



National Audit Office

May 2010

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**Independent Supplementary Review**

# Advantage West Midlands

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This report can be found on the National Audit  
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## Part One: Preface

**1.1** At the request of the Department for Business, Innovation and Skills, the National Audit Office has undertaken Independent Supplementary Reviews of each of the eight Regional Development Agencies outside London. The Regional Development Agencies were established under the Regional Development Agencies Act 1998 to further regional economic development and regeneration, promote business efficiency and competitiveness, increase employment and the skills base and contribute to regional environmental sustainability.

**1.2** In the last two years, the Regional Development Agencies have faced a number of challenges: to deliver more efficiently in the face of reduced budgets, to demonstrate maximum value to their regions for the projects they choose to support and to demonstrate flexibility in responding appropriately to the changing requirements of their regional economies in the light of the downturn.

**1.3** Our reviews address three specific aspects of the Agencies' performance in responding to these challenges. The reviews focus on the strength of the processes and procedures the Agency have put in place. They do not assess the overall impact or value for money of the Agencies. In particular they assess performance against three questions:

- How effectively has the Regional Development Agency prioritised programmes and projects that offer high value added benefits for the region in the economic downturn and in preparation for the upturn?
- How effectively is the Regional Development Agency implementing improvement plans?
- How effectively has the Regional Development Agency implemented improvements in performance management processes and procedures to reflect the lessons of evaluation?

**1.4** In light of our assessment report the Agency will be required to demonstrate it has plans in place to address any improvements. The National Audit Office will consider the extent to which these plans address the areas for improvement identified in the assessment report and provide the Regional Development Agency with advice.

**1.5** We would like to thank the Chair, Board, Chief Executive, Executive Management team and the Agency's staff for their help and assistance during this Independent Supplementary Review. We would also like to thank the numerous stakeholders and partners who have helped us.

## Part Two: Summary

**2.1** Advantage West Midlands (the Agency) has been marked as follows under the three descriptors for this assessment:

<b>Question</b>	<b>Assessment</b>
<p>How effectively has the RDA prioritised the development/delivery of programmes and projects that offer high value added benefits for the region in the economic downturn and in preparation for the upturn?</p>	<p>The Agency has demonstrated strong performance</p>
<p>How effectively is the RDA implementing improvement plans?</p>	<p>The Agency has demonstrated strong performance</p>
<p>How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation?</p>	<p>The Agency has demonstrated strong performance</p>

## Part Three: Context

**3.1** The West Midlands has two major urban areas, a network of other cities and towns and a substantial and economically important rural territory. Some 80 per cent of the land in the region is rural. Thirty five per cent of the population reside in these areas and 33 per cent of the population is employed in them.

**3.2** The region has high levels of diversity and a very youthful population in its urban areas, particularly Birmingham which has the highest proportion of young people under 20 of any major European city. The region has communities both in terms of place and ethnicity, experiencing significant economic and social deprivation, low levels of young people's and adult qualification attainment, low skills attainment, low aspirations and high levels of worklessness.

**3.3** The region has historically experienced economic prosperity based on a strong manufacturing economy but has suffered as a result of economic restructuring, market liberalisation and increasing globalisation of trade. The region's GDP per head fell below the UK average in 1976 and has never recovered. Despite steady growth since the early 1990s the region has underperformed relative to the national economy, experiencing the lowest average annual growth in economic output (GVA) per head (2000-2008) of any UK region at 3.8 per cent. In 2007 GVA per head was 85 per cent of the UK average, equating to a £15 billion 'output gap'.

**3.4** Economic opportunities and challenges vary significantly between areas, and particularly within urban areas. The region has the joint highest unemployment rate in the UK, up 1.1 points in the year to January 2010 to 9.5 per cent, compared with an average across England of 7.8 per cent. Five out of the top 10 areas for highest claimant proportions are located in the region which has high levels of inactivity and disadvantage.

**3.5** In the year to April 2010 the region saw the sharpest decline in output and the fastest shedding of jobs of any of the English regions. Within the key sectors of the economy there are substantial variations in the levels of GVA per employee. Within manufacturing these range from less than £20,000 in leather manufacturing to greater than £60,000 in chemical manufacturing. Much of the region's manufacturing base is skewed towards low technology activities.

## Part Four: How effectively has the RDA prioritised programmes and projects that offer high value added benefits for the region in the economic downturn and in preparation for the upturn?

**4.1** It was too early for the NAO to assess the impact on the region of the action and initiatives put in place by the Agency. This assessment covers how effectively as at November 2009 the Agency had gone about prioritising programmes and projects that offer high value added benefits for the region in the economic downturn, and in preparation for the upturn.

**4.2** We have Advantage West Midlands as having demonstrated strong performance. The key factors that lie behind this assessment are:

- A robust and comprehensive approach to collecting intelligence within the region (especially from business) that had a demonstrable impact on the choice of sectors to be supported and the initiatives and approaches adopted.
- A comprehensive reprioritisation of all individual projects (both revenue and capital) using strong criteria and robust data about their contribution to regional growth.
- A strong commitment from regional partners to fund jointly agreed regional investment priorities, and alignment of planned investment and activity, which reflects reprioritisation and a clear vision for the future of the region in the upturn.

### Economic Analysis

**4.3** The Agency's Economic Unit comprises seven staff located within the Strategy team. The Agency, recognising the weaknesses in regional economic data, created the concept of and established the West Midlands Regional Observatory. The Agency also hosts the Observatory, which has 22 staff and its own Chief Executive, but operates it at arms length, as an independent entity giving confidence to partners that

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it is impartial. The Observatory receives funding from other regional partners and also receives income from a commissioning service for research. Its total budget is £1.5 million. The regional staff from the Office for National Statistics are co-located with the Observatory.

**4.4** The Observatory undertakes research (which the Agency commissions) and the Agency's Economic Unit analyses and disseminates this widely across the region. Both organisations are working together to develop the joint evidence base for the new Integrated Regional Strategy.

**4.5** The Agency has strengthened its analytical capacity and this has resulted in much greater understanding both within the Agency and across the region of the economic data that is available. A joint project between the Agency and the Observatory has been the "Scale of Challenge" work. This in-depth analysis has looked beneath the headline indicators to understand the output gap in the region and has then helped to shape the policies and interventions that the Agency is putting in place to address the gap. This is a three year programme currently in year two.

**4.6** As in other regions, the Agency's Economic Unit provides analysis and intelligence to help support the needs of the Regional Ministers Group, the Board, staff, stakeholders and other regional partners, including the private sector. Economic analysis is used in the Agency's appraisals.

**4.7** As part of the Agency's response to the downturn, the Economic Unit led on the economic analysis and intelligence work stream of the region's multi-agency task force. The team produced monthly data and analysis for the Task Force and the Regional Ministers meetings on the downturn and future trends. In leading the work of the Data and Intelligence work stream on behalf of the Task Force, the Economic Unit team regularly met with and co-ordinated data sharing on behalf of key regional partners.

**4.8** The Economic Unit and the Observatory produce a range of outputs including:

- Policy briefings;
- Horizon scanning – daily;
- Board reports – monthly;
- Regional Intelligence Snapshot – monthly;
- Economic Monitoring report – monthly;
- Recession update – quarterly;
- Briefing for Regional Ministers – every six weeks;
- Updates to staff on regional intelligence; and



- State of the region report – updated annually.

**4.9** The economic analysis is available down to postcode level and can be disaggregated spatially as well as by sector.

**4.10** Jointly, the Observatory and the Economic Unit use a range of mechanisms to collect their data. Business information is collected and analysed from a range of sources including; Business Link West Midlands, business surveys, the Purchasing Managers Index (PMI), Job Centre Plus and direct from individual businesses. The Agency also uses information from the Office of National Statistics and Local Authorities.

**4.11** In common with some other RDAs, in 2008 the Agency undertook research on previous recessions which has helped to underpin its response to the current downturn. The Board specifically requested analysis of the construction industry, smaller financial institutions and the leisure and retail sectors. This analysis resulted in specific help for the construction industry and help for market town retail outlets.

**4.12** Analysis of economic data is presented to the Board on a regular basis. Board members told us that the level of analysis is appropriate and it is clearly presented. They told us that they could challenge the data and feed in their own views when required.

**4.13** The Agency works closely with universities, to peer review analysis. In October 2009, the Agency commissioned Coventry University to undertake an evaluation of the response of the West Midlands Task Force to the downturn. The Agency has also worked with CURDS in Newcastle to peer review analysis and evaluation.

**4.14** Stakeholders and partners to whom we spoke told us that the analysis provided by the Agency has been timely and of a high quality. Stakeholders agreed that information had been clearer more recently and that the monthly economic reports brought all the intelligence together and disseminated it in an easy to read and understandable format. The Agency's annual stakeholder survey demonstrated an improved and shared understanding of the region's economic challenges.

**4.15** Economic analysis informed the work of the Joint Strategy and Investment Board and was instrumental in helping to align activity against agreed priorities in the form of the 20 Impact Investment Locations. Partners revised their plans accordingly.

## Effectiveness of reprioritisation in response to economic downturn and funding constraints

**4.16** Like other RDAs, the Agency was told in autumn 2008 of the budget reductions it would face over the two years 2009-10 and 2010-11. The Agency's legal

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commitments as at 1 October 2008 equated to £266.7 million (83.4 per cent) against a budget allocation of £318.9 million. Taking into account both moral and pipeline commitments, this equated to £343 million, a potential over programming of £57 million. The budget reductions equate to £122 million, comprising £48 million reduction in grant in aid, £21 million of receipts income and a reduction in the amount of over programming of £53 million.

**4.17** The Agency's budget will reduce from £318.9 million in 2008-09 to £229.6 million in 2010-11.

**4.18** As part of its review of the Corporate Plan, the Board agreed in March 2009 on key principles that all investments must demonstrate in order to be approved or to continue to receive funding:

- Delivering the West Midlands Economic Strategy (WMES) - contribution to improving the sustainable economic growth of the region through the delivery of the WMES and recent national policy announcements;
- maximising economic impact - ability to deliver maximum impact in the short and medium term, drawing on available evidence from impact evaluation and the work to develop the investment and performance framework;
- responding to the recession - contribution to supporting the regional economy through the recession and preparing for the upturn;
- Regional Funding Advice - relationship to the 20 impact investment locations, identified as the region's highest priority areas for intervention in the West Midlands; and
- Deliverability.

