REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

HC 214
SESSION 2009–2010

30 MARCH 2010

Regenerating the English Regions: Regional Development Agencies' support to physical regeneration projects

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Regenerating the English Regions: Regional Development Agencies' support to physical regeneration projects

Ordered by the House of Commons
to be printed on 29 March 2010

Report by the Comptroller and Auditor General
HC 214 Session 2009–2010
30 March 2010

London: The Stationery Office
£14.35

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.

Amyas Morse
Comptroller and
Auditor General

National Audit Office

26 March 2010

Government support for physical regeneration can help to promote economic growth and to reverse economic, social and physical decline in areas where market forces will not do this alone. Regional Development Agencies are expected to help target and deliver regeneration effectively in their regions.

Printed in the UK for the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
P002326957 03/10 65536

Contents

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This report can be found on the National Audit Office website at www.nao.org.uk/Regional-Regeneration-2010

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Summary

1 Government support for physical regeneration can help to promote economic growth and to reverse economic, social and physical decline in areas where market forces will not do this alone. Regional Development Agencies (RDAs) are expected to help target and deliver regeneration effectively in their regions. The Agencies are sponsored by the Department for Business, Innovation and Skills (The Department). The eight RDAs outside London, which this report covers, have together spent approximately £5 billion on physical regeneration projects since 1999.

2 Physical regeneration is one of five tasks undertaken by the RDAs, alongside: promoting business efficiency, investment and competitiveness; promoting employment; enhancing development and application of skills; and contributing to sustainable development.

3 This report examines how well the RDAs support physical regeneration projects and, in particular, how well: priorities are determined; funds are targeted; projects are appraised for value for money; outcomes are evaluated; and lessons are learned. The report covers the eight Regional Development Agencies outside London. (In London, the London Development Agency is accountable to the Mayor of London and audited by the Audit Commission).

Key findings

On agreeing priorities and targeting investment

4 **Prioritising is challenging given the many conflicting pressures and objectives with which the RDAs are tasked.** RDAs are tasked with economic development within their regions, but must support a number of initiatives that have a spatial element, are primarily addressed at tackling deprivation, and which are funded by the Department for Communities and Local Government. These objectives may not always be readily compatible when deciding on potential investments.

5 **RDAs do not have direct influence over all central government funding in a region, making an integrated approach to maximising value for money more challenging.** For example, the North West region received £72 billion of public sector funding between 2006 and 2009 for economic development and regeneration. Of this, £45 billion falls explicitly within the scope of the Regional Economic Strategy (a document prepared by each RDA setting out the policies, aims and objectives for their respective regional economies over the next ten to 15 years), including the budgets of the RDA, the Learning and Skills Councils, Higher and Further Education, neighbourhood renewal, rural, transport and economy-related social protection budgets.

However, more than one third (£27 billion) of the funding is only partially within the remit of the Regional Economic Strategy, including spending on housing, environment protection, school and pre-school education, arts, and sport.

6 **The RDAs must work with a large number of local bodies and partnerships to plan investment.** In the case of the North East, the RDA needs to align the plans of 12 Local Authorities, four sub-regional partnerships, and three economic or urban regeneration companies that together spend several billions of pounds each year. Public agencies and private companies to whom we spoke most often identified the benefits of RDA involvement in physical regeneration as being: the additional capacity and expertise they brought; and their ability to bring together and broker agreement between other regional, sub-regional and local agencies.

7 **For every pound of RDA spending, an estimated additional £2.80 is secured from other bodies of which £1.51 is from the private sector.** While some of this spending may have occurred without the RDAs' involvement, their engagement can ensure that regionally important projects proceed with more speed and confidence than they otherwise might. The added value of the RDAs' strategic role and support to partners in delivering physical regeneration projects is an important benefit to the regions, but it is difficult to measure.

On the impact of physical regeneration

8 **Before 2009, RDAs reported to Parliament on the number of gross jobs they had created. The number of net additional jobs created by RDAs provides a more accurate reflection of their impact on the regional economy.** RDAs reported that between 2002 and 2007 from all activities they had helped to create or protect 413,000 gross jobs. Departmental guidance requires RDAs to report those jobs "directly attributable" to the contribution made by the RDA to the project, regardless of whether the jobs were additional or net to the regional economy. Attributing jobs that would have happened anyway or which have transferred from elsewhere within the region to the activity of the RDAs does not provide an accurate reflection of their impact on regional growth. An independent evaluation of RDA expenditure suggested the RDAs had helped to create 375,000 gross jobs from 2002 to 2007, but that only 178,000 jobs were additional. On this basis the public sector cost of each of the net jobs created so far would be £60,000. This will, of course, be sensitive to the final number of jobs generated and to future costs.

9 **RDAs are now expected to contribute to a Gross Value Added outcome measure, rather than report on progress against particular target outputs such as jobs created.** Many RDAs were slow to evaluate the impact of their work on Regional Gross Value Added. RDAs had to implement a three-year programme of work to ensure that they had evaluated on a consistent basis the impact of all their interventions by the end of 2008. By December 2007, RDAs had only evaluated 40 per cent of the projects, although some RDAs such as the East Midlands had done more. The Department appointed external consultants to provide additional capacity, so that by December 2008 nearly 70 per cent of the projects had been evaluated on a consistent basis.

10 Using the measure of jobs created by RDAs to estimate generated Gross Value Added, there is evidence that physical regeneration projects have helped to generate growth. Up until 2008, physical regeneration projects subject to independent evaluation were estimated to have generated Gross Value Added of £3.30 for every £1 spent. Many of these projects will not realise their full benefits for many years, and independent evaluation suggests a potential return over their full lives of £8 for every pound spent. Evaluation also shows that RDA intervention involving more direct support to business represents a better return both in the short term (£7.30 per pound spent) and long-term (£11.60 per pound spent). Physical regeneration projects generate other social, economic and environmental benefits that are more difficult to measure, such as building investor confidence and tackling squalor and deprivation.

On supporting the projects with the greatest returns

11 While independent evaluation shows that, overall, physical regeneration projects have added to regional growth, there is a considerable range in the success of individual projects both within individual agencies and between types of intervention. The RDAs are unable to demonstrate that they have consistently chosen the right projects to maximise economic growth and value for money because of:

- weaknesses in the quality of project appraisals, including over-optimism about the potential benefits of projects, a lack of clarity about the appropriateness of public sector intervention, and deficiencies in technical and financial analyses;
- the failure of most agencies to use robust and consistent internal evaluation of past projects to develop benchmarks against which to measure the value for money of particular proposals brought forward for support; and
- the skewing of RDA expenditure to the last few months of the year, which creates risks to adequate oversight and control.

