against targets may benefit from a weighting system indicating performance results in terms of priorities.
- Meeting targets is influenced by factors within and outside the control of Highlands and Islands Enterprise; they are continuing to monitor progress in detail to identify areas where they can influence outturn.



HIE negotiate performance expectations based on risks and opportunities in local economies.

2.6 The Department approve Highlands and Islands Enterprise's annual operating plan in February each year. The expected outturn for performance measures contained in the plan reflects the outcome of detailed negotiations between Highlands and Islands Enterprise and the Local Enterprise Companies based on the latter's business plans.

2.7 Negotiations seek to balance the Local Enterprise Companies' performance expectations, based on the risks and opportunities prevailing in their local economy, with the Highlands and Islands Enterprise Board's desire to set incrementally more demanding challenges for more efficient delivery of expenditure programmes.

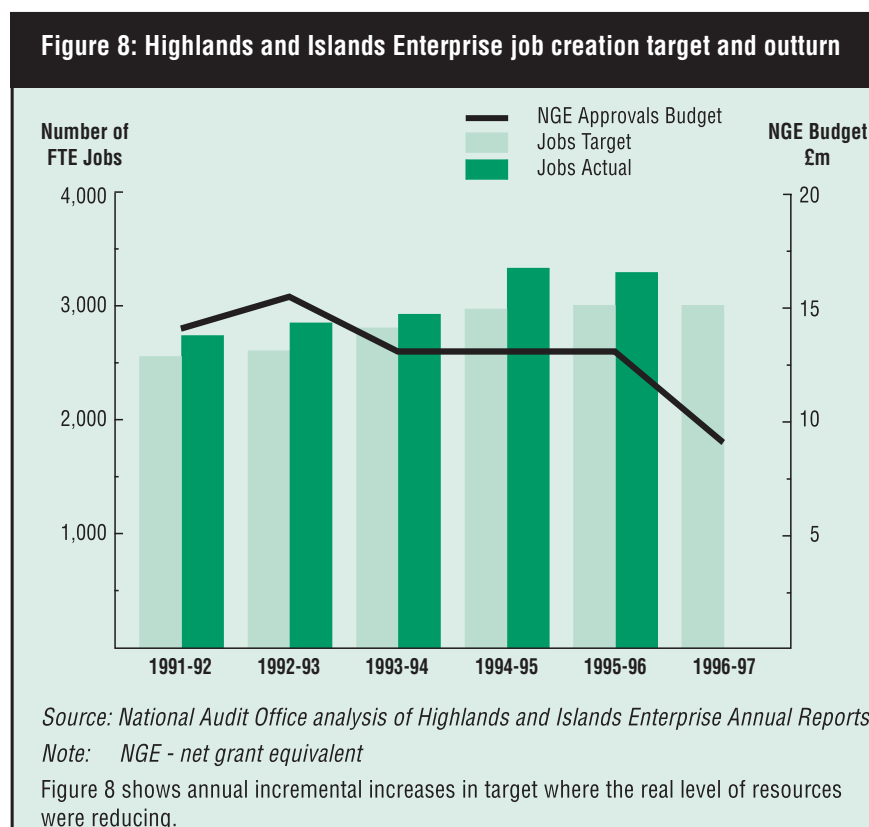
**Figure 7: Highlands and Islands Enterprise network: Summary of targets and results**

	1991-92		1992-93		1993-94		1994-95		1995-96	
	Target	Outturn	Target	Outturn	Target	Outturn	Target	Outturn	Target	Outturn
<b>Finance for business</b>										
Jobs created	2,550	2,733	2,600	2,844	2,800	2,921	2,900	3,383	3,000	3,317
Cost per job (£)	5,500	3,200	6,000	3,600	4,000	3,500	3,900	3,372	3,800	2,900
Value of approvals (£m)	20.0	18.6	20.0	20.4	20.0	19.1	17.5	21.2	20.0	17.6
Private investment (£m)	50.0	55.4	60.0	50.89	60.0	54.8	54.0	61.5	64.0	47.7
Leverage ratio	2.50	2.98	3.00	2.50	3.0	2.9	3.10	2.90	3.20	2.70
<b>Enterprise training</b>										
Business Start-Up (No. of new business)	216	402	469	451	413	414	390	336	419	352
BET (No assisted)	na	856	na	1,333	1,465	2,251	1,943	3,035	2,856	3,315
<b>Training for work</b>										
No. of starts	1,012	1,868	1,263	1,789	829	1,685	1,265	1,953	1,359	1,560
No. of trainee weeks	na	59,692	43,207	57,485	44,041	46,041	45,690	46,398	42,250	38,452
VQs achieved	na	91	247	96	214	380	378	597	383	512
POs achieved							285	293	304	356
<b>Youth training skillseekers</b>										
No. of starts	1,380	2,544	1,786	2,372	1,883	2,110	1,963	1,958	2,108	1,918
No. of trainee weeks	na	139,058	134,074	137,183	127,430	128,031	134,083	117,307	na	-
Milestones	-	-	-	-	-	-	na	787	4,411	4,006
VQs achieved	na	215	481	511	684	752	817	781	718	624
<b>Property provision</b>										
Factory floorspace (000's sq metres)	145.2	146.0	152.0	136.0	127.0	129.2	126.2	114.3	109.3	108.3
New floorspace (000's sq metres)	9.8	7.7	15.0	14.1	12.3	19.6	14.0	16.4	11.0	18.2
Floorspace sold (000's sq metres)	3.2	5.1	20.0	12.3	14.0	20.9	14.0	24.0	16.0	19.8
Receipts from sales (£m)	na	0.8	2.5	2.8	4.5	4.2	4.5	5.1	3.0	2.88
Total jobs housed	3,400	3,500	3,750	3,250	3,270	3,270	2,965	2,850	2,977	3,075
Vacancy Rate (%)	4.5	6.6	7.5	7.7	6.5	6.8	6.5	7.4	7.5	6.2
<b>Financial duty</b>										
Rents as % of capital cost	4.4	4.5	4.3	4.4	4.1	4.3	4.2	4.3	4.59	5.36
Surplus per 1,000 sq metres (£)	14,000	17,000	16,900	18,800	18,563	20,390	16,443	18,673	17,956	19,746
<b>Environmental renewal</b>										
Area treated (000 ha)	50	50	70	70	60	75	30	41	35	54
<b>Administration</b>										
No. of Network staff	325	312	295	295	295	295	290	295	290	290
Staff in HIE core (%)	68	67	58	49	48	48	47	48	46	48
Administration costs (%)	14.6	14.6	13.6	13.6	13.6	13.6	12.9	13.3	13.4	13.6
<b>Community action grants</b>										
No. of cases approved	-	-	-	-	-	347	310	421	320	493
Network contribution (%)	-	-	-	-	-	-	30	17	30	16

Source: Highlands and Islands Enterprise Annual Report and Accounts 1991-92 to 1995-96, and Operating Plan 1996-2000

Negotiations are informed by assessment by Highlands and Islands Enterprise of the potential capacity of Local Enterprise Companies to deliver individual targets. These include close scrutiny of the strength of the respective local economies and projected changes. In negotiating targets, the Department are advised by their own Economic Advice and Statistics Unit.