**4.19** The Agency started a comprehensive review of all its projects in April 2009. Using criteria agreed by the Board, a scoring system was developed and each project was scored under the direction of an Executive Director.

**4.20** The Executive team then contacted every partner to inform them of the process and to start negotiations to agree the projects which would continue to receive funding. Feedback from partners to whom we spoke on the Agency's approach was positive. Partners told us that the Agency was very open about the implications of funding pressures on projects. The Board criteria were explained in detail to partners who told us they understood the need to focus on providing support to businesses in the downturn, but also that the Agency was focussed on the longer term priorities for the region. Partners had been asked to identify their own priority projects before final discussions with the Agency took place; this has resulted in general consensus and helped the Agency to maintain good relations with key partners.

**4.21** Partners told us that where the Agency reduced funding or stopped projects, it had been proactive in identifying alternative funding sources such as funding from Europe.

**4.22** Like other RDAs, the Agency brought forward £20 million of capital funding from 2010-11 to 2009-10 under the Fiscal Stimulus policy to progress projects that may stall or to help those that could start earlier and stimulate growth. The Agency identified four projects including New Street Station (£11.5 million), and the Selly Oak Northern Relief Road (£2 million), which will create or safeguard approximately 650 jobs in the construction sector.

**4.23** At the end of 2008-09, the Agency's spending on Enterprise and Business support equated to 39 per cent of the total budget allocation. This has increased to 50 per cent for 2010-11 (£165 million). Spending on place (regeneration) has decreased from 44 per cent to 33 per cent of the overall budget.

**4.24** The Agency's response to the downturn has been led and coordinated by the Chief Executive and the Executive team. From September 2008, the Agency led on the formation of the West Midlands Task Force. Based on the same model used to respond to the crisis at MG Rover, the Task Force brings together key regional partners for fortnightly meetings to discuss the downturn and agree a joint response. The Task Force has been chaired by the Regional Minister. The Task Force has two main objectives: to address the specific regional business and employment issues associated with the global economic downturn, minimising their impact on businesses and communities; and to ensure business resilience in the West Midlands over the long term.

**4.25** The Task Force put in place working structures to deal with the initial response to the downturn and established six workstreams in December 2008:

- Business support – led by the Agency and Business Link;
- Infrastructure – led by the Government Office for the West Midlands;
- Workforce – led by the Learning and Skills Council and Job Centre Plus;
- Communications – led by the Agency;
- Data and intelligence – led by the Agency; and
- Communities – led by the Local Authorities.

**4.26** The West Midlands Task Force developed a number of work streams, which developed short term action plans to address the immediate priorities (44 actions). At the same time the Agency's work in leading the Joint Strategy and Investment Board took account of recessionary impact and in developing the Joint Strategy and Investment Board Statement of Intent, partners agreed a range of short, medium and long term priorities for the region. A monitoring and evaluation framework was

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developed for the Task Force and for the Joint Strategy and Investment Board, and progress against key targets has been reported to the Regional Minister on a monthly basis.

**4.27** In September 2008, the Agency made available £64 million for recession initiatives. This included: Manufacturing Advisory Service Automotive Recovery Programme, The Advantage Transition Loan Fund, the Regional Infrastructure Fund, the Construction Industry Action Plan, and intensive Business Health Checks.

**4.28** The Agency provided an additional £4.5 million to the Manufacturing Advisory Service to support the Automotive Recovery Programme. This fund aimed to safeguard jobs and sales in the automotive sector by funding strategic projects focused on ensuring that businesses survive the downturn and emerge fitter, leaner and more competitive. The fund has seen 194 projects approved and £4.48 million was contracted by December 2009. These funds have seen 600 jobs safeguarded so far and this is projected to rise to 1,600 once the project is complete. Feedback from stakeholders on the work of MAS has been positive.

**4.29** In November 2008, the Agency launched a revised Advantage Transition Bridge Loan Fund. (The fund was initially set up to minimise the financial impact of the MG Rover crisis, and there was some residual funding left) Offering funds between £50,000 and £250,000, the Agency has put £10 million into the fund. By December 2009, 209 applications had been received requesting £30.2 million of funds, 66 loans had been administered and £10.6 million had been committed. Evaluation of the loan fund carried out by Coventry University has demonstrated that 2,496 jobs have been safeguarded as a result of loan funds at a cost of £4,400 per job. The automotive supply chain has been the biggest recipient of loan funding, (31.9 per cent) with other manufacturing companies accounting for 23 per cent of loan awards. The Agency also administered the transition loan fund for the East Midlands which was launched in February 2009 on behalf of East Midlands Development Agency.

**4.30** The construction industry was identified early by the Agency's Board as a sector in difficulty. With Government Office West Midlands, the Agency facilitated the development of a Construction Sector Action Plan. Working with a range of partners, including the West Midlands Centre for Construction Excellence, the Agency, RIBA, RICS and the Homes and Community Agency, the group identified the key challenges affecting the sector and put in place a number of interventions. These include a Regional Infrastructure Fund with a value of £13 million; a project which will see joint procurement by local public sector bodies of local construction services; innovation vouchers to provide a bespoke scheme for the construction sector which supports innovation in construction design; workshop support for micro construction businesses and access to funding.

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**4.31** The Agency took on responsibility for managing Business Link in 2007. The Agency rationalised the existing bodies into one and re-branded it as Business Link West Midlands. Business Link has approximately 250 staff.

**4.32** The Agency has increased the level of funding to Business Link by an additional £2 million to help it undertake over 10,100 health checks during the period September 2008 to October 2009. In addition, a Credit Crunch hotline received 403 calls and 680 people attended Credit Crunch Workshops between January 2009 and April 2009.

**4.33** The West Midlands suffers from low skill attainment and an outflow of graduates. On behalf of the region, Business Link brokers the Train to Gain programme which offers access to skills and training advice. In the West Midlands, the proportion of training starts has increased from 14.1 per cent in 2005-06 to 16.3 per cent in 2009-10. The West Midlands is ranked 1st overall in terms of regional take up.

**4.34** Feedback on Business Link performance has been mixed, with some variation depending on the location of partners within the region. Since its re-launch in 2007, two Chief Executives have been appointed and then replaced and the third has been in post for a short while. Feedback on the new Chief Executive is positive, and several partners told us that performance has improved since their appointment. This is backed up by evidence. Survey results from Business Link, based on a sample taken from 2,361 Business Link Clients, show a positive trend against their core indicators of penetration, GVA and client satisfaction with all targets being met in the final quarter of 2008-09, and the first three quarters of 2009-10. Client satisfaction has increased over the year from 78 per cent in quarter one to 92 per cent in quarter four. The survey also shows that sub-regional variations in customer satisfaction are minimal.

**4.35** The Agency has concentrated on providing support to viable businesses during the downturn and we were told that it has not provided short term funding to businesses where business plans failed to demonstrate longer term viability. Rather, funding was targeted at companies that demonstrated robust viable long term growth plans and potential to safeguard and create jobs. An example of this was a £4 million bridging loan to an electric van manufacturer in the region, safeguarding 70 jobs. This loan gave the company the time they required to negotiate an equity injection. This they secured and the Agency's loan was repaid in full.

**4.36** Internal research by the Agency identified the severe impact of the downturn on the retail and cultural sectors. The Agency made £150,000 available to the Citizens Advice Bureau to increase support services in vulnerable communities and also £250,000 to support independent retailers within the region's worst affected market towns.

**4.37** The Agency has held meetings with regional representatives of the banking sector on a quarterly basis since November 2008.

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**4.38** The West Midlands Graduate Internship service was launched by the Agency in June 2009. Developed in response to the downturn by key regional partners including the Agency, Job Centre Plus, the Institute of Directors and the region's universities, the scheme allows graduates to continue to receive job seekers allowance whilst working with employers for short term projects. The scheme has been particularly well received by small and medium sized enterprises who cannot usually afford to employ graduates. The Agency has contributed £440,000 for the brokerage service which is delivered by Graduate Advantage through Aston University. As at October 2009, over 1,000 graduates had registered and 414 matches had been made. Initial evaluation has shown that one in every 24 placements is leading to a new job.

**Figure One: Timeline of Recession activities**

<b>Sept 2007</b>	<b>Government Assistance to Northern Rock.</b>
April 2008	First Board meeting considered the economic downturn.
August 2008	Publication of joint BIS/HMT/Advantage West Midlands response to economic downturn.
Sept 2008	<b>Lehman Brothers file for bankruptcy proceedings.</b>
Sept 2008	AWM established West Midlands Task Force and identified £64 million of funding.
Sept 2008	Conference with Prime Minister and Regional Cabinet to launch response to Downturn.
Nov 2008	Major event held for Businesses and other partners which spelt out emerging shape of a response to the recession.
Nov 2008	Launch of Advantage Transition Bridge Loan fund.

Nov 2008	Board paper setting out criteria for prioritisation of projects and interventions.
<b>Dec 2008</b>	<b>United Kingdom officially enters recession.</b>
March 2009	Start of meetings with Local Authorities and other partners on revisions of budgets and project reprioritisation.
May 2009	Revised Corporate Plan 2009-11 agreed by Board.
June 2009	Graduate Internship Scheme launched.
Oct 2009	Coventry University commissioned to evaluate work of Task Force.

**4.39** In October 2009, the Agency commissioned Coventry University to undertake an evaluation of the work of the West Midlands Task Force. The evaluation examined the specific interventions developed in response to the downturn, and the existing interventions which had been enhanced or delivered with a renewed focus. It found that the Task Force made a significant impact and developed appropriate measures to offset the effects of the recession. For instance, the Advantage Transition Bridge Fund was a model followed by several RDAs.