Prioritising regeneration activities during the current economic difficulties

12 During the current economic difficulties, approximately 15 per cent of physical regeneration projects involving the private sector have stalled or slowed because developers have been unable to obtain finance or because of uncertainty over future yields. For many projects, developers have sought a reduction in quality or an increase in density, and the RDAs are providing additional public funding. The pattern of reduced demand has not, however, been universal. For example, there has been an increase in demand for start-up premises in the East of England from those people recently made redundant and wishing to start their own businesses.

13 RDAs face a challenge in flexing their plans to respond to the current economic difficulties without losing the capacity to deliver the potential longer-term benefits of physical regeneration for their economies. RDAs have reviewed their corporate plans in the light of the current economic difficulties, and also in response to a reduction of £300 million in their funding allocation for 2010-11 in response to changed government spending priorities.

14 RDAs are concentrating their funding on projects that they consider have the greatest chance of generating jobs in the short term, and have brought forward for start in 2009-10 some £100 million of projects previously planned for 2010-11. The RDAs told us that their current capital allocations provide for a limited number of new, large-scale physical regeneration schemes, but that they will mostly be concentrating on re-profiling and managing those projects that have already been approved. We will be reporting later this year on how effectively each of the RDAs has reprioritised in response to the current economic difficulties and budgetary pressures.

Conclusion on value for money

15 An independent estimation of regional economic wealth generated as a result of jobs created by the RDAs' support to physical regeneration shows benefits of £3.30 per £1 of actual costs incurred. On this basis, it is reasonable to conclude that the RDAs' activities have been beneficial overall.

16 However, we are unable to conclude that the regional wealth benefits actually generated were as much as they could and should have been, and are therefore value for money. Weaknesses which, in many cases, undermined the RDAs' ability to make decisions and set priorities to maximise regional economic wealth do not support such a positive conclusion. These weaknesses included poor project economic analysis and appraisal, pervasive optimism bias, and weak evaluation. In particular, most RDAs were unaware, until 2009, of the types of projects which yielded the best and most enduring benefits.

Recommendations

17 To provide additional assurance on value for money, the RDAs need to: further improve their forecasting; develop appropriate benchmarks to inform future decisions and make these decisions on the basis of appropriate comparisons of correctly assessed costs and benefits; and use evaluation to learn lessons and help identify the type and spread of projects that contribute most to their objective of increasing regional economic growth.

Regional Development Agencies should:

a wherever possible adopt an approach so that projects and programmes with the highest benefits are identified collectively by the region, and partners are then commissioned to deliver them;

b build the technical capacity and expertise required to improve the financial and economic analysis of their appraisals;

c make sure appraisals include adequate risk and sensitivity analysis;

d consistently apply factors to counter optimism bias to all appraisals of benefits following Treasury guidance;

e smooth expenditure throughout the year to reduce the risks associated with year-end expenditure; and

f use evaluation consistently to provide benchmarks against which to judge the likely benefits of future projects and help guide decision making about the projects to support.

The Department should:

g require Regional Development Agencies to ensure in any future reporting to Parliament on job creation that they include information on jobs that are additional; and

h require Regional Development Agencies to report on how they have ensured their interventions are designed to maximise regional growth, demonstrated through robust evaluation and appraisal processes.

Part One

Introduction

The need for physical regeneration

1.1 Physical regeneration is an essential component of a coordinated approach to regeneration, contributing as it does to the achievement of wider social, economic and environmental goals. **Figure 1** describes the problems that physical regeneration can address, while **Figure 2** sets out the main types of project that public agencies carry out.

Figure 1
Barriers to regional market success requiring physical regeneration

- Closure of historic industrial base and subsequent disinvestment from the private sector, as experienced by, for example, former shipyards.
- Low land values and high abnormal costs such as for decontamination or remediation, often of ex-industrial sites.
- Increase in derelict and vacant land following decline of traditional industries such as former coalfield areas.
- Derelict premises and decaying physical fabric, particularly in seaside towns, with associated social economic problems that mirror the decline.
- Poor economic performance contributing to a lack of social cohesion and long term prospects.
- Growth points that require new and sustainable infrastructure.

Source: National Audit Office

Figure 2
Different types of physical regeneration projects

Bringing land back into use – bring mostly vacant or derelict land back into economic use as offices, business parks, leisure facilities, and housing.

Improving public areas and facilities – focus on improving the quality of the built environment, streetscape and the quality of physical infrastructure, including transport and community infrastructure projects.

Boosting the image of the region – construct and/or improve tourist facilities.

Land remediation – decontaminate ex-industrial sites and restore derelict land.

Cross-cutting regeneration initiatives – large, multi-faceted programmes that cut across social and economic objectives.

Source: National Audit Office

Role of Regional Development Agencies in regeneration

1.2 The Government believes that successful economic development and regeneration requires appropriate devolution to the regional, sub-regional and local levels. **Figure 3** sets out the main bodies delivering physical regeneration at regional and local levels.

1.3 Regional Development Agencies (RDAs), sponsored by the Department for Business, Innovation and Skills (the Department), have a statutory responsibility to promote economic development and regeneration in their regions. A map of the regions and their RDA can be found at Appendix 1. This report covers the eight Regional Development Agencies outside London.[1]

1.4 RDAs help to deliver physical regeneration in their regions by:

- helping to identify regional priorities for physical regeneration;
- building agreement within the region with other public and private bodies to support priorities;
- funding and managing their own projects;
- partially funding projects in partnership with Local Authorities or other public agencies;
- working with private sector partners through agreements or, more formally, through joint ventures;
- funding other delivery organisations such as Urban Regeneration Companies; and
- providing capacity, expertise or advice to others.

1.5 We estimate that the RDAs outside London have together spent over £5 billion on physical regeneration since 1999. In 2007-08, the RDAs spent approximately £830 million (about 40 per cent of their total budget) on physical regeneration, of which £700 million was spent on capital investment and £130 million on design, management and other administration. Approximately 5,000 physical regeneration projects were ongoing during 2007-08.