2.8 The National Audit Office examined targets set for Highlands and Islands Enterprise's two largest expenditure programmes. They found that since 1991-92 targets for Finance for Business and Training programmes demonstrated clear annual incremental increases in areas where the real level of resources applied were reducing (Figure 8). Because Local Enterprise Company targets for the coming 12 months are necessarily set before the outturn for the current year is known, the overall network target for some activities can be set at a level below the eventual outturn.



2.9 Since 1991-92 Highlands and Islands Enterprise have reported that they have met around 70 per cent of their Operating Plan targets, 75 per cent in 1995-96. An analysis of these results showed that the extent to which targets were exceeded was significantly greater than the extent to which performance fell short of targets. Targets have been met for Training, Environmental Renewal, Community Action

Grant and Administration. For the Finance for Business programme targets have been met for job creation and cost per job though not for private sector leverage. For Property, target achievement has varied year to year. An important issue in evaluating performance against targets is that of weighting the results in terms of priorities. Highlands and Islands Enterprise recognise the need to undertake, with National Audit Office support, further work to develop a weighting system in consultation with the department.

- 2.10 Meeting targets is influenced by factors both within and outside the control of Highlands and Islands Enterprise. For example, the Finance for Business programme is largely demand driven and therefore susceptible to changes in the prevailing economic climate. And success in meeting Property programme targets is influenced by changes in the size of the property portfolio as property disposals are difficult to predict.
- 2.11 Highlands and Islands Enterprise monitor progress against their targets using monthly performance returns from Local Enterprise Companies. Monitoring allows Highlands and Islands Enterprise to identify those areas where outturn shows significant variation from that expected and to investigate the circumstances. Highlands and Islands Enterprise also use the monitoring process to provide a base to inform decisions on the re-allocation of expenditure to cover major changes to plans. These can arise where new, significant projects, with benefits appropriate to Highlands and Islands Enterprise strategic objectives, emerge during the year which will require more funds (and increased targets) for one Local Enterprise Company and reduced allocation (and lower targets) for other Local Enterprise Companies.

### **Criteria for assessing performance measurement**

- 2.12 The National Audit Office examined whether the reported results for Highlands and Islands Enterprise provide an accurate and complete view of their achievements by comparing the performance results presented in the Annual Report with six criteria identified by the National Audit Office as associated with public sector performance measurement systems. These comprise three key criteria - whether measures are relevant, bounded, and comprehensive and three technical criteria - whether measures are valid, reliable and consistent. Appendix 3 shows the source, definition and interpretation of the six criteria.

## **Accuracy and completeness of performance measurement**

## Relevant, bounded and comprehensive

### Key points

- Highlands and Islands Enterprise's performance measurement framework meets most of the features associated with the key criteria;
- Highlands and Islands Enterprise recognise the need to monitor progress against strategic objectives and have been developing appropriate high-level measures;
- In developing that mechanism Highlands and Islands Enterprise should continue to give priority to developing measures of impact.
- They should also continue their efforts to develop a small number of key measures which reflect their strategic objectives.

### Relevant

- 2.13 A relevant performance measurement system should provide information to its target audience in a form which they can understand. The performance measures reported by Highlands and Islands Enterprise reflect measures (such as numbers of jobs created) normally used to record economic development achievements. In that respect the performance framework provides the target audience with information with which they are familiar.
- 2.14 A relevant system should also provide a clear indication of the extent to which an organisation is meeting its strategic objectives. This is difficult where an agency such as Highlands and Islands Enterprise is seeking to tackle economic, community, environmental and training objectives in conjunction. Since publication of their first Strategy for Enterprise Development in 1991, Highlands and Islands Enterprise have addressed the measurement of achievement against strategic objectives in a variety of ways, including the use of demographic and macro-economic indicators. They have recently commissioned research into income levels in the Highlands and Islands.
- 2.15 In introducing revised strategic objectives in January 1996, Highlands and Islands Enterprise recognised the need to further develop the link between strategic objectives and performance reporting. Their Annual Report for 1995-96 therefore reported

outturn for individual Local Enterprise Companies in terms of the three strategic priorities of growing businesses, developing people and strengthening communities.



Cost per job measures the average Finance for Business expenditure per job expected to be created or retained.

- 2.16 Individual performance measures should also be relevant. To the extent that they provide an indicator of important areas of activity within each of Highlands and Islands Enterprise's programmes, the performance measures recorded in the Annual Report are relevant. But individual measures cannot always provide a complete indicator of the costs and benefits associated with all areas of expenditure. Thus the cost per job measure in the Finance for Business programme provides a sound indicator of the level of expenditure approved for each job expected to be created from that programme in that year. But it cannot provide a complete picture of the cost incurred by Highlands and Islands Enterprise in influencing job creation. Where there are other costs involved the fuller cost could only be calculated after a complex assessment of how the Finance for Business programme and other programmes such as Property have contributed to job creation.

#### **Bounded**

- 2.17 To ensure information focuses on the most significant factors a performance measurement system should concentrate on a small number of key indicators.
- 2.18 Highlands and Islands Enterprise operate a diverse range of programmes and activities. Their performance framework has been established to monitor progress against functional activities which results in a number of intermediate measures. This offers an opportunity to aggregate and condense information into key indicators of strategic objectives. In developing their new strategy Highlands and Islands Enterprise have been refining the framework to address these issues. The National Audit Office have provided positive input which has been used in these refinements.

#### **Comprehensive**

- 2.19 To be comprehensive, a performance measurement system should cover all main services and strike a balance between economy, efficiency and effectiveness measures.
- 2.20 The performance measures used by Highlands and Islands Enterprise directly address economy and efficiency and provide indirect evidence of the impact of expenditure over time necessary to assess effectiveness. Jobs created, vocational qualifications achieved and area of floorspace completed are useful intermediate measures, but they need to be combined with longer-term macro-economic indicators and more qualitative assessment, to



HIE are extending the range of information available to assess effectiveness through research on income levels in the Highlands and Islands.

enable judgements to be made on overall effectiveness. Cause and effect in economic development are difficult to establish. Highlands and Islands Enterprise have addressed this problem by producing information on a range of economic indicators (eg unemployment, prices, etc) and regular commentary on longer-term progress in their Annual Report. They have also been able to trace the impact of specific Finance for Business programme expenditure on local employment levels. Highlands and Islands Enterprise have now commissioned independent research (in partnership with the European Objective 1 programme) on income levels in the Highlands and Islands which should provide another key macro-economic indicator.

### Valid, reliable and consistent

#### Key points

- The National Audit Office found that, Highlands and Islands Enterprise measures focused on levels of activity, most of the reported information had been consistent since 1991 and that 21 of 27 reported measures were based on systems covered by financial audit.
- Where information was not drawn directly from audited systems, the National Audit Office found that reported results reflected information available on project files.
- The National Audit Office also found: some 80 per cent of expected Finance for Business jobs are actually created comparing favourably with other agencies' published results; scope to review the validity of area treated as a measure of Environmental Renewal; Highlands and Islands Enterprise have taken action to validate reported outturn on jobs housed; and because the diverse range of Projects and Marketing activity makes it difficult to devise comprehensive performance measures, Highlands and Islands Enterprise need to consider aggregating projects into groups with specific objectives linked to their revised strategy.