**4.40** Feedback from business support partners to whom we spoke was generally positive on the Agency's response to the downturn. They told us that the Agency was quick to respond to the crisis and proactive in drawing together key partners to understand businesses' current priorities. Partners also told us that the Agency quickly delivered interventions and initiatives to help business survive.

## Stakeholder engagement in prioritisation

**4.41** The Agency has a range of well established mechanisms to engage with partners and stakeholders. It has used a number of fora to engage with government stakeholders, including the Regional Minister, MPs, MEPs, and local government. It has also used its partners' networks to engage with the private sector and third sector. See above for detail of how stakeholders were proactively engaged and informed about the project review and prioritisation process.

**4.42** The Agency launched its joint HM Treasury/BIS publication "The West Midlands Economy" at a meeting in September 2008 when it also announced the £64 million support package for business. Over 800 representatives from the region were present at the meeting, along with the Prime Minister and several members of the Cabinet.

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**4.43** The Agency arranged an Economic Summit meeting in November 2008 which was attended by over 120 of the region's leading businesses. The summit provided the opportunity for businesses to put their concerns to the Minister and representatives from the public sector.

**4.44** Stakeholders to whom we spoke told us that the business support providers have a positive relationship with the Agency. The Agency works closely with the Federation of Small Businesses, the CBI, the Institute of Directors and the West Midlands Business Council through the Task Force and also through the work with the Joint Strategy and Investment Board. The Agency has a number of strategic relationship managers which engage with the top 200 businesses within the region. Larger private sector companies told us they were engaged but they did not benefit much from the recession initiatives as they were outside of the scheme guidelines or had access to finance from other sources. Larger businesses also told us, however, that the Agency understood the difficulties that they were facing, and that the Agency had lobbied on their behalf at a national level. There are examples of large scale private sector businesses being actively engaged in key programmes such as the Aerospace Technology Programme and strategic projects such as the National Manufacturing Technology Centre, involving companies such as Rolls Royce, Jaguar LandRover, Airbus and the Welding Institute.

**4.45** Business umbrella groups told us it was more difficult for the Agency to engage with the many small businesses within the region and there was still scope to improve engagement. The Agency told us that they are taking active steps to improve the engagement with SMEs within the region. They are doing this by building on the success of their Cluster Programme where independent evaluation shows effective, direct engagement with more than 12,500 businesses between 2002-03 and 2008-09. In addition, the Agency engages with SMEs through work with Business Link West Midlands and the Manufacturing Advisory Service, the Business Engagement Project with West Midlands Chambers of Commerce, the Centres of Expertise, the Minority Business Forum, Social Enterprise West Midlands and various Advisory Boards and sub groups.

**4.46** As part of taking forward the outcomes from the Government's Review of Sub-National Economic Development and Regeneration, the Agency led the establishment of a West Midlands' Joint Strategy and Investment Board. The Joint Strategy and Investment Board initially comprised members from the Agency, and Local Authorities in the region. Further representation from business has more recently been added. The Joint Strategy and Investment Board is supported by an executive group that includes representation from other organisations including Government Office, the Homes and Community Agency and partners from the Education, Health and other sectors.

**4.47** The Joint Strategy and Investment Board have agreed the Regional Funding Advice for the West Midlands which identifies a number of interventions with both



short to medium and long term impact. These include projects such as; High Speed Rail, Manufacturing Renaissance, a Global Hub of low carbon technologies and spend of at least £2.2 billion between 2009 and 2013 in the impact investment locations. These priorities are amongst those set out in the recently published Joint Strategy and Investment Board Statement of Intent, which also describes the roles and responsibilities for each partner in delivering the agreed priority actions. Feedback from partners to whom we spoke was very positive about the work of the Joint Strategy and Investment Board.

**4.48** The Agency has commissioned projects both solely and jointly with partners using the evidence database developed through its Scale of Challenge programme to address market failure in the RES challenge areas of Enterprise, Innovation, Economic Inclusion, and Transport. An example is the Centres of Expertise for: Women, Black and Minority Ethnic, Young People and Social Enterprise. The Agency's evidence has identified that 1,900 businesses per annum need to be created to bring the West Midlands in line with the England average, but mainstream provision was not reaching potential entrepreneurs in these areas. A full OJEU tender for suppliers to create the Centres of Expertise was undertaken and evaluation is expected in November 2010.

**4.49** In the Independent Performance Assessment report, we highlighted a number of areas where the Agency needed to improve its communication, including improved stakeholder engagement, improved public relations activity and improved planning and delivery. The latest version of the Agency's communication strategy was produced in October 2009 and sets out a number of objectives, underpinned by a comprehensive action plan which provides for progress against the objectives to be measured on a quarterly basis. Progress is reported using the Agency's overall performance framework and is highlighted on a Balanced Scorecard. We found the strategy addresses all the areas identified in the IPA. Feedback from partners to whom we spoke were positive and we were told the Agency had helped to ensure the region had more of a shared identity than three years ago.

**4.50** The Agency has a staff of 18 who work on marketing and communications. They have been proactive in putting out clear and consistent messages to the region's partners and businesses about the help available in response to the downturn. The Communications team have been engaged in the "Support West Midlands Campaign" (which generated over 87,000 web hits) which was set up as a work stream of the Task Force to coordinate communication for the lead agencies. The Agency has led on the communications for all Task Force work and response from partners has been positive about its impact.

**4.51** The Agency undertakes an annual stakeholder survey. Results of the survey show a positive trend in the last three years from 2006 to 2009. Overall satisfaction has risen from 49 per cent to 68 per cent. The other five headline indicators all demonstrate a positive trend: the question on AWM consulting on regional priorities

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rose from 38 per cent to 55 per cent; the question on the Agency demonstrating strong leadership rose from 53 per cent to 70 per cent; the question on the Agency demonstrating a clear position on important issues rose from 34 per cent to 70 per cent; the question on the Agency demonstrating how activities contribute to the West Midlands Economic Strategy rose from 38 per cent to 60 per cent and the question on the Agency providing feedback on progress against delivery of the Corporate Plan rose from 29 per cent to 53 per cent. The Agency were concerned that the reprioritisation exercise may have had a negative impact on satisfaction levels but this has proved not to be the case. Stakeholders told us that they believe the Agency has improved greatly over the last three years.

## Corporate Planning and Delivery

**4.52** The Agency was asked to review its Corporate Plan for 2009-12 in the light of the budget reductions and the economic downturn. The Department issued guidance in April 2009 and gave a timetable for approval of all Corporate Plans by the Secretary of State by July 2009. Although not a formal requirement, the Agency undertook a limited consultation with key partners on the revised corporate plan for six weeks during Spring 2009. In addition to its Corporate Plan, the Agency produces a 12-month business plan and individual directorate plans, setting out key operational priorities and targets.

**4.53** The Agency's revised Corporate Plan has 13 Strategic Functions:-

- International Business.
- Market Opportunities (through clusters).
- Tourism and Culture.
- Enterprise and Business Development.
- Finance for Business.
- Technology Capacity and Business Innovation.
- Skills for Business.
- Land and Buildings for economic growth.
- Infrastructure and Asset Development.
- Sustainable Living and Working.
- Access to Employment.
- Regional Leadership.
- Developing the Rural Economy.

Advantage West Midlands **Part Four: How effectively has the RDA prioritised programmes and projects that offer high value added benefits for the region in the economic downturn and in preparation for the upturn?** 19

**4.54** The Strategic Functions sit under a new Investment and Performance Framework. The purpose of the new framework is to increase the economic impact of the Agency's activity by providing greater clarity about what interventions are trying to achieve. It uses a logic chain which links inputs to measurable outputs and outcomes and provides increased focus on the achievement of SMART objectives. Each Strategic Function has used analysis from the Scale of Challenge work to set its priorities and baseline indicators. A benchmark rate of return for each Strategic Function is also identified.

**4.55** The Agency has established impact benchmarks for each Strategic Function ranging from 0.8:1 for Access to Employment rising to 16.5:1 on International Business. Across all Strategic Functions, an overall impact of 9.9:1 is expected, significantly above the 7.45:1 currently being achieved. This is an example of good practice and the Agency is the only RDA to demonstrate this approach so far.

**4.56** The Agency has aligned over £130 million of its investment in 2009-10 and 2010-11 with the Technology Strategy Board major programme which has been developed to accelerate the pace of innovation across the United Kingdom.

**4.57** Through its work with the Joint Strategy and Investment Board, the Agency and key regional partners have agreed 20 impact investment locations which will be the priority spatial areas for regional investment over the next 10 years. The Joint Strategy and Investment Board have also identified a number of longer term priorities which the Agency will fund including a hub of low carbon technologies and work for the automotive centre of excellence, the Manufacturing Technology Centre, the Climate Knowledge Innovation Community, and Science City.

**4.58** Stakeholders and partners to whom we spoke were aware of the revised priorities within the Corporate Plan and agreed that the Strategic Functions gave greater clarity to the Agency's priorities and provide clearer linkages to the activities in the Regional Funding Advice and the West Midlands Economic Strategy. The Agency were able to demonstrate that partners such as the Homes and Communities Agency, the Learning and Skills Council and the Local Authorities have revised their own plans in line with the Agency's revised Corporate Plan and aligned resources and effort behind the delivery of specific regionally agreed Impact Investment Locations.

**20 Part Four: How effectively has the RDA prioritised programmes and projects that offer high value added benefits for the region in the economic downturn and in preparation for the upturn? Advantage West Midlands**

Areas of good practice	Areas for improvement
<ul style="list-style-type: none"> <li>• The Agency has developed a strong reprioritisation criteria using GVA and deliverability as key components and has applied this to all investments (both capital and revenue).</li> <li>• AWM signposted partners to alternative funding sources where single pot funding had been reduced or removed.</li> <li>• AWM have demonstrated strong alignment with partner activities through impact investment locations.</li> <li>• There is strong commitment from partners, confirmed through Statement of Intent on behalf of Joint Strategy and Investment Board.</li> <li>• The Agency uses data from Businesses, collected through its key account managers, to feed into its Regional Intelligence snapshot.</li> <li>• The Agency undertook an evaluation of its approach to the downturn, which has confirmed benefits in short and medium term.</li> </ul>	<ul style="list-style-type: none"> <li>• The Agency needs to continue to develop its engagement with SMEs on an individual basis where appropriate.</li> </ul>

## Part Five: How effectively is the RDA implementing improvement plans?

**5.1** Following the Independent Performance Assessment of the Regional Development Agencies in 2006-07, each Agency was required to develop a continuous improvement plan. In this section we assess how effectively the Agency has taken forward plans since then and implemented continuous improvement within their organisations.