1.6 Each RDA has a different approach to regeneration, reflecting the needs of their region. For example, up until recently, the South East of England Development Agency had retained a major role in direct delivery of physical regeneration projects and has targeted much of its regeneration investment towards delivering flagship regeneration projects such as the Universities of Medway at Chatham Maritime. Some Regional Development Agencies, such as One North East, have supported physical regeneration by passing funds to sub-regional partnerships of Local Authorities and other agencies such as the Northumberland Strategic Partnership. Many Regional Development Agencies have established partnerships with the private sector to help exploit land and other property they have bought.

1 In London, the London Development Agency is accountable to the Mayor of London and audited by the Audit Commission.

Figure 3

Main bodies delivering and the main strategies governing Physical Regeneration

Level	Strategies	Bodies
National		Departments, Homes and Communities Agency, Highways Agency
Regional	Regional Economic Strategy; Regional Spatial Strategy; Integrated Regional Strategy	Regional Development Agency, Government Office, Regional, Assemblies, Regional Housing Boards
Sub Regional	Multi Area Agreements, Master Planning Sub Regional Partnership Strategies	Urban Regeneration Companies, Local Authority Partnerships, Economic Development Companies, Sub Regional Partnerships
Local	Local Development Frameworks, Local Strategic Framework	Local Authorities, Local Strategic Partnerships, Housing Associations

Source: National Audit Office

Part Two

Agreeing physical regeneration priorities and targeting investment

2.1 Physical regeneration is an important element of the Regional Economic Strategies that determine how public bodies in each region will approach economic development. Each RDA was required to produce a Regional Economic Strategy setting out the policies, aims and objectives for its regional economy covering ten to 15 years. The latest Regional Economic Strategies were updated during the period April 2006 to March 2008. RDAs have also developed Strategy Implementation Plans detailing the specific actions required to deliver the strategy, with each action assigned a lead organisation within the region responsible for coordinating action.

2.2 RDAs must work closely with many other organisations to deliver the objectives of the Regional Economic Strategy. **Figure 4** shows how the North West region has tackled physical regeneration in its Regional Economic Strategy and Strategy Implementation Plan. Physical regeneration is a major part of 18 of the 45 actions within the Strategy, but the Northwest Development Agency has direct responsibility for delivering just one of these 18 actions – to "deliver the designated strategic regional sites".

Regional Development Agencies have consulted widely in developing their physical regeneration plans

2.3 Departmental guidance to RDAs advises that the success and effectiveness of the Regional Economic Strategy will depend largely on the degree of support that the Strategy commands in the region. Nearly three-quarters (72 per cent) of the organisations we surveyed considered that their RDA consulted with them appropriately in creating a shared vision for physical regeneration.

Prioritisation is challenging, but most local organisations believe that regional plans for physical regeneration fit the needs of their regions well

2.4 The majority of the organisations we surveyed thought Regional Economic Strategies fitted the needs of their regions well. Two thirds of respondents agreed that their RDA's physical regeneration planning 'fully or largely fits' with the overall needs of the region, with a further 30 per cent stating that plans 'somewhat fit' and 2 per cent saying they do not fit at all.

Figure 4
The main elements of the Regional Economic Strategy and Strategy Implementation Plan for the North West region (as updated in 2008)

The document sets out a vision for the development of the North West region:

"A dynamic, sustainable international economy which competes on the basis of knowledge, advanced technology and an excellent quality of life for all, where:

1 Productivity and Enterprise levels are high in a low carbon economy, driven by innovation, leadership excellence and high skills;

2 Manchester and Liverpool are vibrant European cities and, with Preston, are key drivers of city-regional growth;

3 growth opportunities around Crewe, Chester, Warrington, Lancaster and Carlisle are fully developed;

4 Key Growth Assets are fully utilised (Priority Sectors: the Higher Education and Science Base, Ports/Airports, Strategic Regional Sites, the Natural Environment especially the Lake District and the Rural Economy);

5 the economies of East Lancashire, Blackpool, Barrow and West Cumbria are regenerated; and

6 employment rates are high and concentrations of low employment are eliminated."

Three major drivers are identified to achieve this vision:

- Improve productivity and grow the market.
- Increase the size and capability of the workforce.
- Create and maintain the conditions for sustainable growth and private sector investment.

In five themed chapters – Business, Skills and Education, People and Jobs, Infrastructure, and Quality of Life – the document then details 122 actions required to address these drivers and achieve the vision. Of these 122 actions, 45 actions are given special emphasis as 'Transformational Actions' that should be given particular priority by all organisations in the region.

Physical regeneration is a major part of 18 of the 45 actions. Northwest Development Agency has direct responsibility for delivering just one of these 18 – to "deliver the designated strategic regional sites".

Northwest Development Agency also partially influences a further 13 of the actions through fully or partly funding the sub-regional partnerships and other bodies responsible for delivering these actions. In many cases, Northwest Development Agency helped to establish these bodies and delegated responsibility to them. Northwest Development Agency also exerts influence through being a member of the organisations' Board, attaching conditions and targets to funding and monitoring delivery.

Northwest Development Agency has less influence on the remaining four actions as it does not fund or have any responsibility for these. These are delivered by the Highways Agency, Local Authorities, the former Regional Assembly and Housing Market Renewal Teams.

Source: North West Regional Economic Strategy and Implementation Plan 2008

2.5 Conflicting pressures on RDAs make explicit prioritisation challenging (see **Figure 5**). Around a third of stakeholders we consulted had concerns about the Regional Economic Strategies:

- Some stakeholders told us that RDA priorities were 'spread too thin', and that the Agencies would achieve more by concentrating effort in fewer priority areas.
- Most private sector developers we consulted were aware of the Regional Economic Strategy, but many said that it did not influence their long term plans for investment. Some felt that the RDA could do more to make private sector stakeholders aware of the RDA's role in the region and the possibilities for combining public and private sector initiatives.
- Some Local Authorities told us that the Regional Economic Strategies were too vague, with unclear links to programmes and local plans.

Figure 5
Comments from RDAs' partners that illustrate the conflicting pressures which make explicit prioritisation challenging

The Agency tries too hard to make sure everyone gets something.

The Regional Economic Strategy has identified strategic priority areas, but by failing to identify specific projects, remains visionary.

There is a difficulty in seeking to create a regional framework in that it has to appease everyone.

There is a fear within the region that if a project is not identified in the Regional Economic Strategy then it will not be able to attract funding, so there is a tendency for the Strategy to be very high level.

Crisis management rather than any conscious balancing between investment in success or relieving deprivation.

The Agency is struggling to fully understand economic inclusion, as it is more focused on business growth.