## Valid and reliable

- 2.21 Performance results recorded in the Annual Reports of non-departmental public bodies are not normally required to be subject to external independent validation. Therefore, to establish the validity and reliability of the performance framework, the National Audit Office examined the basis of outturn information reported in Highlands and Islands Enterprise's Annual Report. They found that twenty one of the twenty-seven outturns reported against targets were derived either directly or indirectly from Highlands and Islands Enterprise's accounting systems and that there were no reported outturns for Projects and Marketing activities as a whole. Outturns such as numbers of cases, levels of expenditure and movements in the size of the property estate were derived from financial transactions which were subject to audit. Similarly, performance outturn for the training programme was based on the delivery of training weeks and achievement of qualifications which were also subject to audit testing. As a result, the National Audit Office considered that reasonable assurance was available that outturn for these measures was based on reliable systems.
- 2.22 The National Audit Office therefore focused their examination of validity and reliability on the six performance measures where reported outturn was based on systems which were not subject to external audit examination (Figure 9) and on Projects and Marketing activities where no outturn was reported.

**Figure 9: Outturn reported by Highlands and Islands Enterprise for the six performance measures not based on systems subjects to external audit examination**

	1991-92	1992-93	1993-94	1994-95	1995-96
<b>Finance for Business</b>					
Jobs created/retained	2733	2844	2921	3383	3317
Cost per job (£)	3200	3600	3500	3372	2900
Leverage ratio	2.98	2.50	2.9	2.9	2.7
<b>Environmental Renewal</b>					
Area treated (ha)	50	70	75	41	54
<b>Property</b>					
Total jobs housed	3500	3250	3270	2850	3075
Vacancy rate	6.6	7.7	6.8	7.4	6.2

*Source: Highlands and Islands Enterprise Annual Report*

- 2.23 The results of the National Audit Office examination are set out in Appendix 4. The National Audit Office found that performance information not drawn from audited systems reflected information on project files. The examination also found:
- Highlands and Islands Enterprise assess expected jobs created in a different way to other economic development agencies. The proportion of jobs actually created, at 80 per cent of those expected, compares favourably with other agencies published results.
  - Because many environmental improvement projects funded by Highlands and Islands Enterprise relate to small projects, they should review, as part of their restructuring of their funding, the validity of using hectares improved as a measure of performance.
  - Highlands and Islands Enterprise have commissioned an independent evaluation of numbers of jobs housed which has validated their reported results.
  - Because the diversity of Projects and Marketing activity makes it difficult to devise comprehensive performance measures, Highlands and Islands Enterprise measure performance at the project level. The introduction of Highlands and Islands Enterprise's revised strategy provides an opportunity to aggregate projects to provide an improved link between Projects and Marketing activity and strategic sectoral objectives.

### Consistency

- 2.24 Apart from training, where Highlands and Islands Enterprise have followed Great Britain wide initiatives to move from measuring training weeks to the achievement of vocational qualifications and positive outcomes, the performance framework has consistently used the same measures since 1991.
- 2.25 Performance measurement, particularly for economic development and related activities, is complex and still evolving. Agencies throughout the world are seeking to refine their methods in this difficult area.
- 2.26 Highlands and Islands Enterprise have recognised that their performance measures largely concentrate on the quantification of programme activity (such as numbers of jobs created, cost per job and private sector leverage) and need to provide a more direct link with achievement of their strategic objectives. In 1994, they reviewed progress against the strategic objectives they set in 1991.

## Highlands and Islands Enterprise review of performance framework

The review concluded that the measurement of achievement against strategic objectives is inherently difficult, however, overall there appeared to be good progress. The review recognised that there remained areas where further improvements in economic indicators would be desirable but highlighted difficulties that existed in achieving them.

- 2.27 Highlands and Islands Enterprise's revised strategy recognises the need to further develop links between strategic objectives and performance measurement. This will help Highlands and Islands Enterprise demonstrate effectiveness in terms of economic impact, assist resource allocation against strategic objectives, help to identify best practice in Local Enterprise Companies and maintain Highlands and Islands Enterprise's place amongst the leaders in the development of a performance framework for economic development activities. Highlands and Islands Enterprise recognise, however, that many of the difficulties which arise in measuring performance stem from problems in identifying cause and effect and from the long-term nature of results and impacts associated with economic and social development. The National Audit Office will continue to assist Highlands and Islands Enterprise in the development of appropriate measures.

## Part 3: Evaluating the results of expenditure programmes

### Background

- 3.1 This part of the report examines the outcome of evaluations undertaken to review the effectiveness of the expenditure programmes funded by Highlands and Islands Enterprise.
- 3.2 The Management Statement requires Highlands and Islands Enterprise to: identify ways of improving the impact of their activities; and to address their objectives, achievements, cost effectiveness, and management of programmes. This is to be achieved through a rolling programme of evaluation
- 3.3 Since 1991 Highlands and Islands Enterprise have commissioned consultants, chosen for their experience in assessing economic development programmes, to undertake evaluations of three of their expenditure programmes and activities. In addition, the National Audit Office supplemented these with evaluations of two further activities already in Highlands and Islands Enterprise rolling programme covering 30 per cent of Highlands and Islands Enterprise's actual expenditure in 1995-96. Together these evaluations cover some 65 per cent of Highlands and Islands Enterprise's expenditure since 1991 (Figure 10). In addition Highlands and Islands Enterprise have undertaken evaluations of a series of individual projects which they have funded (eg initiatives to assist the Cowal Peninsula and to improve telecommunications in the Highlands).

**Figure 10: Highlands and Islands Enterprise evaluations**

Evaluation	Date	Expenditure covered £	Undertaken by
Environmental Renewal	May 1994	£4-5 million per annum	PIEDA
Training Development Projects	May 1994	£2 million per annum	PA Cambridge Economic Consultants (PACEC)
Finance for Business	February 1995	£17 million per annum	PA Cambridge Economic Consultants (PACEC)
Property Programme	April 1996	£12 million per annum	PIEDA
Projects and Marketing Programme	April 1996	£11 million per annum	PIEDA

## Results of evaluations

### Key points

- Evaluations of Environmental Improvement, Training Development and Finance for Business found that the three programmes were generally cost effective, and represented good value for money. In response to the recommendations of the three evaluations Highlands and Islands Enterprise have taken action to improve their arrangements for the allocation of funds, project appraisal and project monitoring; the use of benchmarks; and the identification and dissemination of best practice across the Enterprise network.
- The National Audit Office's evaluation of the Property Programme found that the programme has made a substantial economic impact by providing property where the private sector would not invest. The Department recognise that the rates of return achieved by this programme would be lower than those normally set by the Treasury for this type of investment, reflecting the difficulty of achieving those rates in remote areas. This implies a net cost to the economy met by the Exchequer. The evaluation estimated the cost was of the order of £5,000 to £7,800 per job accommodated. Highlands and Islands Enterprise are considering extending appraisal to benchmark investment decisions against other economic measures.
- Projects and Marketing expenditure represents a significant proportion of Highlands and Islands Enterprise expenditure. There are no aggregate objectives for Projects and Marketing because activity funded by the expenditure is diverse and contributes to Highlands and Islands Enterprise's overall strategic objectives. This inhibits any overall evaluation. The National Audit Office's evaluation found that projects generally achieved good or fair value for money and identified scope to improve control and monitoring through aggregation, improved project appraisal and greater analysis of activity. Highlands and Islands Enterprise are addressing each of these issues in developing a new computerised project control system.