**5.2** We have Advantage West Midlands as having demonstrated strong performance. The key factors that lie behind this assessment are:

- The use of a robust framework for achieving improvement over a comprehensive range of the Agency's operations and practices which allows overall improvement to be quantified over time and benchmarked with other organisations.
- The independent external validation of the achieved overall improvement.
- The active and regular engagement of staff and stakeholders in identifying and helping to implement improvement.
- The clear and active engagement of both the Board and senior management in driving the improvement programme.

### Robustness of IPA Action Plan

**5.3** During the NAO Independent Performance Assessment (IPA) in 2006-07, the Agency scored 20 out of 24. This is equivalent to performing strongly overall. In response to this report the Agency produced an Action Plan in March 2007 that identified actions to address the observations made in the IPA Report. Stakeholders and partners were made aware of the IPA Action Plan and current versions are published on the Agency's website.

**5.4** The Agency has chosen to use the European Foundation for Quality Management Excellence Model as the underlying framework to drive its continuous improvement and the IPA Action Plan was set out under the models' five excellence enablers of Leadership, Policy and Strategy, People, Partnerships and Resources, and Processes. The plan identified 11 areas for improvement, each with a clearly stated objective as summarised below:

### **Leadership**

- Enhancing the Agency's profile – to enhance the profile, understanding and reputation of the Agency regionally and nationally

### **Policy and Strategy**

- Marketing in the West Midlands – to work with stakeholders and partners to improve the image and profile of the West Midlands both nationally and internationally.
- Clarification of the Agency's strategic and delivery roles on the skills agenda – to ensure stakeholders and partners are aware of, and can differentiate between, the Agency's strategic and delivery roles on the skills agenda.
- Increasing further the alignment of other regional strategies and funding streams with the West Midlands Economic Strategy (WMES).

### **People**

- People management – to ensure that the Agency manages and develops its staff effectively.

### **Partnerships and Resources**

- Improving further the use of evidence and information to inform Agency decision making – to ensure that the Agency has a systematic approach to using evidence and information to inform future decision making and share this with partners.
- Risk management – to extend the Agency's risk management framework to encompass the WMES to ensure that risks that could impact on the delivery of the WMES are identified and managed effectively.

### **Processes**

- Improving project processes – to improve Agency project processes in line with feedback from partners and communicate the changes to stakeholders and partners.
- Reporting of performance on delivery of the WMES and the Agency's Corporate Plan – to ensure stakeholders have a clear understanding of progress on delivery of the WMES Action Plan and the Agency's Corporate Plan.
- Financial Management of Project Spend – to ensure that spend is spread more evenly throughout the financial year and not back-end loaded into the final quarter of the year.

- Embedding Sustainable Development in the Agency's policies and processes – to ensure that by 2008 Agency funding is delivering fully against sustainable development principles.

**5.5** These objectives were underpinned by 28 identified actions, each of which had defined start and end dates and key milestones. Each objective was assigned to a Corporate Director or the Deputy Chief Executive with resources for implementation identified. The key line of enquiry within the IPA which the objective addressed was also identified. The desired outcomes or impacts were defined for each improvement area to describe what success would look like and how it would be evidenced. Progress on the IPA Action Plan was monitored by the Audit Committee on behalf of the Board and was reported on every quarter after July 2007.

**5.6** The delivery of the Action Plan was led by the Leadership team, engaging with managers and staff from across the Agency. All of the actions and milestones in the original Action Plan have been completed or exceeded, except those that were originally agreed to be “ongoing” improvements.

**5.7** The Agency updated its Corporate Risk Register in July 2007 to include the risks associated with the delivery of the Improvement Plan and identified appropriate actions to mitigate them. The Audit Committee review the effectiveness of internal controls and the actions to mitigate risks on a quarterly basis. The Internal Audit reports for 2007-08, 2008-09 and 2009-10 on the Agency's continuous improvement programme state that delivery of the Improvement Plan has been “well controlled”.

**5.8** Summary updates on the Action Plan have been included in the Agency's Annual Report and Accounts, which includes the Annual Performance Report, and the detailed Action Plan report made available on the website, along with the Agency's Balanced Scorecard of corporate performance.

**5.9** The Agency has delivered a range of improvements in response to the observations in the original IPA Report and the subsequent Action Plan. These include:

- Development of an evaluation plan and sharing results of evaluations with partners and stakeholders;
- Increased accessibility of Agency staff to stakeholders and partners;
- Refreshed the Regional Marketing Strategy in collaboration with Delivery Partners;
- Analysed the resources that could be influenced by the West Midlands Economic Strategy and developed an WMES Action Plan with specific partner responsibilities;

- Developed a risk management framework for the WMES and the Action Plan;
- Reviewed the regional evidence base to make disaggregated data available;
- Launched an internal communications strategy taking account of staff survey results;
- Produced a process map of project management procedures and shared this with all partners; and
- Developed a Balanced Scorecard performance management framework linked to Investors in Excellence criteria.

**5.10** The October 2009 Improvement Plan Progress Report and supporting documentation demonstrates that the Agency has met or exceeded all the milestones for its original areas for improvement, and all are reported as either completed or identified as ongoing actions, such as annual surveys or regular reporting to Audit Committee.

## Updating Improvement plans

**5.11** In its 2005-08 Corporate Plan the Agency undertook to achieve the Investors in Excellence standard, which it did at its first attempt in 2007. The Agency has extended its work on continuous improvement and its 2009-11 Corporate Plan includes a section on developing the Agency as an organisation and its Aiming for Excellence programme, identifying the activities to be undertaken.

**5.12** Improvement activity planning is reviewed and updated on an annual basis to incorporate new areas for improvement. In 2007, this update was driven by the feedback from Midlands Excellence following the Agency's Investors in Excellence submission. In February 2008 the separate work streams of the improvement agenda in the Agency, consisting of the IPA Action Plan, Investors in People accreditation and Investors in Excellence accreditation were brought together into a single Improvement Plan.

**5.13** The comprehensive Improvement Plan was launched to Agency staff under the banner of "Aiming for Excellence", which now headlines the Agency's corporate values and continuous improvement agenda. Since 2008 the annual update has been driven by the outcome of the Aiming for Excellence Cross Directorate Workshops held with staff.

**5.14** The annual Cross Directorate Workshops are informed by potential areas for improvement collated and proposed by a Steering Group and endorsed by the Leadership team. These are then debated and refined by the entire staff via workshops. These workshops form the basis for the Investors in Excellence



submission that the Agency undertakes every year, as well as prioritising new areas for improvement activity.

**5.15** The workshops are introduced and sponsored by the Leadership team and the Agency's Functional Directors perform a key role in facilitating and championing the workshops to ensure their success and the levels of engagement for all staff. The Functional Directors also have an ongoing role to champion and deliver on the Aiming for Excellence agenda. The identified areas for improvement are prioritised by the staff and the Leadership team approves their incorporation into the Improvement Plan.

**5.16** The Improvement Plan has been systematically updated to reflect areas for improvement identified from a wide variety of sources including: staff and stakeholders surveys, Investors in Excellence feedback reports, Investors in People accreditation reports, the PwC Impact Evaluation report recommendations, the Agency's customer service standards framework and staff suggestion schemes.

**5.17** Staff and stakeholder surveys are undertaken every year, and an additional survey of applicants was introduced in 2009. All the surveys are undertaken by independent research companies. There is an active staff suggestion scheme. Staff are able to trace the progress of suggestions made through the intranet and are also personally informed of the response to their suggestions. There is also an Agency-wide Staff Consultation Forum, in addition to Trade Union engagement with the Leadership team.

**5.18** The Improvement Plan has also been updated to include quantifiable "Measures of success" which identify the key performance indicators to be used to evidence whether improvements have been delivered. The progress reports show these measures being used to demonstrate progress and also highlight areas of achievement or risk in delivering the desired outcomes. Progress against targets in the Agency's Improvement Plan is also published regularly.

**5.19** The Agency's Head of Performance Improvement undertakes analysis of any internal or external performance or quality reviews. This allows the cross-referencing of recommendations to areas of the improvement plan and identifies areas for future improvements to be incorporated. This analysis is reported to the Leadership team and informs the proposals that are presented to the annual cross-directorate Aiming for Excellence workshops, so that they can be debated and prioritised by the Agency's staff.

**5.20** As well as delivering on the original Improvement Plan, the Agency has updated it regularly, incorporating recommendations and priorities from a range of performance feedback sources, such as:

- New actions identified by the Midlands Excellence Investors in Excellence feedback report in 2007;
- New actions added in September 2008 as a result of the Aiming for Excellence Staff workshops, including a new area for improvement under Corporate and Business Planning to include the development of an annual Agency Business Plan; and
- New actions added in April 2009 to incorporate priority recommendations from the PwC Impact Evaluation report.

**5.21** New milestones are incorporated into the Improvement Plan to ensure it remains current and continues to develop the Agency's performance framework, for example:

- New milestones such as "Develop Media Relations Plan 2009-10 to continue securing an increase in regional media coverage" added in January 2009; and
- New action and milestones to "Test applicants satisfaction with Agency processes and the quality of its customer service standards" added in March 2009.

**5.22** As the implementation of the plan has progressed the Agency has increased the scope of some actions. For example an action to identify and capture all processes into QMS had three original milestones that are all completed. However, a fourth milestone was added following the September 2008 Aiming for Excellence Cross Directorate workshops which requires an updated process map to be developed and used to identify priority processes for detailed mapping.

**5.23** This work is now being progressed with the aim of identifying processes that can be improved and made more efficient or effective by identifying and eliminating repetition and waste. This includes incorporating feedback from partners to decrease the timescales for decision making in project appraisal and approval. It also aims to ensure that all Agency processes are documented and fully captured in the Quality Management System (QMS).