The Agency is too heavily skewed towards deprived areas and there is also a need to build on success in affluent areas.

The Agency prioritises success to the detriment of the deprived.

Identifies transformational themes but actions to support are woolly.

The Agency is prone to spread resources too thinly.

The Regional Economic Strategy is too broad to be applicable at local level.

The Agency's city region agenda is admitting it is abandoning the rural economy, which leads to rural areas campaigning against it.

Local vested interests mean everyone will say the spatial priorities are not always right.

Source: National Audit Office Survey

Regional Development Agencies are working to overcome the barriers to effective coordination of physical regeneration

2.6 Regional Spatial Strategies incorporate both Regional Transport and Housing Strategies, and were required to be drawn up by Regional Assemblies. These Spatial Strategies were expected to provide a broad development strategy for land use and housing development for each region for a 15 to 20 year period. The Regional Spatial Strategy also informs the preparation of Local Development Documents and Local Transport Plans by Local Authorities and regional and sub-regional strategies and programmes that have a bearing on land use activities.

2.7 Transport, public space and housing play an important role in regeneration and economic development. RDAs have sought to align the Regional Economic Strategy with the Regional Spatial Strategy. Almost two-thirds (65 per cent) of stakeholders told us that they thought the Regional Development Agencies' planning 'fully or largely fits' with the Regional Spatial Strategies, with a third saying it 'somewhat fits' and two per cent saying it does not fit at all.

2.8 Some local stakeholders told us that the existence of two separate strategies is a barrier to effective prioritisation of physical regeneration activity. The Government has recognised the need to achieve closer alignment between Regional Economic and Spatial Strategies. In 2010-11, RDAs will introduce new Integrated Regional Strategies, combining the previous strategies, in partnership with newly formed Local Authorities Leaders' Fora.

While Regional Development Agencies are primarily charged with promoting economic growth, they are also expected to play a role in addressing deprivation

2.9 Local agencies and private sector developers identify a key tension in the role of RDAs, as the Agencies must invest in both successful enterprises and areas (to promote economic growth) and deprived areas (to stimulate new growth). A number of the Government's initiatives and programmes in which RDAs are expected to play an implementation role have a spatial emphasis and are funded by the Department for Communities and Local Government, such as regenerating the Coalfields, Market Towns, Coastal Action Zones, Housing Growth Areas, Housing Market Renewal and supporting the City regions.

2.10 In its framework for regeneration, "Transforming places; changing lives", the Government encourages a renewed focus on ensuring that regeneration tackles the underlying economic challenges to increase social mobility, and supports people to reach their potential. The Government recommends that regeneration investment should focus on tackling the underlying economic challenges that hold back deprived areas. When RDAs introduce their new Integrated Strategies in 2010-11, they are expected to identify more explicitly the priority locations for investment.

Some public agencies are not as closely involved as others in agreeing regional regeneration priorities

2.11 The RDAs' own expenditure in the regions represents less than two per cent of all public expenditure. The RDAs are expected to work with other public bodies to align public spending towards the achievement of regional plans. Almost 60 per cent of local stakeholders told us that RDAs' plans guided their own spending on physical regeneration, but a third said that RDAs' plans rarely or never guided their spending plans.

2.12 Not all public expenditure is subject to direct influence by the Regional Economic Strategy. For example, in the North West, between 2006 and 2009 the region received some £72 billion of public sector resource for economic development and regeneration. Of this, £45 billion fell explicitly within the scope of the Regional Economic Strategy, including the budgets of the Regional Development Agency, the Learning and Skills Councils, Higher and Further Education, neighbourhood renewal, rural, transport and economy-related social protection budgets. However, more than one third (£27 billion) was only partially influenced by the Regional Economic Strategy, including expenditure on housing, environment protection, school and pre-school education, sport, and arts.

2.13 The Housing Corporation, which helped to fund affordable housing, was not formally a party to the development of the Single Integrated Regional Strategy, even though its influence on regional physical regeneration was considerable, and its capital investment budget was six times that of RDAs. Its replacement, the Homes and Communities Agency, has recently taken steps to strengthen the alignment of its plans with those of the RDAs. Together, the Homes and Communities Agency and RDAs intend to hold "single conversations" with local areas about investment planning.

2.14 Other Whitehall departments and agencies spend some £40 billion each year in the regions on public infrastructure, such as new hospitals, roads and schools. Whitehall departments determine the allocations to projects and localities. Since 2005, RDAs working with Local Authorities have been invited to provide advice to the Government on regional long-term investment priorities for elements of transport, housing, regeneration, and economic development. This process has helped to shape Whitehall priorities.

The large number of local agencies and partnerships makes alignment of regional and more local regeneration plans challenging

2.15 RDAs are expected to influence the plans of local bodies and align public spending towards agreed priorities. For One North East, for example, this means aligning the plans of 12 Local Authorities, four sub-regional partnerships, and three economic or urban regeneration companies that together spend several billions of pounds each year, hold significant land and property assets, have many competing objectives and targets, and different funding sources.

2.16 We examined the strategies of the four sub-regional partnerships within the North East, and found that the links between the programmes and projects identified within these plans and the regional plans were not always clear.

Part Three

Appraising projects for value for money

3.1 Regional Development Agencies' project portfolios evolve in response to applications that meet criteria specified by the Agency and which support the objectives of the Regional Economic Strategy. It is only usually where the Regional Development Agency is also the delivery agent that they take a commissioning approach to project development, taking a lead in deciding what mechanism to use to deliver project aims. Recently East Midlands Development Agency has piloted a commissioning approach on some regional project proposals, in which it takes the lead by running open competitive funding application rounds, assessing a number of proposals together and selecting the ones that best address identified priorities. This approach contrasts with the usual method of appraising proposals on an individual basis.

3.2 RDAs use a formal appraisal process to help them invest funds wisely and effectively. Appraisal of regeneration projects should help to bring about value for money by crystallising the project, identifying how it relates to the Regional Economic Strategy, considering the alternative options for meeting the project's objectives, identifying the risks, and demonstrating the project's sustainability and impacts.

3.3 When carrying out appraisals the level of scrutiny is intended to be risk based. If potential RDA investment is over £10 million or projects are considered novel or contentious, RDAs refer their own appraisal conclusions to an inter-departmental panel of experts for approval – the Central Project Review Group – as well as to HM Treasury.