The Environmental Renewal programme brings land into economic, community or leisure use.

### Environmental renewal

- 3.4 The Environmental Renewal programme aims to bring derelict, neglected or unsightly land or buildings into economic, community or leisure use. Since 1991, Highlands and Islands Enterprise have spent £25 million on this programme and have reported that 290 hectares of land have been treated.

- 3.5 The results of the evaluation are outlined in Figure 11 and Appendix 5. It concluded that most projects were carried out in a cost-effective way and represented good value for money. However, the evaluation highlighted a need for better prioritisation and targeting of expenditure against strategic objectives and improved guidance on project appraisal.

**Figure 11: Environmental Renewal Programme (1994)**

**Terms of reference:**

To evaluate the effectiveness (against programme objectives) and efficiency (ie cost benefits) of the HIE Network's Environmental programme.

*Main findings:*

- Most projects were cost-effective and represented value for money;
- There was a trend towards smaller projects;
- Project types unlikely to produce direct economic benefit were growing;
- LECs lacked clear environmental priorities;
- General concern that devolution of budgets to LECs led to a loss of regional strategic perspective;
- Current programme funding levels were appropriate.  
(See Appendix 5).

*Outcome*

HIE have responded by introducing revised project appraisal procedures and a new system for prioritising between projects, with affect from 1996-97 around 50 per cent of the available funds will be allocated to LEC's for large stratigic projects following competitive bidding.

- 3.6 Highlands and Islands Enterprise have responded by introducing new arrangements to ensure the allocation of environmental improvement funds are targeted towards larger projects more likely to provide economic benefit, and by revising their project selection and appraisal procedures.

### Training development

- 3.7 Highlands and Islands Enterprise's Training Development activities, the discretionary element of the Training programme, aim to improve the quality, availability and volume of training and learning opportunities in the Highlands and Islands. Since 1991, Highlands and Islands Enterprise have spent £10 million on these activities.
- 3.8 The results of the evaluation are outlined in Figure 12 and Appendix 6. It concluded that the broad range of benefits achieved from the assistance compared favourably with other Government initiatives and provided favourable value for money. But the evaluation identified the need for clearer appraisal priorities, more active dissemination of best practice and improved monitoring.

**Figure 12: Training Development Programme (1994)**

**Terms of reference**

To evaluate the effectiveness and efficiency of the Training Development Programme, and to suggest improvements in its operation.

*Main findings:*

- Each £10,000 spent achieved nine trainees trained, 1,325 hours of training, six companies assisted, three people qualified, and a range of other benefits which compared favourably with other Government initiatives;
- Additionality averaged 57 per cent; benefits of the programme also included adding value to existing projects;
- The programme had relatively modest targets and little hard output;
- Financial monitoring was thorough, but monitoring was not systematic;
- Improved output/benefit measurement would lead to better appraisal;
- The programme was sound and could justify more resources. (See Appendix 6)

*Outcome*

HIE have developed guidelines setting out best practice for conducting appraisals and setting project objectives and targets. Greater use is now made of benchmarking and the dissemination of best practice.

3.9 Highlands and Islands Enterprise have since issued new guidelines on appraisal, the setting of project objectives and targets, and on the use of benchmarks and the dissemination of best practice.



The Finance for Business programme helps private businesses to achieve growth in employment and income.

### Finance for Business

3.10 The Finance for Business programme aims to help private business to increase its contribution to economic development by achieving growth in employment and income. Since 1991, Highlands and Islands Enterprise have spent £85 million on this programme and have reported that 15,200 jobs have been created or retained at an average cost per job of £3,300.

3.11 The results of the evaluation are outlined in Figure 13 and Appendix 7. It concluded that the programme was cost-effective in achieving employment objectives compared with other, similar schemes operated elsewhere. The evaluation indicated a need for improvements in case investigation and greater targeting of assistance towards strategic priorities.

3.12 In response Highlands and Islands Enterprise have improved links with other programmes including a pilot account manager concept and making links with Investors in People a specific criterion for case papers. Finance for Business Training events are attended by staff in other programme areas and new guidance on aftercare and monitoring was issued in July 1994.

**Figure 13: Finance for Business Programme (1995)**

**Terms of reference:**

To evaluate the effectiveness (against programme objectives) and the efficiency (ie cost versus benefits) of the FFB programme and to assess appraisal and monitoring of cases.

*Main findings:*

- The programme created 7,695 direct and indirect jobs in 2<sup>1</sup>/<sub>4</sub> years;
- The average cost per job was £2,969;
- Cost-effectiveness varied by area and by business sector;
- Dead-weight averaged 28 per cent;
- The programme also benefited business strategy, product and development strategy;
- The programme supported viable business development and should be continued.

*(See Appendix 7).*

*Outcome*

HIE have improved links with other programmes including a pilot account manager concept and making links with Investors in People a specific criterion for case papers. Finance for Business training events are attended by staff in other programme areas and new guidance on aftercare and monitoring was issued in 1994.



The Property programme assists business development by providing land, factories and offices.

### Property programme

3.13 The Property programme aims to assist business development through the provision of land, factory and office units. Since 1991, Highlands and Islands Enterprise have spent £50 million on this programme and have built over 75,000 square metres of new factory and other floorspace.

3.14 The results of the evaluation are outlined in Figure 14 and Appendix 8. It concluded that Highlands and Islands Enterprise's property activities made a substantial impact by providing rented accommodation in areas where the private sector would not invest. The Department require Highlands and Islands Enterprise to earn the best practicable financial return from their property programme. Financial duty performance targets are agreed each year with the Department. They include an average rate of return based on annualised rents as a percentage of capital costs over a rolling 3 year period (an average of 4.59 per cent was set in 1995-96). Highlands and Islands Enterprise also take a systematic approach to investment appraisals of individual property projects. The Department recognise that the return achieved by Highlands and Islands Enterprise would be below the eight per cent discounted cash flow normally set by Treasury for public sector investments in quasi-commercial activity reflecting the difficulty of achieving such rates of return in remote areas. This, however, implies a net cost to the economy met by the Exchequer. The evaluation identified discounted cash flow returns ranging from 2.1 per cent to



6.2 per cent, an average of 3.25 per cent, for all property projects analysed. The evaluation estimated that the cost of providing the properties completed by Highlands and Islands Enterprise represented between £5,000 and £7,800 for each job accommodated.

**Figure 14: Property Programme (1996)**

**Terms of reference**

To assess the economic impact of the programme and its cost effectiveness; and how projects are appraised and monitored.

*Main findings*

- Property activity is fully consistent with and supportive of network strategy.
- The HIE property programme makes a substantial impact, providing property to create and safeguard jobs in areas where the private sector will not invest.
- Because building costs are high and market rents are relatively low returns on property are low. The average cost per job accommodated ranged between £5,000 and £7,800.
- Project appraisal necessarily rests on professional judgement and Highlands and Islands Enterprise are considering extending appraisal to include other economic measures.
- The lack of investor interest in the area means that HIE will require to continue its landlord function. (See Appendix 8).

*Outcome*



Projects and marketing activity research and promote opportunities and enhance the marketing of products.

3.15 Highlands and Islands Enterprise appraisal of property projects involves substantial input from staff at their headquarters in Inverness and at Local Enterprise Companies. Decisions to seek the Board’s approval to proceed with projects are taken on the merits of each case. Highlands and Islands Enterprise are considering extending appraisal to benchmark investment decisions against other economic measures.