## Delivering Improvement Plans

**5.24** The Agency bases all its continuous improvement activity on the internationally recognised European Foundation for Quality Management (EFQM) Excellence Model and the Aiming for Excellence Improvement Plan is structured around this model. The model provides an organisation-wide improvement framework that the Agency uses to systematically incorporate continuous improvement into all its activities and to

independently benchmark the Agency against other organisations in a comprehensive programme for improvement.

**5.25** Continuous improvement activity is driven by the Leadership team, with the full support of the Board. All members of the Board we spoke to have a working understanding of the model that the Agency employs and how it is used, and the new Chair has extensive experience of its application in the private and public sectors and is very supportive of its continued use. The Board maintains an overview of the continuous improvement of the Agency and brings a wider perspective to the activities, for example identifying where the Agency can work with other organisations to drive particular improvements.

**5.26** The EFQM Excellence Model has been integrated into the Aiming for Excellence brand and we found it to be well developed and understood within the Agency as it is central to all activity.

**5.27** The Agency has demonstrated rapid development under the Excellence Model. It achieved Investors in Excellence accreditation in 2007, with a score of 401 and has since maintained year on year improvements in its scores, achieving 441 in 2008 and 491 in 2009. The Agency won two awards at the 2009 Midlands Excellence Awards; for the Most Improved Organisation and the Highly Commended Finalist. The Agency enters the awards every year as the feedback report and score provide independent validation of the extent of improvement.

**5.28** The Leadership team is supported by an Aiming for Excellence Steering Group, a multi-disciplinary group from across the Agency that includes the Chief Executive, the Head of Performance Improvement, the Corporate Director of Resources, the Director of Human Resources and volunteer representatives from each Directorate. The Steering Group reports regularly to the Leadership team and progress on the Improvement Plan is reported to the Audit Committee every quarter. The Improvement Plan is closely linked to the Agency's Balanced Scorecard and the Board receives this every month. The diagram below at Figure 5.3 demonstrates in summary how all the individual strands of performance monitoring and reporting are linked and how they contribute to the priorities from a regional to an individual level.

Figure two: Performance Management Framework: Performance monitoring and reporting mechanisms

WMES Connecting to Success	Corporate Plan	Annual Business Plan	Directorate Plan	Individual Objectives
<p><b>Annual:</b></p> <ul style="list-style-type: none"> <li>• WMES outcome indicators Monitoring Report</li> <li>• WMES Delivery Framework Monitoring Report</li> <li>• WMES Delivery Framework External Verification Report</li> <li>• WMES Delivery Framework Synthesis Report</li> </ul> <p><b>Six monthly:</b></p> <ul style="list-style-type: none"> <li>• WMES Delivery Framework mid-year progress update</li> <li>• WMES risk register updates</li> </ul>	<p><b>Annual:</b></p> <ul style="list-style-type: none"> <li>• Annual Report and Accounts (incorporates Annual performance Report)</li> <li>• Annual Review</li> </ul> <p><b>Six monthly:</b></p> <ul style="list-style-type: none"> <li>• Half-Yearly Business Plan progress report</li> <li>• ‘Star Chamber’ review of key projects</li> <li>• Strategic Review Meeting with BIS</li> <li>• Corporate risk register updates to Audit Committee</li> </ul> <p><b>Quarterly:</b></p> <ul style="list-style-type: none"> <li>• Improvement Plan progress reports</li> </ul> <p><b>Monthly:</b></p> <ul style="list-style-type: none"> <li>• Financial (and other management) information progress reports to Board, presented within the framework of the Balanced Scorecard.</li> </ul>	<p><b>Six monthly:</b></p> <ul style="list-style-type: none"> <li>• Half-yearly directorate progress reviews</li> </ul> <p><b>More frequent:</b></p> <ul style="list-style-type: none"> <li>• Individual Project Board meetings (as required)</li> </ul>	<p><b>Annual:</b></p> <ul style="list-style-type: none"> <li>• Individual performance reviews</li> </ul> <p><b>Quarterly:</b></p> <ul style="list-style-type: none"> <li>• Individual performance reviews</li> </ul> <p><b>Monthly:</b></p> <ul style="list-style-type: none"> <li>• 1 to 1 work planning meetings</li> </ul>	
<p>Balanced Scorecard brings all of our headline performance monitoring information together (monthly, quarterly and annually)</p>				

Note: Performance monitoring and reporting against the Corporate and Business Plans are shown as a single process as the Business Plan is about in-year Corporate Plan delivery

**Source: Advantage West Midlands Performance Management Framework**

5.29 The Aiming for Excellence Steering Group meets every four to six weeks and has a varied agenda of key issues relevant at the time of their meeting, for example the return of survey results, submission of a self assessment to Midlands Excellence or the content of the Cross Directorate Working Groups. The group monitors progress in implementing the Improvement Plan, consider and agree additional areas for improvement and collectively and individually act as champions for the Aiming for Excellence programme across the Agency.

5.30 Aiming for Excellence activities are evaluated to demonstrate they have worked before they are signed off as completed and the Head of Performance Improvement maintains an evidence file of completed actions. Progress against the Improvement Plan has also been the subject of three internal audit reports.

5.31 An Internal Audit report of the continuous improvement programme in February 2009 was classified as “well controlled”. The report identified the need to ensure progress could be fully evidenced, and the Agency now keeps a comprehensive evidence file. Internal Audit also recommended that Aiming for Excellence should be incorporated into the new staff induction programme. An overview of the programme is now presented in the training, along with related issues such as the Agency’s Mission, Vision, Values and Behaviours.

**5.32** The stakeholder and partner surveys demonstrate that the Agency has made progress on key areas of improvements at organisational and individual satisfaction levels. The percentage of stakeholders that would speak highly of the Agency without being asked has increased year on year from 33 per cent in 2006 to 57 per cent in 2009. The percentage who would rate the Agency's ability to provide strong leadership as either good or excellent has been raised from 51 per cent in 2006 to 70 per cent in 2009.

**5.33** The third staff survey, in 2009, achieved an 88 per cent response rate, up from 77 per cent the previous year. Two key measures of the survey are benchmarked in the Agency's Balanced Scorecard at 90 per cent; overall satisfaction with the Agency as an employer and recommending the Agency as a good place to work. Both measures have risen from 87 per cent in 2008 to 93 per cent in 2009.

**5.34** The Agency has also seen an eight percentage point rise in positive views about internal communications to 87 per cent in 2009, and an increase of 11 per cent in the effective working relationships between individuals and teams to 84 per cent.

**5.35** The Agency has achieved a 13 per cent increase in the view that staff and individual achievements are recognised by the Agency to 84 per cent. This is at least in part as a result of the monthly Spot Light awards that are made to staff nominated and judged by their peers to have made exceptional contributions to their work or to teams. This award has been highlighted by the Investors in People accreditation report in May 2009 as a strength and area of good practice and is highly regarded by staff.

**5.36** Staff survey results have been independently benchmarked against those of 30 high performing private and public sectors organisations (Investors in Excellence accredited) and the Agency exceeded these benchmark averages in 50 per cent of questions and only fell below it for 22 per cent - representing six areas of the survey.

**5.37** Progress on the Aiming for Excellence agenda is widely published, with a new performance reporting section added to the Agency's website in 2006 to give more regular and systematic feedback to stakeholders. The Agency also provides updates in its Corporate Plan and Annual Reports.

30 **Part Five: How effectively is the RDA implementing improvement plans?** Advantage

West Midlands

Areas of good practice	Areas for improvement
<ul style="list-style-type: none"><li>• The Agency uses an internationally recognised framework for continuous improvement, which is independently validated and benchmarked on an annual basis. Progress against the framework is quantifiable.</li><li>• The Agency has systematic mechanisms for regularly gathering and responding to stakeholder and staff feedback, including an applicant survey.</li><li>• The Agency has adopted a comprehensive performance monitoring system for continuous improvement which is embedded into wider performance reporting.</li><li>• There is a clear golden thread from the Agency's Corporate Plan to individual staff objectives and staff appraisals measure contribution to continuous improvement targets.</li></ul>	

## Part Six: How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation?

**6.1** In this section we examine how effectively the Agency has evaluated its work and used the lessons to improve its performance management processes, particularly its appraisal and investment decisions.

**6.2** We have assessed Advantage West Midlands as having demonstrated strong performance. The key factors that lie behind this assessment are:

- A clear link between commissioned evaluation and development of decision-making tools which have been applied to ensure future investments are adding the greatest value.
- Clearly identified and differentiated benchmark regional growth returns for each strategic function based on robust evaluation evidence.
- Clear setting of medium-term targets to drive up regional growth from different Agency interventions.
- The development of a mature value for money tool to aid investment decision-making and which helps the Agency to consider past experience on such issues as additionality, displacement and strategic added value.
- A consistent and robust approach to sharing and engaging partners in the results of evaluation and improving appraisal.
- Extensive benchmarking of a comprehensive range of functions with demonstrable improvement as a result.

## Effective evaluation

**6.3** In February 2006, the Government published an Impact Evaluation Framework (IEF)<sup>1</sup> to govern the approach to evaluation adopted by Regional Development Agencies. Following the publication of the IEF, in December 2007, PriceWaterhouseCoopers (PwC) were appointed by the Department of Business, Enterprise and Regulatory Reform (BERR) to provide “an independent assessment of the impact of the spending by each of the nine Regional Development Agencies (RDAs) and the RDA network as a whole” and to assess RDAs’ achievements against the objectives in the RES and Corporate plans. The impact of the RDA Spending report was published in March 2009<sup>2</sup>.

**6.4** The NAO’s 2006-07 Independent Performance Assessment identified weaknesses in the quality and robustness of evaluation across most RDAs and improving evaluation has subsequently been a key focus for RDAs. The report found that the Agency had a good foundation for evaluation and utilised appropriate evaluation methodologies, but that it needed to further develop and embed evaluation at the programme and strategic levels.