3.4 The Department, working with the Office of Project and Programme Advice and Training (OffPAT), tailored the HM Treasury 'Green Book' project appraisal guidance for RDAs to produce a new appraisal process called the Single Programme Appraisal Guidance (SPAG). The SPAG process requires potential partners and funding recipients to submit detailed evidence that RDAs appraise. The SPAG guidance was revised in March 2008 and is now known as GRADE (Guidance for RDAs in Appraisal, Delivery and Evaluation).

Regional Development Agencies are often over-optimistic in forecasting the benefits of the projects they support

3.5 We examined the quality of appraisals on a sample of 48 projects that RDAs conducted between April 2007 and April 2008. **Figure 6** overleaf shows how closely these appraisals followed each step of the Single Programme Appraisal Guidance, which covered the projects at the time they were initiated. In general, appraisals were clear about how the projects chosen for support contributed to regional priorities. Appraisals were less robust in the technical and financial areas, such as assessing the value for money of options and forecasting future returns and benefits. Most Agencies did not use robust and consistent internal evaluation of past projects to develop benchmarks against which to measure the value for money of particular proposals brought forward for support.

3.6 These findings were supported by our detailed examination of 15 projects submitted to the Central Project Review Group. For example, in one case the review group questioned the low proportion of jobs which the RDA appraisal claimed would transfer from existing facilities, and the extent to which the project would bring wider regeneration benefits.

3.7 The Central Project Review Group reviewed over 50 RDA appraisals between 2005 and 2009. The most recent examinations showed that the RDAs had made improvements in the quality of appraisals since 2005. However, the 2009 review also identified a number of areas that still required improvement (**Figure 7** on page 21).

3.8 The RDAs' appraisal guidance acknowledges the systematic tendency for appraisers to be over-optimistic about key project parameters, including capital costs, operating costs, works duration, and benefits delivery. Agencies are expected to counter-act this "optimism bias" when compiling their appraisals. However RDAs are not regularly using established adjustment factors.

Figure 6
Performance against Single Programme Appraisal Guidance

Requirement	Number of Regional Development Agencies with Status: Green	Amber	Red	Strengths or weaknesses
1 Explanation of the project objectives.	6	2		Project objectives are clearly identified.
2 Explanation of how the project fits into and contributes to Regional Economic Strategy and other government strategies.	7	1		Links with the Regional Economic Strategy and Regional Development Agency Corporate Plans are well explored and demonstrated, as are those with other key regional and sub-regional strategies and initiatives.
3 Justification for, and appropriateness of Agency intervention, and how partners have been involved in preparing the proposal.	1	5	2	Some projects present a strong rationale, but some are based on limited detail and could better explore the justification for public sector intervention.
4 Set out options which have been considered to meet objectives, including preferred and do nothing options.		3	5	Options are reasonably well explored, but in some cases are under-developed and presented to support the choices of the preferred option, rather than exploring genuine alternative ways of achieving the same objective.
5 Project cash flow statement containing assessment of the costs and potential future income for each of the preferred options.		2	6	Financial data often lacks detail. It is most commonly only provided for the preferred option.
6 Assessment of the return for RDA's investment, identifying the expected outputs and outcomes and impact on target areas or groups.		1	7	Outputs are often well-defined and often measurable. Outcomes generally lack clarity in their presentation. Beneficiaries are in the main not identified or targeted effectively. Sources of figures of expected outputs were not always clear. Few appraisals included estimates of additionality of jobs created.
7 Assessment of whether preferred options provide good value for money, including cost benefit analysis.		1	7	The majority of appraisals show limited or no economic appraisal data. Limited evidence of sensitivity data or allowance for optimism bias.
8 Reasoning for choosing the preferred option, including affordability.	1	7		The range of quality in this area is large and there needs to be greater consistency across the appraisals in assessing data.
9 Procedures and plans for delivery, including procurement and project plans.	1	4	3	There is often limited information available about how the projects will be delivered, with little exploration of project management systems and organisational capability.
10 Plan for winding up the project.	1	4	3	Greater consistency is required in this area as there is often limited consideration of how the project will be brought to a close.

Green – Robust **Amber** – Requires improvement **Red** – Requires considerable improvement

Source: National Audit Office file examination

Figure 7

Weaknesses in Regional Development Agency appraisals as identified by the Central Projects Review Group

Market Failure	In a number of cases the Agencies have "struggled" to identify market failures to justify action or where they have the proposed intervention bears little relation to the market failure identified.
Options Analysis	Many projects did not contain a comprehensive value for money analysis or proper adjustment of the forecast outputs to show those directly attributable to the Agency, and which represent additional jobs created. This makes it difficult to judge whether the preferred option represents best value for money.
Sensitivity Analysis	More extensive sensitivity analysis is required in initial appraisals to allow for the risks from rising costs.
Optimism bias	Little evidence of optimism bias being allowed for, despite the clear identification of many risks.
Risk Mitigation	There was not always an adequate consideration of risk, or of risk mitigation.

Source: Central Projects Review Group

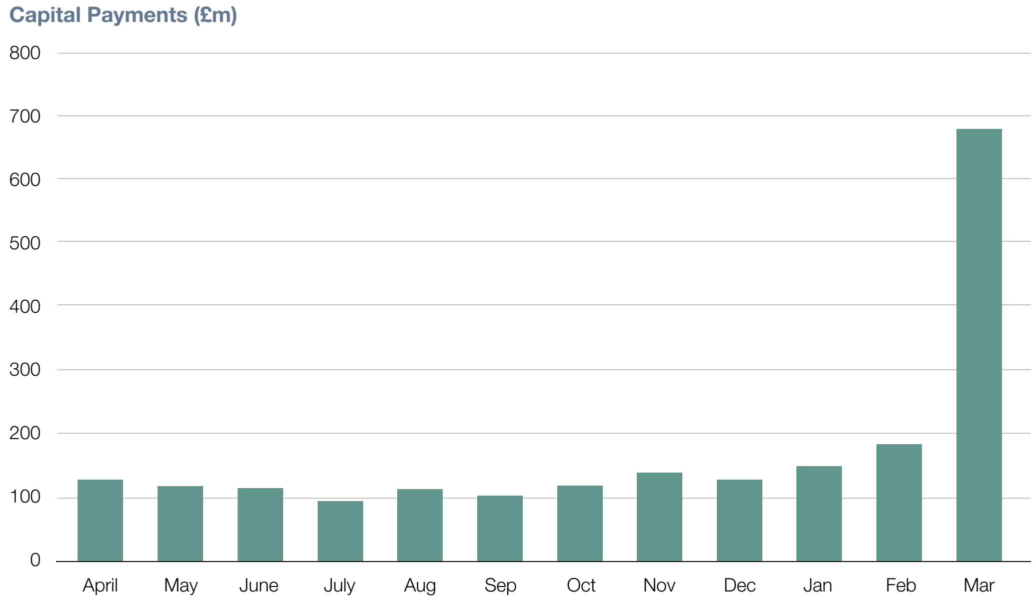
Regional Development Agencies create risks to adequate oversight and control by spending the greater part of their annual budgets in the final months of the year

3.9 During the three financial years 2005-06 to 2007-08, RDAs spent on average four times as much in the last month of the financial year as they have spent on average in each of the preceding months (**Figure 8** overleaf). Many public agencies spend more in the final months of the year, but we found that the English RDAs spent a higher proportion of their budgets in the final month than development bodies in Scotland and Wales.