**Projects and marketing activities**

3.16 The Projects and Marketing activities aim to research and promote development opportunities and to enhance the marketing of products from the Highlands and Islands. They cover a broad range of activities: Industrial Marketing, Inward Investment, Communications, Knowledge Information and Telecommunications, Aquaculture, Tourism and Social and Community projects. Since 1991, Highlands and Islands Enterprise have spent £60 million on these activities.

3.17 The results of the evaluation are outlined in Figure 15 and Appendix 9. It concluded that there was a range of disparate projects funded by Projects and Marketing headings within Highlands and Islands Enterprise's expenditure block. This inhibited any overall evaluation of costs, benefits and value for money. Analysis of a sample of individual projects found they generally contributed to overall strategic objectives and achieved good or fair value for money.

**Figure 15: Projects and Marketing activities (1996)**

**Terms of reference**

- To assess the economic impact of the Projects and Marketing activities and their cost effectiveness; and how projects are appraised and monitored.

*Main findings*

- Projects and marketing operates as an expenditure grouping within the Enterprise block serving HIE's overall strategic objectives;
- The heterogeneity of projects funded by Project and Marketing inhibits any overall evaluation;
- Most projects examined were additional, met their specific objectives and provided good or fair value for money;
- Action being taken by Highlands and Islands Enterprise will address scope for improvement in project appraisal and monitoring.  
(See Appendix 9).

*Outcome*

In April 1996 HIE introduced a computerised monitoring and control system for Projects and Marketing. The system addresses many of the points raised by the consultants. HIE believe the new system, in conjunction with HIE's guidance manual for Projects and Marketing activity, offers a sophisticated, empowerment-based approach to project appraisal. The new system enables HIE to analyse Projects and Marketing by sector and strategic objective as well as by expenditure heading.

HIE also consider that their commitment to training - as evidence by Investors in People recognition. Personal Development plans for individuals, appraisal training for case officers, and on-the-job training by senior officers provides a comprehensive package of training in appraisal techniques.

3.18 In April 1996 Highlands and Islands Enterprise introduced a new computer system to improve control of Projects and Marketing activity. The new system should enable Highlands and Islands Enterprises to analyse activity against strategic objectives and records created by the system will further improve project appraisal and monitoring.

## Overall assessment of Highlands and Islands Enterprise Programme evaluations

### Key points

- Evaluations identified significant impact, cost effectiveness and generally good value for money;
- Highlands and Islands Enterprise are taking action to further improve the measurement of achievement; and should consider aggregating Projects and Marketing activities;
- Where evaluations have indicated relevant general improvements for managing programmes, such as prioritisation of resources and project appraisal, Highlands and Islands Enterprise should use the opportunity to apply them in other programmes.

3.19 The National Audit Office examined the extent to which the results of programme evaluation presented an overall view of Highlands and Islands Enterprise impact at project, programme and strategic levels. They based their analysis on the key features of evaluation required by the Management Statement: Objectives; Achievements; Cost-Effectiveness; and Management Improvements.

### Meeting objectives

- 3.20 The evaluations of the Environmental Renewal, Training Development and Finance for Business programmes identified robust links between project activity and project and programme objectives.
- 3.21 Generally objectives were clearly set out and projects contributed to those objectives, although, because of their heterogeneous nature the Projects and Marketing activities need to be aggregated in line with Highlands and Islands Enterprise's new strategy in order to demonstrate their links with sectoral objectives.
- 3.22 Evaluations emphasised the need to concentrate programme activity on projects contributing most to Highlands and Islands Enterprise strategic objectives. Action taken by Highlands and Islands Enterprise in response to the evaluations of Environment, Finance for Business and Training programmes as well as through the recent introduction of a new control system for Projects and Marketing will go some way to address these concerns. And the review of the performance measurement framework noted in paragraphs 2.25 to 2.27 above should also lead to better links between strategic objectives and performance indicators and targets.

### Measuring achievements

- 3.23 The evaluations identified significant impact, cost effectiveness and value for money. Achievements in programmes such as Finance for Business and Training Development have been compared favourably with schemes elsewhere in the United Kingdom and, in the case of the Property programme, the evaluation demonstrated that it meets a need which would not be met from elsewhere.
- 3.24 Highlands and Islands Enterprise have implemented improvements in the Environment, Finance for Business and Training Development programmes to provide a clearer link between appraisal decisions and strategic priorities. Improving the appraisal of other economic measures in property projects should contribute to the improved evaluation of this programme.
- 3.25 For Projects and Marketing activities, where achievements are currently most difficult to establish, Highlands and Islands Enterprise have agreed to consider aggregating many of the project activities having now set specific objectives in line with their revised strategy.

### Establishing effectiveness

- 3.26 On the Environment, Finance for Business, Training Development, and Projects and Marketing programmes and activities, consultants identified projects where good or fair value for money has been achieved.
- 3.27 On Property, judgements of value for money are complex, because although projects appear to be high cost and produce low financial returns, Highlands and Islands Enterprise are the only available provider of commercial property in the area.
- 3.28 Overall, the consultants concluded that achievements on Finance for Business and Training Development evaluations compare favourably with similar programmes elsewhere. But on the Environment, Property and Projects and Marketing programmes and activities, it was more difficult to link projects directly to strategic objectives, though good value for money was acknowledged.

### Improving management

- 3.29 Where programme evaluation recommended improving project appraisal and monitoring, and better targeting and prioritisation of resources, Highlands and Islands Enterprise have taken action to achieve this.

# Appendix 1

## The main features of the National Audit Office examination

Areas examined	Methodologies employed
<p><b>On meeting targets and measuring performance</b></p> <ol style="list-style-type: none"> <li>1. Identifying the output and performance measures used by HIE to measure performance.</li> <li>2. Assessing whether HIE have developed appropriate output and performance measures and whether they use targets as a means to achieve improvements in performance and value for money.</li> <li>3. Whether HIE have met their agreed objectives and targets.</li> <li>4. Whether adequate systems are in place to ensure that data is consistent, accurate and reliable.</li> </ol>	<p><b>Review of systems for measuring performance</b></p> <p>The National Audit Office examined the systems used by Highlands and Islands Enterprise to measure performance. Examination included:</p> <ul style="list-style-type: none"> <li>• evaluation of sources of information used to set targets and record progress for the Highlands and Islands Enterprise network;</li> <li>• analysis of the performance measurement reported in Highlands and Islands Enterprise Annual Reports since 1991;</li> <li>• comparison of the performance measurement and reporting framework operated by Highlands and Islands Enterprise against best practice criteria drawn up by Professor Peter Jackson, Director of Leicester University's Management Centre.</li> </ul> <p><b>Case examination and analysis</b></p> <p>The National Audit Office conducted case examinations at Highlands and Islands Enterprise and five Local Enterprise Companies. Examination included:</p> <ul style="list-style-type: none"> <li>• Finance for Business cases approved between 1992-93 and 1994-95: fifty cases were selected from each financial year. The sample was drawn from five of the ten Local Enterprise Companies and matched broadly the pattern of approvals in terms of expenditure and level of employment expected to be created or retained, though there was an emphasis on larger cases where more difficult judgements may be required from case officers;</li> <li>• the 100 of these projects approved in 1992-93 and 1993-94 were examined additionally, to compare jobs created against the number expected at project approval. Projects approved in 1994-95 were excluded from this calculation as many were still in progress and had not yet had sufficient time to develop, making premature any assessment of employment impacts;</li> <li>• fifty environmental renewal cases approved between 1993-94 and 1994-95. The sample was drawn from five of the ten local enterprise companies.</li> <li>• Local Enterprise Company records relating to assessments of jobs housed and vacancy rates for 1994-95 at five Local Enterprise Companies.</li> </ul> <p style="text-align: right;"><i>continued ...</i></p>