**6.5** The PwC report assessed nine programme level evaluations covering 81 per cent (£990 million) of the Agency’s project spend, against a target of 60 per cent. It found that the Agency had created or safeguarded 77,800 jobs, 47 per cent of which were additional at the regional level. The Agency has created 3,100 businesses and assisted almost 28,400 businesses, 45 per cent and 30 per cent of which were additional respectively.

**6.6** In its consideration of value for money, the PwC report concluded that the Agency had achieved positive cumulative returns against cost for all evaluations. It found that the highest achieved annual return on investment was within business interventions with a return of 2.7 to 1, and the lowest annual return within land and property interventions with a return of 0.4 to 1. However, the cumulative return for land and property investments was 4.0 to 1 and the total return on investment was anticipated to be 14 to 1, the highest by investment type. Land and property interventions were one of three evaluations that had achieved annual returns which were less than costs. The remaining evaluations were skills interventions and regeneration zones, both of which had achieved positive cumulative returns against cost and were expected to achieve total returns on investment of 4.7 to 1 and 5.1 to 1 respectively. The report found that the overall rate of return from the Agency’s activities was 7.45 to 1. The Agency was able to demonstrate impact of £7.2 billion.

<sup>1</sup> DTI Occasional Paper No.2, Evaluating the Impact of England’s Regional Development Agencies: Developing a Methodology and Evaluation Framework, February 2006.

<sup>2</sup> Department of Business, Enterprise and Regulatory Reform, Impact of RDA Spending – National Report, Vol 1, Main report, March 2009.



**6.7** In 2007 the Agency launched an Evaluation Plan covering programme evaluations over a three year period. The Evaluation Plan outlined the Agency's approach to evaluation and focused on ensuring that the evaluation process and outputs would be consistent with the Impact Evaluation Framework and would allow the Agency to assess the contribution of programmes to the West Midlands Economic Strategy.

**6.8** The Evaluation Plan was updated in 2009 to reflect the National Economic Impact report and the Agency's programme evaluations to date and covered evaluations due to take place over 2009-10 – 2011-12. The Agency has an internal target to evaluate at least 80 per cent of its projects and programmes, with not less than 60 per cent coverage in each Strategic Function group. Some 0.2 per cent of overall programme expenditure is now due to be spent on evaluation studies over 2009-10 to 2011-12, giving a recommended yearly expenditure of £0.6 million, £0.9 million and £0.5 million respectively.

**6.9** The Agency's evaluation activity is undertaken at both a programme and project level. Evaluations are based on the use of 'logic chains' to identify programme objectives and link inputs to outputs and impacts to demonstrate how programmes are adding value. The type of evaluation required at a project level is determined by a Decision Tree tool available to Agency staff and applicants. The results are recorded in the evaluation plan which has been a requirement for project applications since 2006-07. The Decision Tree tool enables applicants to determine the requirements for interim and final evaluations based on project type and duration, level of Agency investment and the time period since the previous evaluation, if appropriate. No formal evaluation is required for projects where the Agency is due to invest less than £500,000.

**6.10** The Evaluation Plan is agreed and owned at a corporate director level and is the responsibility of the Corporate Director of Strategy and Skills. Evaluation is governed by the Evaluation Steering Group, which was established to oversee the work of the Agency relating to the Impact Evaluation Framework. The Group is chaired by the Corporate Director of Partnership and Communications and includes representation from Directors and Heads of Teams within the strategy, skills, finance and projects and contracts teams. The Group is responsible for ensuring evaluations are IEF compliant. The Group meets monthly and meeting minutes and papers are submitted to the Agency's Board.

**6.11** The Agency has allocated clearly identified roles and responsibilities to staff within its evaluation processes and this is supported by an evaluation process map which articulates the stages, key requirements and parties involved in evaluations and anticipated timescales by evaluation type. The completion of evaluations is led by an Evaluation team of four staff dedicated to undertaking such activities. An Evaluation Steering Group oversees the work covering independent project evaluations.

**34 Part Six: How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation?** Advantage West Midlands

**6.12** External programme level evaluations are commissioned by the Agency's Evaluation manager. Responsibility for project level evaluations rests with the Projects and Contracts team under which the evaluation is due, while the commissioning of external evaluations is the responsibility of the evaluation team. Programme managers and policy heads are consulted for feedback prior to the finalisation of the brief for evaluation. Tenders for evaluations are reviewed by the procurement team within the Agency and are submitted to a three-year panel of independent consultants. There is a formal process within the Agency to evaluate the work of consultants and the Agency holds quarterly meetings with panel members to provide feedback on their performance.

**6.13** The Agency's evaluation procedures were reviewed by Internal Audit in 2009. This found that the Impact Evaluation Framework was 'well controlled' but that there were minor control weaknesses due to the absence of an operational level risk register for the Evaluation team. The Internal Audit Improvement Plan recommended undertaking a risk assessment of its evaluation work. This was completed in September 2009 and signed off by the Evaluation Steering Group in September 2009 and includes identification of actions required, staff responsibilities and progress made.

**6.14** The Agency places significant emphasis on identifying the impact of outcomes and on improving its return on investment. There is clear communication of the anticipated return on investment and ensuring evaluations are in place to identify the impact of projects. Evaluations are expected to include a full breakdown of the quantifiable impact of programme and project, including annual, cumulative to date and total return. The Agency has successfully communicated its £7.45 return on investment identified within the PwC study to staff and external partners and is committed to improving on this benchmark. It has set targets for return on investment for 10 of the thirteen strategic functions and is developing targets for the remaining three strategic functions. Seven strategic functions now have target rates of return above the PwC benchmark, five of which have target rates above 14 to 1. The overall target rate of return for the Agency's activities is 9.9 to 1, well above the PwC benchmark.

**6.15** The development of benchmark rates of return on investment within each Strategic Function is part of the Agency's Investment and Performance Framework (IPF) which is designed to drive the economic impact of its activity and ensure that the lessons learnt from evaluations are incorporated into corporate investment planning decision making and project development. The IPF was incorporated into the Agency's Corporate Plan and is due for completion by March 2010. It consists of four workstreams, each of which will be supported by a Task and Finish Group: implementing benchmarks, lessons learnt and value for money; process, procedures and forms; communication, training and development; and strategic management and governance.

**6.16** We reviewed six evaluations completed by the Agency during 2009. We found that all evaluations assessed performance against the original aims and objectives and included a full assessment of the impact from the delivery of these objectives. The evaluations contained a comprehensive assessment of Gross Value Added and other impacts such as jobs created/safeguarded, business assistance and skills development, and included quantitative measures of those achieved to date, cumulative achievement and future perceived benefits. All evaluations were undertaken independently from the team involved with the appraisal and delivery of the programme or project. There was clear evidence to substantiate that feedback from evaluations had been incorporated into the Agency's Continuous Improvement Plan and shared with external partners.

**6.17** The Agency is committed to communicating its approach to evaluation and disseminating the results to staff and stakeholders and its reporting of lessons learnt was identified as an area of good practice by Internal Audit in 2009. The Agency shares evaluations with staff and external partners through a programme of publications and events, which includes presentations to the Leadership team and Functional Directors and the publication of reports and lessons learnt on its website and those of other organisations. Lessons learnt are now identified within each Strategic Function Board, on which the Evaluation team is represented, but prior to this was achieved through calibration and dissemination events and the identification and implementation of recommendations.

**6.18** The Agency held five internal and external calibration events in 2008-09 – 2009-10 to review the results of evaluations and ensure awareness and engagement from teams and partners. It held seven internal and external dissemination events over the same period to communicate the results of evaluation by programme and function area. The results of evaluations are also disseminated internally through bespoke training packages developed by independent consultants, based on the OffPAT training framework, in response to the 22 priority actions identified by evaluation workshops. These include training to address project rationale and objectives, appraisal and monitoring requirements and evaluation and feedback procedures. The Agency held thirty two internal and external training workshops in 2008-09 – 2009-10. It collected feedback on the training it had delivered on the evaluation process to project sponsors and project and contract managers within the Agency and to external partners. This demonstrated that at least 90 per cent of participants in each group had an improved or greatly improved understanding of the subject and at least 77 per cent reported increased confidence in their ability to specify and manage a project evaluation. From interviews with staff, it was evident that the importance of evaluation has a high profile within the Agency and that staff are aware of the requirements placed on them to complete evaluations.

**36 Part Six: How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation?** Advantage West Midlands

**6.19** The evaluation reports produced by, or on behalf of, the Agency are published and freely accessible on the Agency's website. The Agency shares best practice with other RDAs through its membership of the Evaluation Practitioner's Group and OffPAT, through which it has also published its evaluation reports and training materials.