3.10 There are risks to adequate oversight and control in approving so much spend late in the year. Much of this year-end expenditure will have been incurred earlier in the year by partners to whom the RDAs have passed money but which are not invoiced until later in the year. Some of this expenditure will cover projects which have been approved earlier in the year.

Figure 8

RDAs spend four times the average monthly spend (from April to February) in the last month of the financial year



Total capital payments made by RDAs to live physical regeneration projects per month 2005-06 to 2007-08

Source: National Audit Office analysis of RDA spending

Part Four

Measuring the impact of physical regeneration projects

Before 2009, RDAs reported to Parliament on the number of gross jobs created. The number of net jobs created provides a more accurate reflection of their impact on the regional economy

4.1 RDAs reported to Parliament that between 2002 and 2007 they had helped to create or protect some 413,000 jobs. Departmental guidance requires RDAs to report all those jobs directly attributable to the contribution made by the RDA to projects, regardless of whether those jobs were new to the regional economy (gross attributable).[2]

4.2 The information that RDAs supply is not independently validated, and in some cases the RDAs claim all jobs associated with a project on the basis that the project would not have gone ahead without their involvement, rather than the share that could be attributed to their investment. Our report on Regeneration of the Coalfields found that in some cases both the Homes and Communities Agency (formerly English Partnerships) and the RDAs both claim all the jobs associated with projects funded by the National Coalfields programme.

4.3 Many of the jobs reported by RDAs were not necessarily additional, and were transferred from existing jobs to new sites within the region. And some may have been created without the Agencies' intervention. Independent evaluation suggests that some 55 per cent of jobs created or safeguarded are not additional to regional economies. Assessors found that RDA expenditure between 2002 and 2007 had led to 375,000 jobs, but that only some 178,000 were additional jobs to regional economies (net).

4.4 We found that using Departmental guidance, RDAs predicted that the cost per gross attributable job was less than £30,000. But evaluation shows the public sector cost of each of the net jobs created so far would be £60,000. This will, of course, be sensitive to the final number of jobs generated and to future costs.

2 HM Treasury's Green Book states that an impact arising from an intervention is additional if it would not have occurred in the absence of the intervention.

Regional Development Agencies are expected to contribute to a regional growth objective over which the Agencies have only a small influence

4.5 Since April 2008, the Department has replaced the RDAs' output targets with one regional growth objective. This new objective aims to increase Gross Value Added per head and provides a framework for all RDA activity and the new Integrated Regional Strategies.[3]

4.6 Changes in the rate of growth of Gross Value Added per head in the regions will be affected by national and international economic cycles, not just the activities of the Regional Development Agencies and their national, regional, sub-regional and local partners.

Many Regional Development Agencies were slow to evaluate the impact of their work on regional economic growth, but some 70 per cent of their expenditure had been evaluated by the end of 2008

4.7 Our Independent Performance Assessments of the Regional Development Agencies in 2006 found impact evaluation to be one of the weakest elements of their performance, although we found that the East Midlands Development Agency had a much more developed programme of impact evaluation.

4.8 In 2005, the Department recognised that evaluation needed to be strengthened. In partnership with RDAs, the Department sponsored the development of an Impact Evaluation Framework, which set out a more detailed methodology for RDAs to use to evaluate their impact. The Department asked RDAs to develop and implement their own three-year rolling programme of evaluation based on the principles set out in the Impact Evaluation Framework, to evaluate properly the impact of all interventions by the end of 2008.

4.9 The Department's review in 2006 of the impact of over 400 projects found that only in a very few cases had RDAs used a robust methodology to forecast or measure outputs and outcomes. Half of the 48 physical regeneration projects we examined in detail as part of this review had no or inadequate plans for their evaluation.

4.10 In December 2007, the Department appointed consultants to conduct a comprehensive impact assessment of RDAs , including reporting on their progress in complying with the Impact Evaluation Framework.[4] The consultants found that only about 40 per cent of projects were sufficiently compliant with the Framework. The Department required RDAs to undertake further intensive work so that by late 2008 some 70 per cent of projects were compliant with the principles of the Framework.

3 Gross Value Added is a measure of economic output. It is calculated by removing taxes and subsidies from Gross Domestic Product (GDP) figures.

4 Impact of Regional Development Agency Spending – Main Report – March 2009 – PricewaterhouseCoopers LLP and Department for Business, Enterprise and Regulatory Reform.

The economic benefits of physical regeneration projects can take many years to realise

4.11 Consultants appointed by the Department have estimated the RDAs' impact on Gross Value Added (GVA) in the economy based on the number of jobs created from all RDAs' activities. They calculated that the £5.2 billion worth of RDA spending (from their sample in the period 2002 to 2007) is directly generating annually £8.1 billion Gross Value Added, which they conclude is a modest result.[5] The consultants noted that this impact would increase once indirect and less measurable effects on Gross Value Added, such as improved business productivity and increased employee skills, are included.

4.12 The consultant's report predicts that RDA spending will go on generating additional Gross Value Added for many years, especially as long-term physical regeneration projects come to fruition. The estimated additional Gross Value Added could amount to as much as £27.8 billion in today's prices, in terms of cumulative potential benefits[6].

4.13 Eighty-two physical regeneration programmes and projects were suitable for reliable assessment of impact on Gross Value Added. Spending on these projects between 2002 and 2007 amounted to £1.56 billion, or under one third of total estimated physical regeneration expenditure by RDAs since 1999. The consultants estimate that, to date, based on the number of net jobs created, the investment on these projects had generated Gross Value Added of £5.2 billion, amounting to £3.30 for every pound invested. The assessment found that RDAs' work to support physical regeneration projects had contributed less, so far, to Regional Gross Value Added than their intervention to support business directly, which returned £7.30 for every pound invested.