Areas examined	Methodologies employed
<p><b>On the results of evaluations</b></p> <ol style="list-style-type: none"> <li>1. To what extent HIE review their activities at a programme level to assess their performance and contribution towards objectives, and how they have responded to the evaluations undertaken.</li> <li>2. How the network identifies and appraises projects and schemes and whether individual projects and schemes meet their objectives and the economic impact of the projects and marketing activities.</li> <li>3. Whether individual property projects meet the objectives and economic impact of the <b>property</b> programme.</li> </ol>	<p><b>Reviews of programme evaluations undertaken by consultants</b></p> <p>The National Audit Office reviewed:</p> <ul style="list-style-type: none"> <li>• the methodology adopted and the outcomes of programme evaluations commissioned by Highlands and Islands Enterprise into their Environmental Renewal, Training Development and Finance for Business programmes;</li> <li>• how Highlands and Islands Enterprise had responded to the findings.</li> </ul> <p><b>Evaluations of programmes</b></p> <p>The National Audit Office commissioned PIEDA economic consultants to assess the operation and achievements of the Property and Projects and Marketing programmes and activities. They:</p> <ul style="list-style-type: none"> <li>• carried out detailed examination of all 21 property projects completed by Highlands and Islands Enterprise since 1991-92 and interviewed property managers at HIE and LECs;</li> <li>• examined 51 Projects and Marketing projects drawn from Highland and Islands Enterprise;</li> <li>• conducted interviews with HIE/LEC managers and where possible with the recipients of the assistance.</li> </ul> <p><b>Analysis of evaluation reports</b></p> <p>The National Audit Office analysed the findings recorded in programme evaluations commission by Highlands and Islands Enterprise and those commissioned by the National Audit Office using criteria set for evaluations established in the Department's Management Statement.</p>

## Appendix 2

### The 41 measures and indicators included in Highlands and Islands Enterprise Operating Plan 1996-2000

	Expected outturn	Outturn
<b>Finance for business</b>		
Jobs created/retained	3,000	3317
Cost per job (£)	3,800	2900
Indirect jobs created	900	480
Value of approvals (£m)	20.0	17.6
Private investment (£m)	64.0	47.7
Leverage ratio	3.20	2.70
No. of cases approved	1,200	916
<b>Property provision</b>		
Jobs created/retained	400	410
Factory floorspace (sq m)	109,290	108,300
Office floorspace (sq m)	6,500	9,000
Total floorspace (sq m)	115,790	117,600
New factory f'space (sq m)	11,000	13,650
Cost per sq m (£)	645	618
New office f'space (sq m)	2,500	4,600
Cost per sq m (£)	875	856
Total new f'space (sq m)	13,500	18,250
Floorspace sold (sq m)	16,000	19,800
Receipts from sales (£m)	3.00	2.88
Factory jobs housed	2,620	2,575
Jobs per 000 sq m	24	24
Office jobs housed	357	500
Jobs per 000 sq m	55	54
Total jobs housed	2,977	3,075
Vacancy rate (%)	7.5	6.2
<b>Financial duty</b>		
- Pt 1 (%)	4.5	5.36
- Pt 2 (£ per 000 sq m)	17,000	18,344
<b>Investors in people</b>		
No. of commitments	555	261

	Expected outturn	Outturn
		<i>continued ...</i>
<b>Inward investment</b>		
FFB applications	14	8
Jobs created	150	648
<b>Environmental renewal</b>		
Area treated (ha)	35	54
Area returned to use (%)	60	60
<b>Youth training</b>		
No. of SVQs achieved/100 leavers	44	36
No. of Output Points	2,983	3,207
<b>Training for Work</b>		
No. of SVQs achieved/100 leavers	29	31
Positive Outcomes/100 leavers	28	22
<b>Community Action Grants</b>		
No. of cases approved	320	493
Jobs created	20	19
Network contribution (%)	30	16.3
<b>Administration</b>		
No. of Network staff	290	290
Staff in HIE core (%)	46	48
Admin costs (%)	13.4	13.6



## Appendix 3

### National Audit Office criteria for performance indicators

The National Audit Office, supported by Professor Peter Jackson of Leicester University, reviewed literature on the intrinsic qualities of good performance measurement systems and identified a number of criteria. A performance measurement regime should be:

- **relevant.** The information provided must be relevant to the uses of the target audiences, within appropriate timescales and in a form which they can understand. That will normally mean there should be clear links with the stated aims and objectives of the organisation; and that performance outside the control, influence or legitimate interests of the audiences will be excluded.
- **bounded.** The information provided must centre around a small number of the most significant performance factors, concentrating on a few key indicators, or else there may be too much information to absorb or act on.
- **comprehensive.** Within the boundaries adopted, all main services or aspects of performance must be covered - not necessarily individually, but as part of the indices or aggregated statistics or reports produced. A suitable balance should be struck between economy, efficiency and effectiveness aspects of performance, including quality of service.

In addition there are a number of more technical criteria covering measurement aspects. Indicators should be:

- **valid.** The indicators and measures advanced must validly represent the aspect of performance they claim to indicate or measure. This is particularly important where groups of indicators are used, or where proxies are employed. And where the environment is changing rapidly the indicators may have to change to reflect new circumstances.
- **reliable.** The information must be sufficiently accurate and dependable for the purposes envisaged. Measurement should not be overly complex and must be capable of independent audit.

- **consistent.** Definitions of indicators should be consistent over time, and between units or bodies. This is necessary to ensure the comparison of like with like, and to prevent games-playing by suppressing or creating indicators according to the story they tell.

Some of these criteria pull in opposite directions: there is a trade-off between having a tightly bounded and comprehensive system, or one that is fully up-to-date and valid yet consistent with past data. It is important, therefore, in applying these criteria to a real system to investigate the significance of any apparent defects in terms of the costs and benefits of potential remedies - before advancing any criticism.

Once developed, indicators should be used not only to assess performance. They should be used to promote accountability at all levels of the organisation by the cascading of key corporate targets down into operational levels, with managers clearly assigned responsibility for each. Where targets are missed, explanations should be sought and corrective action taken.