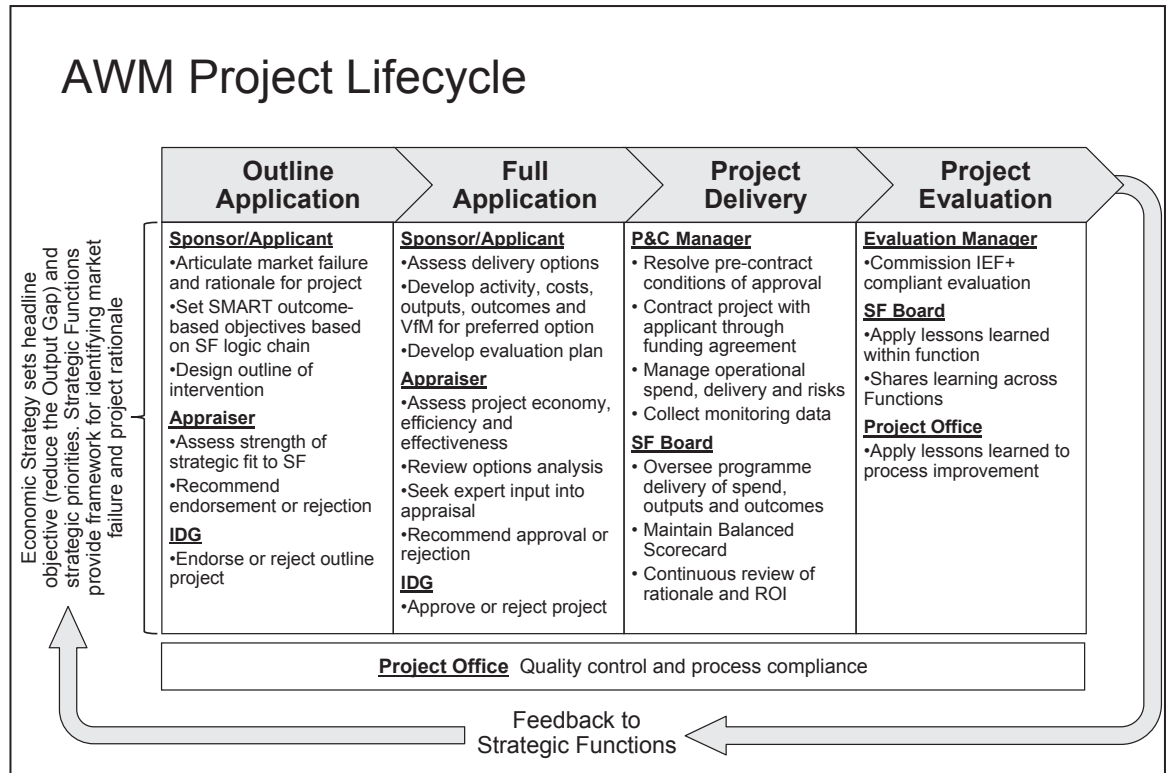
## Effective appraisal process

**6.20** The Agency develops projects through two principle approaches led by either external partners or by the internal identification of issues and market failures in response to data analyses or evaluations conducted by the Agency. There are six stages to the project process within the Agency:

- Project initiation and registration;
- Outline Application;
- Full Application;
- Award of Contract;
- Project Delivery;
- Project Closure and Final Evaluation.

**6.21** Projects are developed in conjunction with the applicant and a Project Sponsor within the Agency. The Appraisal team is involved at both the outline application and full application stage of the Agency's project lifecycle (see Figure 6.2 a). At the outline application stage, the appraiser assesses the strategic fit of the project and recommends whether it should be provisionally endorsed. The assessment of the economy, efficiency and effectiveness of a project, review of options for delivery and incorporation of expert input, takes place at the appraisal of a full project application. An appraisal function was established within the Evaluation team in September 2009, which includes a team leader with specific responsibility for quality checking appraisals for consistency and GRADE compliance.

Figure three: Advantage West Midlands Project Lifecycle



Source: Advantage West Midlands

**6.22** Projects are approved at both the outline and full application stage by the Investment Decision Group, which has delegated authority from the Board to approve projects up to £5 million. The Group is chaired by the Corporate Director of Strategy and Skills and includes members of the Leadership team and Corporate Directors. Project Sponsors and Appraisers attend the Group to provide an overview of the project and a recommendation whether the Group should endorse the project.

**6.23** The Agency monitors the time taken to appraise and approve projects through its Project Management System and progress against target timescales is reported to the Investment Decision Group and the Board via the Agency's Balanced Scorecard. The Agency aims for at least 70 per cent of projects to take six weeks or less to progress from outline application to endorsement, eight weeks or less to progress from full application to investment decision and nine weeks or less from investment decision to award of contract, and the Group will request justification to support any milestones not met. The Agency exceeded the targets for the time taken for projects to progress from outline application to endorsement and from full application to investment in every quarter of 2008-09 and the first two quarters of 2009-10, with 88 and 86 per cent of projects meeting their deadlines respectively in 2008-09 and 76 and 83 per cent in 2009-10. Progress against the target timescale for the award of contract, of which the Agency has less control owing to external factors, was less positive. Forty-five per cent of projects met their target for the time taken to progress from investment

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decision to award of contract in 2008-09. This improved slightly during the first two quarters of 2009-10 to 47 per cent. The average time taken for project applications to proceed through the full appraisal and contracting process, measured quarterly, was 20 weeks in 2008-09 and 19 weeks in the first two quarters of 2009-10.

**6.24** Interviews and focus groups with the Agency's stakeholders demonstrated that external partners find the application and appraisal process straightforward and well communicated. Respondents felt that the Agency provided appropriate support for applicants, with information being readily available from the Agency or its website, and communicated the requirements of projects clearly with applicants. There were, however, concerns raised about the time consuming nature of project applications, most notably regarding the level of detailed information required, and a perception that this was onerous, particularly for small organisations or inexperienced applicants. The time taken to make decisions on project applications was also considered lengthy. Stakeholders recognised, however, that this had improved, as demonstrated by the results of the Agency's applicant feedback survey.

**6.25** The Agency's internal auditors undertake an annual audit of its appraisal system. In June 2009, Internal Audit reported the Agency's project appraisal system as being "well controlled" and reflecting the requirements necessary for GRADE compliance. It found that appraisals were completed using appropriate forms and were supported by evidence, including assessment of strategic fit, options appraisal and sensitivity analysis, ability to manage and deliver the project, estimated costs and financial information, and identification of key risks. No recommendations for improvement to the project appraisal system were made.

**6.26** In 2009, the Department and PwC economists reviewed a sample of project appraisals conducted by the Agency as part of the 2009 Central Projects Review Group (CPRG) appraisal back check. The report found a number of areas of good practice and concluded that the Agency had made considerable effort to improve project processes and train staff on key aspects of appraisal and evaluation. It identified two areas for improvement: the development of market failure in terms of Treasury guidance; and the quantitative analysis of alternative options in order to enable clearer value for money assessments. The identification of market failure has been included in project design training delivered by the Agency in July 2009. Similarly, the quantitative analysis of alternative options is included in the Agency's updated Value for Money tool.

**6.27** The Agency introduced an applicant feedback survey in June 2009 to identify issues within its project process and has taken action in response to feedback. The survey was designed by independent consultants and is conducted quarterly. The Agency has revised its project development pack and guidance offered to external partners following the results of the survey and ensured this is accessible online. In quarter two 2009-10, 83 per cent of applicants were satisfied with the advice and information provided by the Agency during the applications process, considering it

relevant, up-to-date, easy to understand and comprehensive. The target processing times monitored by the Investment Decision Group and the Board and the online Project Tracking System introduced in January 2008 to allow applicants to monitor the progress made by their project were also introduced in response to criticism from applicants over the time taken to reach decisions. In quarter two 2009-10, more than two thirds (68 per cent) of applicants were satisfied with the way in which the Agency kept applicants informed of progress during applications and 69 per cent were satisfied with the transparency in decision making during the process.

**6.28** Interviews and focus groups with staff demonstrated an extensive understanding of the Agency's project processes, the roles and responsibilities of individuals and teams, and key expectations and Agency requirements. The Agency has developed training for staff in response to the evaluation study covering 2002-03 – 2006-07 to address process recommendations around project outputs and outcomes and strategic added value measurement. Training on project rationale, SMART objectives and market failure was delivered by SQW Consulting in quarter three and four of 2008-09. Feedback was used to develop further logic chain training for project sponsors by Frazer Associates in quarter one of 2009-10 to cover key concepts including options appraisal, gross to net outputs and value for money. Workshops were also delivered to external partners over the same period to cover the logic chain approach to project design and how to apply this to project development. To ensure the training was fully understood by staff and determine whether any additional support was needed, the Agency produced an online follow up assessment for completion in September 2009.

**6.29** Our review of a sample of appraisal files conducted by the Agency during 2008 and 2009 found that the forms had been completed following the guidance and using specified templates. There was evidence of well completed appraisals which substantiated areas of good practice identified within the Agency, but there were also areas of inconsistency in the quality of information recorded and the depth of analysis to support decisions.

**6.30** Value for money was generally well explained in the files included in our review. The Agency has used a bespoke value for money tool since 2005 and there was clear evidence that this is used to analyse the recommended option. The tool identifies project expenditure and quantified core and supplementary outputs and provides a clear assessment of value for money by benchmarking the value of project outputs against anticipated project spend. However, value for money was not explored in one appraisal, in which there was no evidence of outputs having been identified or benefits having been fully quantified. The Agency considered the project to deliver non-quantifiable strategic added value rather than direct economic outputs or benefits and that a detailed assessment using the Agency's value for money tool was not appropriate.

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**6.31** The programme of impact evaluation studies in 2008-09 highlighted the need for the Agency to improve its approach to assessing value for money. In May 2009, the Agency commissioned independent consultants to provide updated analysis of performance benchmarks and coefficients to express outcomes in net terms. The updated value for money tool was presented to the Evaluation Steering Group in September 2009 following a pilot with Contract team leaders and project sponsors in quarter two of 2009-10. The updated value for money tool allows the Agency to quantitatively assess all presented options and clearly define economic outputs, impact, and strategic added value. The tool considers economy (unit costs of outputs against identified benchmarks), efficiency (translation of outcomes into Gross Value Added) and effectiveness (achievement of objectives). While the NAO file review did not find evidence of the separate identification of strategic added value within appraisals, this is included in the tool and available guidance includes categories of strategic added value according to strategic leadership and catalyst, strategic influence, leverage, synergy and engagement. The focus on Gross Value Added and return on investment is part of Green Book compliance, but has been extended to small as well as large projects. The value for money tool accommodates benchmarks taken from the Practical Guidance on Implementation of the IEF issues by the Department for Business, Innovation and Skills and the national impact report produced by PwC. The Agency is continuing to develop the tool and plans to automate the calculation of value for money and efficiency and enable interactive online access for staff.

**6.32** There was evidence in our file review of the development of an evaluation plan prior to the appraisal of a project and that these were challenged by appraisers. All projects included in the review were noted as meeting the Agency's requirements and as being appropriate to the project, but there is potential to develop the evaluation plans to include additional detail.

**6.33** Options appraisals within the Agency largely concentrate on a combination of four approaches: the situation if no investment was made, the proposed investment, additional investment and less investment. Appraisals also detail the viability of options, including sensitivity analysis, optimism bias, distributional/non market effects and the potential to use other funding streams or deliverers. Our review found some evidence that the Agency costs the recommended and alternative options and demonstrated that the appraiser provides robust challenge to the development of options. However, we also found areas of inconsistency in the quality of options appraisal, with evidence of very limited identification and consideration of both the recommended and alternative options in one case and an acceptance of this approach by the appraiser with no challenge. The Agency considered this project to deliver strategic added value rather than quantifiable economic outputs or impact. While the selection of options included an independent review of potential properties, the project had been justified on the basis of both a contractual requirement and as necessary for improving business efficiency and so it would be reasonable to expect this to be reflected in the options appraisal.