4.14 Physical regeneration projects take a long time to complete and to realise the full benefits. In the long-term the independent evaluation estimates that total generated Gross Value Added from physical regeneration could be nearly £9 billion. If achieved, this would represent a return on investment of £8 for every pound spent, which is still less than the longer-term return from providing support to business – £11.60 for every pound spent. The assumptions underpinning physical regeneration figures are even more uncertain than for the other categories, because of the longer time period they cover. The estimates assume that jobs created and safeguarded will not subsequently be lost, which in the current economic climate is likely to be over-optimistic.

4.15 However, physical regeneration generates other social, economic and environmental benefits which are much more difficult to measure, such as improving public sentiment, building investor confidence, and tackling deprivation.

5 A consistent breakdown of this national GVA information for individual RDAs was not provided by the consultants. The GVA figures in this report therefore reflect the activities of the London Development Agency as well as the RDAs outside London.

6 This amount is the total achieved and future potential GVA, calculated as the cumulative achieved GVA and the estimated Net Present Value of the flow of benefits expected to accrue from the future potential jobs which are expected to result from the RDAs' interventions.

The added value of the Regional Development Agencies' strategic role in supporting physical regeneration is difficult to measure

4.16 While the Department, together with the RDAs, has taken steps to improve the evaluation of the outcome of the projects they support, it is more difficult to quantify the added value of the RDAs involvement in those projects. This "Strategic Added Value" covers the catalytic role of the Agencies in: increasing coordination alignment and partnership: improving intelligence; influencing; and awareness raising.

4.17 For every pound of RDA spending an estimated additional £2.80 is secured from partners, of which £1.51 is from the private sector. The benefits of RDA involvement in physical regeneration are seen by partners as being the additional capacity and expertise they bring and their ability to bring together and broker agreement between other regional, sub-regional and local stakeholders. **Figure 9** sets out some of the comments made by local bodies and private sector developers on the added value of the Agencies' involvement in physical regeneration.

Figure 9

Illustrative comments from local agencies and private sector developers on the added value of the Regional Development Agencies involvement in physical regeneration projects

On expertise

Provision of or access to expert advice and support.

Expertise amongst officers and strong partnership working helps to deliver regeneration projects.

Understanding of the commercial world.

The specialist knowledge of the land and regeneration teams at the Agency gives credibility and confidence that a scheme will happen.

Setting higher standards of development and ensuring local projects address sustainability.

Helped to bring about better planning and stronger local projects.

Monitoring requirements help us to focus our projects on meaningful outputs.

On adding strategic vision

Agency involvement adds weight and purpose to a project.

Access to Government.

Ability to bring in Government support where necessary.

Ensures investment in a particular area is correct in the context of wider needs.

Strong support to partners when dealing with other arms of Whitehall.

Wider perspective of the market.

Figure 9
Illustrative comments from local agencies and private sector developers on the added value of the Regional Development Agencies involvement in physical regeneration projects continued

On adding strategic vision *continued*

Increased aspirations of the regions and the partners within it.

Brought a more strategic evidence-based approach to regeneration planning.

Prepared to take the longer view.

Encourages a holistic approach to regeneration.

On brokering agreements and partnership working

Ability to unblock problems with key stakeholders.

Prepared to act as a catalyst to move schemes forward.

Autonomy from the local political influences.

Bring a balanced approach to negotiations and help combat purely political investments.

Helped to create synergies and joint working on delivery solutions to physical regeneration projects and initiatives.

Encourages and promoted partnership working.

Unconnected to the electoral cycle and so better placed to make difficult decisions.

Acts as a broker or catalyst to lever or enable support from a variety of participants and funders, which helps to enable complex projects to be delivered.

Enabled projects to be implemented which if left to local authorities would have struggled to get off the ground.

On levering funds

Using public money to create master plans for sites – an activity that is high risk financially for the private sector.

Providing financial support when there is a breakdown in delivery by other agencies or commercial providers.

Can bring resources that smaller local authorities cannot to help make major schemes happen.

Can kick-start investment.

Enable land assembly to help deliver major regeneration projects.

Able to ensure the right bodies are brought together, and by injecting small amounts of funding at strategic milestone points, help to ensure all partners can effectively deliver the appropriate action.

Ability to take a strategic overview as opposed to getting bogged down in politics.

Source: National Audit Office survey

The impact of the current economic difficulties

4.18 Many physical regeneration projects involving the private sector have stalled or slowed because developers are unable to obtain finance or because of uncertainty over future yields. For many projects, developers are seeking a reduction in quality or an increase in density, and the RDAs are providing public funding to higher than previously anticipated levels. The pattern of reduced demand is not, however, universal. For example, there is an increase in demand for start-up premises in the East of England from those recently made redundant and wishing to start their own businesses.

4.19 The Government has published a report on the impact of the crisis for regeneration, which sets out some guiding principles for relevant bodies (**Figure 10**). A challenge for the Agencies is to flex their plans to respond to the current economic difficulties without losing the capacity to deliver the potential longer term benefits of physical regeneration for their regional economies.

4.20 RDAs have reviewed their corporate plans in the light of the current economic difficulties and also in response to a reduction of £300 million made to their funding allocation for 2010-11 in response to changed Government spending priorities. RDAs are concentrating their funding on projects which have the greatest chance of generating jobs in the short term, and brought forward for start in 2009-10 some £100 million of projects previously planned for 2010-11. The Agencies told us their current capital allocations provide for a limited number of new large scale physical regeneration schemes and they will mostly be concentrating on re-profiling and managing those that have already been approved.

Figure 10
Recommended principles for response to the Credit Crunch by regeneration bodies

- Pursue long term principles and goals.
- Provide brave leadership.
- Maintain commitment to the regeneration agenda.
- Deliver quality products in future.
- Provide financial innovation.
- Work even more in partnership.
- Increase flexibility especially in the planning system.
- Retain capacity.
- Prepare for the upturn.
- Provide public resources and programmes.