## Appendix 4

### **National Audit Office examination of validity and reliability of six performance measures not derived from systems subject to audit**

#### **Finance for business**

- 1 Because economic impact cannot be properly measured until some time after assistance has been provided, employment creation figures always contain an element of forecasting. In common with other economic development agencies, Highlands and Islands Enterprise report the number of jobs expected to be created or retained from the financial assistance they provide. However, they report expected jobs from the time projects are approved, while other agencies report performance achievements only when they begin to make payments to the projects. Highlands and Islands Enterprise told the National Audit Office that there was no ideal method for recording estimated jobs at this stage. The alternative method adopted by others counts jobs irrespective of the extent of the payment that has been made.
- 2 The National Audit Office found that of 4,100 Finance for Business projects approved by Highlands and Islands Enterprise in their first four years 140 had been cancelled before any assistance was paid. In a further 48 projects, over 50 per cent of financial assistance had been withdrawn. Highlands and Islands Enterprise reported a total of 11,881 jobs expected to be created or retained as a result of projects approved. Had they estimated the number of jobs on the basis of projects which went ahead as planned, they would have recorded up to 491 (three per cent) fewer expected jobs than those actually recorded in their annual reports.
- 3 Results reported for cost per job and leverage depend on assessments made during project approval. The National Audit Office examined 150 projects in five Local Enterprise Companies and found that the information held was consistent with the benefits expected and with reported performance.
- 4 The National Audit Office also examined 100 projects and found that the number of actual jobs reported by Local Enterprise Companies for those projects represented some 80 per cent of the number expected at project approval. This result is consistent with

Highlands and Islands Enterprise's own 1993 survey of actual jobs achieved and with information published on other economic development agencies in the United Kingdom.

### Environmental renewal

- 5 In common with other development agencies Highlands and Islands Enterprise use the hectares of land treated as a measure of the performance of their environmental renewal activities. The National Audit Office examined 50 projects undertaken by Local Enterprise Companies. They found that:
- many environmental renewal projects relate to small areas of land or involve improvements to buildings where the area improved is not an adequate measure of performance;
  - in 24 of the cases the companies did not report that any area had been treated.

#### **Examples of Environmental Renewal projects where hectares renewed was not an appropriate indication of benefits achieved.**

**Case A** involved the refurbishment of a stately home as a tourist attraction. The total cost was £420,000 of which £96,000 came from the LEC under the Finance for Business programme, with a further £30,000 in environmental grant for landscaping works.

**Case B:** The LEC paid £100,000 towards street improvements including lighting and painting.

**Case C:** LECs run Small Works Programmes as part of their Environmental activities. These are run in conjunction with the local authorities and in the case of one LEC, took up £170,000 of their budget.

- 6 Environmental improvement projects are frequently designed to produce an impact on areas much larger than those treated. Highlands and Islands Enterprise have not standardised a means of measuring this impact, and they therefore assess impact after detailed analysis of each case on its merits. The National Audit Office found that in the 26 of 50 projects where Local Enterprise Companies had claimed areas treated, Highlands Islands Enterprise rejected the claims for five of the cases, totalling 48 hectares.

- 7 In 1996-97 Highlands and Islands Enterprise introduced new procedures for allocating environmental renewal improvement funds. Half the budget is now top-sliced by Highlands and Islands Enterprise to create a fund into which LEC's bid for larger strategic projects, with the remaining 50 per cent of the budget being allocated to the LEC's according to their geographical needs. The new procedures are designed to ensure, as far as possible, environmental improvement is targeted towards projects which must address Highlands and Islands Enterprise's strategic objectives and provide economic benefit.

### Property

- 8 Highlands and Islands Enterprise report jobs housed in their factories and offices on the assumption that three jobs are housed in each 100 square metres of the property estate. They do not record actual jobs, but their assumption is regularly reviewed by Local Enterprise Companies. However, the National Audit Office found that companies used different bases for reviewing the assumption. For 19 property units completed since 1991, Highlands and Islands Enterprise reported 348 jobs housed; but the National Audit Office found that actual numbers employed in those units totalled 570. Highlands and Islands Enterprise have reviewed the basis used for assessing jobs by commissioning an external market research report in November 1996. The report demonstrates the validity of jobs housed information reported by Highlands and Islands Enterprise.
- 9 Highlands and Islands Enterprise survey their property portfolio annually to determine vacancy rates. The National Audit Office found that reported results provided an accurate view of the proportion of factories and offices which are vacant.

### Projects and marketing

- 10 Since 1991-92, Highlands and Islands Enterprise have spent some £60 million (16 per cent of total expenditure) on their Projects and Marketing activities. During that period however, their annual reports have not provided any aggregate performance measures to indicate the extent to which activity has achieved expectations.
- 11 Projects and Marketing funds a wide range of activities. An evaluation of Projects and Marketing activity commissioned by the National Audit Office (Para 3.16) confirmed that the expenditure covered a diverse range of activities which required a wide range of different types of measures to record achievement.

- 12 The evaluation concluded that monitoring of achievements would be improved by aggregating projects and setting specific objectives in line with Highlands and Islands Enterprise's revised strategy. Highlands and Islands Enterprise introduced a new computer system in April 1996 which will allow projects to be aggregated in this way.

**Cases illustrating the diverse range of projects and marketing activities**

**Case study A - Inward Investment Campaign**

A series of initiatives designed to attract inward investment projects to the Highlands and Islands. Activities included joint promotions with Locate in Scotland, direct marketing and advertising and the use of a public relations firm.

**Case study B - Support for Scottish Salmon**

HIE, and its predecessors body, the HIDB, have a long-standing involvement in the industry providing support to a range of activities. HIE support is channelled through the Scottish Salmon Board and the Scottish Salmon Growers Association and contributes to a marketing programme and a technical growth research programme.

**Case study C - Scottish Forestry Contractors**

A joint project with Scottish Enterprise and other organisations to establish a Scottish Forestry Contractors Association, bringing together various sectors of the industry to act as a leading co-ordinating body, promoting and developing training, skills and standards.

## Appendix 5

### Evaluation of Highlands and Islands Enterprise Environment Improvement Programme

#### Environmental renewal (1994) by Pidea Economic Consultants

##### Terms of reference

The primary objective was to evaluate both the effectiveness (the extent to which the programme was meeting its own objectives) and the efficiency (assessing the various environmental benefits relative to costs) of the HIE Network's environmental programme.

##### Main findings

- a) Most projects appeared to be carried out in a cost-effective way and represented good or acceptable value for money.
- b) Since 1991-92 there had been a trend towards smaller cases approved under LECs' delegated powers.
- c) Project types which were growing in numbers are unlikely to produce direct economic development benefits.
- d) LECs lacked clear environmental priorities in bringing projects forward and many projects are identified and implemented in partnership with local authorities.
- e) With increasing numbers of projects falling within LEC delegated authority the ability of HIE to maintain a strategic overview of the programme was diminishing.
- f) The present level of funding from the programme was appropriate, but there was not a strong case for expansion.

### Consultants' recommendations

The consultants made a number of recommendations with the aim of improving project performance and ensuring that the programme contributed effectively to HIE strategic objectives. The recommendations included:

- the adoption of explicit strategic priorities by LECs;
- improved guidance on appraisal with particular regard to benefit assessment;
- top-slicing the budget to ensure that a substantial element is available for strategic projects appraised by HIE;
- an enhanced role for HIE in setting priorities; and
- the adoption of an improved prioritisation system.

### Outcome

HIE have responded by introducing revised project appraisal procedures and a new system for prioritising between projects. With effect from 1996-97 around 50 per cent of the available funds will be allocated to LECs for large strategic projects following competitive bidding.



# Appendix 6

## Evaluation of Highlands and Islands Enterprise Training Development Programme

### Training development (1994) by PA Cambridge Economic Consultants

#### Terms of reference

The primary objective was to evaluate the effectiveness and the efficiency of the HIE Network's Training Development programmes. A secondary objective was to make recommendations as to how best HIE should maximise the benefits of its training expenditure and to suggest a manageable system to prioritise between projects.