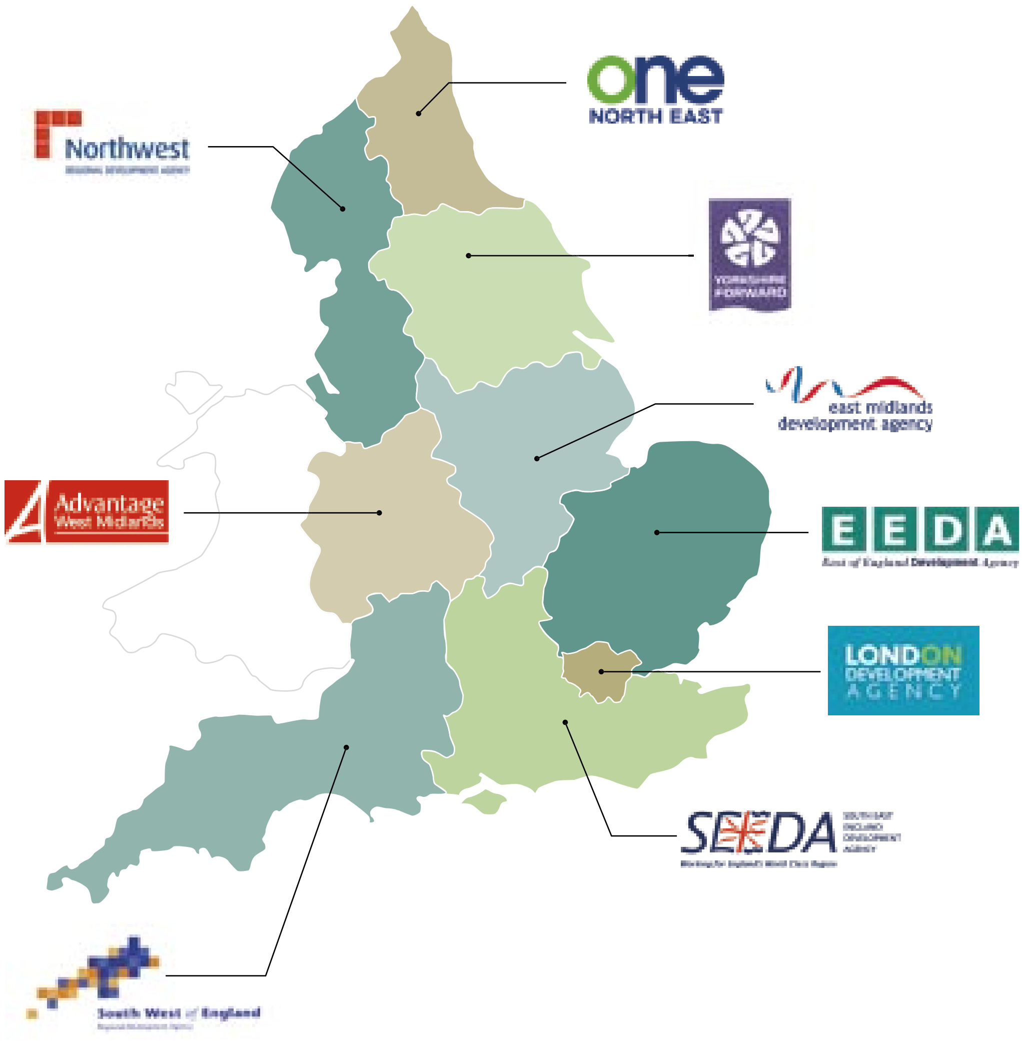
Also, in practical terms there are two immediate actions:

- Public resources should be reviewed to see whether they can be brought forward.
- The wider public programmes, for example, building schools and hospitals, which are not typically regarded as regeneration, should be more closely aligned with regeneration aims.

Source: The Credit Crunch and Regeneration: Impact and Implications – An independent report to the Department for Communities and Local Government 2009

Appendix One

Map of Regional Development Agencies



Source: National Audit Office

Appendix Two

Methodology

The main elements of the study methodology were as follows:

Visits to all the regions outside London to:

- review Regional Development Agency project files and documentation and interview relevant staff; and
- interview 154 staff from public and private bodies that engage with Regional Development Agencies including; educational institutions, charitable and voluntary organisations, private sector developers and Local Authorities.

A detailed examination of 48 case studies:

- To assess the effectiveness of Agencies' appraisals, a judgemental sample was taken from Regional Development Agencies' project databases, based on type, size and significance.

A review of 13 appraisals submitted to Central Project Group:

- At least one project from each Regional Development Agency was assessed. Interviews were held with staff to follow up any issues identified.

A survey of Regional Development Agency regional and local partners:

- 1,617 partners across England were surveyed using an online survey provider. The survey remained open for five months. 389 responses were received, representing a 24 per cent response rate. The results are indicative as a self-selecting sample. Respondents ranged across region and organisation type.

Examination of independent evaluation of Regional Development Agency projects by PriceWaterhouseCoopers commissioned by the former Department of Business Enterprise and Regulatory Reform

Expert Panel

- Panel of regeneration experts to comment on and scrutinise findings at various stages throughout the study.

Appendix Three

Technical Annex: Evaluating Regional Development Agency impacts

Gross Value Added is a measure of economic growth. It is calculated by removing taxes and subsidies from Gross Domestic Product. The Government has replaced the Agencies' output targets with a single aim to increase Gross Value Added per head.

When considering whether to support a project, Regional Development Agencies are expected to forecast the outputs of the project such as the number of jobs created or safeguarded as a result of the project.

Regional Development Agencies are also expected to evaluate the impact of the projects they have supported, but they have not done this on a consistent basis: the scope of the impacts varies so that some include only jobs created and safeguarded, while some also look at impact on productivity and earnings. The time period covered by the estimates of impacts also varies.

The most frequently and consistently reported outputs in Regional Development Agency evaluations are the number of net jobs created and safeguarded, so independent consultants (PriceWaterhouseCoopers) used this as the basis for calculating the impact of the Regional Development Agency work on Gross Value Added. The consultants converted the estimated number of jobs created and safeguarded from the evaluations into a stream of benefits:

- The annual achieved Gross Value Added, which is the annual flow of benefits based on the net additional jobs created and safeguarded multiplied by the regional average Gross Value Added per job.
- The cumulative achieved Gross Value Added, which is the estimated net present value of the flow of benefits.
- The total achieved and future potential Gross Value Added, which differs from the cumulative achieved Gross Value Added in that it also includes the estimated Net Present Value of the flow of benefits expected to accrue from the future potential jobs that are expected to result from the Regional Development Agencies' interventions.

The consultants were able to evaluate 82 different physical regeneration projects on this basis.

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ISBN 978-0-10-296322-9

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