#### Main findings

- a) Having allowed for displacement, PACEC found that for every £10,000 of Network expenditure, the following benefits were achieved:
- 9 trainees trained
  - 1325 hours of training given
  - 8 adults advised/counselled
  - 5 people attending course/seminar
  - 6 companies assisted
  - 3 people achieving qualifications
  - 1.5 trainees finding employment
  - 0.4 trainees going on to further training
  - 0.2 job years supported by training delivery
  - 0.1 jobs created/saved in companies assisted

- b) This broad package of benefits compared favourably with other Government initiatives elsewhere.
- c) Additionality varied across the wide range of projects but averaged 57 per cent. Highest additionality was found in those projects which were devised to achieve the strategic objective of developing the infrastructure for training and learning. Lower additionality was found in projects designed to boost demand. Benefits also included adding value to existing projects.
- d) Training development programmes will also result in HIE and the LEC's adding value to project specification.
- e) The Operating Plan listed relatively modest targets for numbers of projects and little by way of hard outputs for the Training Development programme.
- f) Financial monitoring was thorough but there was no systematic and common framework for monitoring activities and intermediate outputs.
- g) An improved system of identifying and measuring outputs/benefits would lead to better appraisal of projects and would also improve interaction between HIE and LECs.
- h) The programme had a sound rationale and given the increased need for flexibility in local labour markets, more resources devoted to this programme could be justified.

### Consultants' recommendations

The consultants made a number of recommendations including:

- the establishment of clearer priorities at the appraisal stage of project design in light of local need and true additionality of projects;
- specification in the Operating Plan of more detailed outputs expected from the programme;
- designing future projects to ensure high additionality and to build on previous experience elsewhere;
- more active involvement of HIE in the dissemination of best practice; and
- improvement of monitoring arrangements especially with respect to outputs

### **Outcome**

HIE have developed guidelines setting out best-practice for conducting appraisals and setting project objectives and targets. Greater use is now made of benchmarking and the dissemination of best-practice.

# Appendix 7

## Evaluation of Highlands and Islands Enterprise Finance for Business Programme

### Finance for business (1995) by PA Cambridge Economic Consultants

#### Terms of reference

The primary objective of the study was to evaluate the economic impact of the programme, including assessing effectiveness (the extent to which the programme was meeting objectives) and efficiency (evaluating the various economic benefits against their costs). The consultants were also required to comment on HIE procedures for appraising and monitoring FFB cases.

#### Main findings

- a) The programme created 7695 jobs in the two and a quarter years covered by the study period and this exceeded stated targets.
- b) 77% of these jobs were all year, and three-quarters of these were full time.
- c) The average Net Grant Equivalent cost per job was £2,969 and this is relatively cost-effective compared with broadly similar programmes elsewhere.
- d) Cost-effectiveness varied by area and by sector, being higher in fragile areas, employment deficit areas and Inverness, and in the industrial and service sectors.
- e) Dead-weight averaged 28 per cent but was lowest (8 per cent) among projects with the highest levels of assistance.
- f) As well as benefits for employment, the programme had positive impacts on businesses through business strategy, product development and quality.
- g) In general the programme has worked to provide financial support for viable business development, the rationale for the programme remained relevant and the programme should be continued.

### Consultants' recommendations

The consultants made a number of recommendations including:

- more effective project appraisal techniques should be developed to minimise dead-weight and displacement and increase cost-effectiveness, particularly in traditional sectors;
- where possible, greater emphasis should be placed on projects in the industrial and service sectors which are more cost-effective and which offer greater scope for sectoral diversification;
- the time taken to respond to companies should be accelerated and companies should be made aware of the processes involved and the progress of their application; and
- the progress of projects should be more actively monitored. The process should ensure that progress on assisted projects is regularly updated, particularly with regard to project employment levels and characteristics.

### Outcome

HIE have improved links with other programmes including a pilot account manager concept and making links with Investors in People a specific criterion for case papers. Finance for Business training events are attended by staff in other programme areas and new guidance on aftercare and monitoring was issued in July 1994.

# Appendix 8

## Evaluation of Highlands and Islands Enterprise Property Programme

### Property (1996) by Pidea Economic Consultants

#### Terms of reference

The consultants were tasked with carrying out: an assessment of the economic impact of the Property programme and of its cost-effectiveness; consideration of how property projects contribute to strategic objectives; advice on the importance of property to economic development; and on assessment of options to meet property needs.

#### Main findings

- a) HIE property activities are consistent with and supportive of Network Strategy.
- b) The HIE property programme makes a substantial impact by providing rented property in areas where the private sector would be very unlikely to invest. Most of the jobs accommodated in HIE factories would not have been created in the areas concerned had the properties not been provided.
- c) The consequence of HIE investing in areas which would not attract the private sector is that the returns are very low. In a sample of recently completed projects the average cost per job accommodated was assessed between £5,000 and £7,800.
- d) Appraisal rests heavily on professional judgements. Although there was no evidence that poor projects were being selected, more formal appraisal of project costs and benefits would assist decision making and evaluation.
- e) Although HIE plays a critical role in the market for rented premises, the jobs accommodated are a small proportion of employment in the area.
- f) The lack of investor interest in the area and the limited scope to encourage others to invest is likely to mean that HIE will require to continue its landlord function as long as it continues to promote economic development by providing property in markets where investment is, essentially, not viable in commercial terms.

### **Outcome**

HIE have introduced a revised property management information system which will further improve their operation of the property programme and will consider extending appraisal of property projects to cover other economic benefits.

## Appendix 9

### Evaluation of Highlands and Islands Enterprise Projects and Marketing activities

#### Projects and marketing (1996) by Pidea Economic Consultants

##### Terms of reference

The consultants were tasked with: analysing trends within projects and marketing activities in relation to HIE strategic objectives; carrying out an assessment of the economic impact and cost-effectiveness of Projects and Marketing; and considering on how the Network appraises and monitors projects compared with best practice.

##### Main findings

- a) Projects and Marketing did not operate as a programme with overall aims, strategic objectives and operational objectives to drive resource allocation and project selection but as an expenditure block drawn upon to fund projects serving HIE's wider strategic and sectoral objectives;
- b) the character of the programme and the heterogeneity of the activities funded inhibited the concept of an overall evaluation of the activities in terms of costs and benefits or Value for money;
- c) an analysis of a sample of projects indicated that most projects funded by the programme were additional, met their specific objectives and provided good or fair value for money; others had an indirect impact on economic activity - eg by providing information which will support further projects;
- d) while HIE were already addressing weaknesses in project appraisal and monitoring through enhanced guidance information and a new computer system, these could be improved further by the development of more formal appraisal and enhanced staff training.

##### Outcome

In April 1996 HIE introduced a computerised monitoring and control system for Projects and Marketing. The system addresses many of the points raised by the consultants. HIE believe the new system, in



conjunction with HIE's guidance manual for Projects and Marketing activity, offers a sophisticated, empowerment-based approach to project appraisal. The new system enables HIE to analyse Projects and Marketing by sector and strategic objective as well as by expenditure heading.

HIE also consider that their commitment to training - as evidence by Investors in People recognition. Personal Development plans for individuals, appraisal training for case officers, and on-the-job training by senior officers provides a comprehensive package of training in appraisal techniques.