**6.34** There is a clear awareness by staff of the need to identify the market failure addressed by projects at the outset of project development. General market failure identified by the Agency is expressed through the West Midlands Economic Strategy and the Strategic Functions which set out the relevant categories of market failure that apply. This determines the baseline and outline evidence to support the potential impact of projects. The role of project sponsors is to assist applicants to articulate the rationale and market failure specific to their projects. Our review of appraisal files found that market failure was well articulated by applicants. This is supported by guidance for applicants, which is available on the Agency's website and clearly states the requirements for applications to identify project need, project demands, the root causes of these problems and how these will be addressed by the project. This is also supported by training provided to staff and partners. The category of market failure however, for example externalities, market power, imperfect information and uncertainty or public good, are not specifically mentioned in the files included in our review, as these were completed prior to the introduction of the training and the Strategic Functions.

## Benchmarking and sharing best practice

**6.35** The NAO IPA report in 2007 noted that the Agency had a high commitment to benchmarking performance and processes against comparable organisations and standards. Prior to 2008 the Agency's approach to benchmarking was not systematic in terms of covering all of the measures in its Balanced Scorecard. Whilst the Agency does not have a specific benchmarking strategy, in 2008 the Aiming for Excellence Steering Group agreed that the Balanced Scorecard would form the basis of the Agency's approach to benchmarking. The Group identified appropriate objectives and measures from the Balanced Scorecard and noted whether benchmarking was already taking place, scope for benchmarking had been identified or was underway, or benchmarking couldn't take place as measures were yet to be defined.

**6.36** The Agency's Benchmarking Action Plan was approved by the Aiming for Excellence Steering Group in November 2008. The Action Plan presented a schedule of benchmarking activity within nine key areas: project appraisal and contracting; sustainable development; customer service standards; impact evaluation; stakeholder survey; Human Resource key performance indicators; European funding; project processes; and the staff survey. Each area was allocated specific actions, completion dates and responsible owner.

**6.37** The benchmarking action plan was updated and progress reviewed in July 2009. Of the nine measures/actions in the initial benchmarking strategy, five were complete, a further three were on track (with completion dates after the update) and one was incomplete owing to the required data not yet being available. The Agency undertook a range of benchmarking exercises across its Balanced Scorecard Measures including:

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- Staff survey: The results of the Agency's annual staff survey are benchmarked against those of thirty external organisations, primarily winners of the Midlands Excellence Awards. The results for 2009 illustrated that the Agency had made progress in the six areas where it was below the benchmark in 2008.
- Sustainable development: Independent consultants conducted cross-RDA benchmarking against the Sustainability Standard. RDAs were assessed on a five point scale against 23 sub criteria. The Agency was assessed as the highest-ranking RDA with performance rated excellent or good for 15 sub criteria, compared to an RDA average of 7.8.
- Impact evaluation: The results of the PwC report were benchmarked against those of other RDAs. The Agency's return on investment was above the RDA average of £6.40 and the Agency has developed target returns on investment which are designed to increase this return.
- Stakeholder satisfaction: In 2009, the Agency revised the tender for its annual stakeholder survey to incorporate benchmarking against other organisations. The Agency's 2009 stakeholder survey results on advocacy were independently benchmarked against those of 18 other central and regional Government bodies, against which the Agency was placed fourth.
- Human resources key performance indicators: the stability, turnover and attendance of staff is benchmarked annually against CIPD averages for the public sector. In 2009, the Agency achieved lower staff wastage rates, and higher staff attendance rates, than the public sector average.

**6.38** The results of benchmarking activity are incorporated into the Agency's submission to the Midlands Excellence Awards where appropriate and recommendations are incorporated into the Agency's Improvement Plan. Progress is monitored through the Aiming for Excellence Steering Group and reported in the Balanced Scorecard. The Agency has been recognised as an Investor in Excellence since 2007 and takes part in the Midlands Excellence Awards to annually assess its progress in driving continuous improvements. The Agency also benchmarks its activities against independent standards such as: Investors in People, the Data Security Standard, the Environmental Management Standard, the Records Management Standard, and the IT Standard.

**6.39** The Agency has also investigated the potential to compare Agency project appraisal and contracting processes with those of other RDAs, but this was considered not possible due to a lack of data within other Agencies. Similarly, benchmarking Agency performance against key performance indicators for European funding against those of other regions was not possible due to data not yet being available.

**6.40** The Agency captures learning from benchmarking and shares best practice with external partners through publications, workshops and training events. It has established four Centres of Excellence within the region, including the West Midlands Construction Centre of Excellence, which shares best practice within the building technology area. Business Link West Midlands, the Manufacturing Advisory Service and the West Midlands Regional Observatory are now using the EFQM Excellence model, which the Agency introduced as a contractual requirement for Business Link West Midlands.

**6.41** The Agency commissioned independent consultants to develop performance benchmark indicators in July 2009 based on the most recent evaluation findings from across the RDA network and the Department. The work was designed to provide a link between the 2008-09 evaluation findings, the updated Corporate Plan and the Agency's value for money tool. The benchmark indicators covered output and unit costs, additionally of outcomes and persistence of outcomes.

**6.42** The Agency is a member of the Office of Project Advice and Training (OffPAT) Practitioners Group, which shares best practice with other Regional Development Agencies. The Agency has shared its approach to project logic chain and bespoke training delivered to staff with the Group and the presentation and training materials were subsequently published on the OffPAT website. The Agency has also shared its Balanced Scorecard and work towards its Aiming for Excellence strategy with the Regional Development Agency Network and is working with other Agencies to identify the potential to commission shared services.

## Efficiency and effectiveness in administration and programmes

**6.43** The Agency views measures towards efficiency and effectiveness as integral to its work towards Aiming for Excellence and driving continuous improvement. The Agency is required by the Comprehensive Spending Review 2007 (CSR 2007) to make value for money savings of at least five per cent per annum, equivalent to £83.6 million over three years to 2010-11. Cash releasing savings (Grant in aid reductions) are forecast at £80.9 million, whilst performance improvement savings (recyclable savings), are forecast at £2.7 million. Although the Agency's Corporate Plan 2008-11 and the Corporate Plan Update 2009-11 show a clear focus on efficiency and present budget figures which reflect the CSR 2007 requirements, the Plans do not specifically outline these requirements.

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**Figure 4: Comprehensive Spending Review 2007: Total value for money savings**

£'000	2007-08	2008-09	2009-10	2010-11	Total
CSR07 baseline	285,855				
a) Grant in Aid reduction		6,761	13,386	19,850	39,997
Further Grant in Aid Reduction		2,196	3,229	35,520	40,945
(b) Recyclable savings		4,968	11,359	(13,638)	2,689
Savings required each year from 07-08 Baseline		13,925	27,974	41,732	83,631

**Source: NAO Analysis of Agency documents**

**6.44** In addition to the savings outlined in the CSR 2007, HM Treasury requires all Regional Development Agencies to ensure that by 2010 no more than 10 per cent of their budget is spent on administrative functions. The Agency's approach to efficiency focuses on keeping administrative costs to, or below, 7.5 per cent administrative costs. In 2007-08, administrative costs were 6.76 per cent of the Agency's total budget, below the Departmental target and the second lowest of all RDAs. The Agency is nonetheless required to make administration savings of £2.3 million over three years, consisting of £0.5 million in 2008-09 and £0.9 million in 2009-10 and 2010-11.

**6.45** The Agency's 2005-08 Efficiency Plan set out its approach to achieving 2.5 per cent year-on-year efficiencies as determined in the Departmental efficiency plan for Regional Development Agencies. The Agency met or exceeded all annual targets and exceeded its overall target of £37.3 million efficiency savings for 2005-08, delivering £46.6 million in savings through administrative (£3.1 million) and programme delivery (£43.3 million) efficiencies.

**6.46** The Agency presented an updated Efficiency Plan to the Leadership team in November 2009 to include targets due to be achieved by 2011 and 2012, including overall savings of 25 per cent in 2010-11 to 2012-13. The Agency has performed scenario planning to address how the Agency will operate within 10 per cent administrative costs of a reduced investment plan, as well as maintaining the existing 7.5 per cent target.

**6.47** The Efficiency Plan for the 2010-13 period is based on the challenges for the region identified in the Regional Economic Strategy and covers three key workstreams: cost management, Agency processes; and people management. The plan prompted a review of activities to match projected budgets and subsequently fed into administrative functions. Budgets within the Plan were set at the level required to generate the required efficiency savings on the baseline budget while the delivery of savings was the responsibility of budget holders. During the development of the Corporate Plan, all budget holders were required to submit bids against the available budget headroom to justify the proposed expenditure. Resources were allocated by the Leadership team to activity considered to be best aligned to the Regional Economic Strategy and Agency priorities and was approved by the Board.

**6.48** The Agency monitors progress against efficiency targets through its Efficiency Board which meets monthly. Updates on the status of projects and any exceptions of key risks are provided from Finance, Human Resources and Project Process, in line with the Agency's three key strands to its efficiency work. Efficiency targets are sponsored by the Board, to which a summary of progress is also reported monthly via the Agency's Balanced Scorecard. This contains a separate section on effective and efficient business processes.

**6.49** The Agency has achieved savings through a number of approaches, including a review of its travel and subsistence policies, approaches to business services and accommodation and the introduction of a recruitment freeze. Its 'Buy Smart Pay Quicker' programme has achieved savings of £440,000 on procurement.

**6.50** The Agency takes on average 6.39 days to make payment on invoices received. It has succeeded in paying 99 per cent of its invoices within 30 days and 83 per cent of its invoices within the 10 day target set by the Government as at September 2009.

**6.51** In July 2009, HM Treasury requested the Regional Development Agencies to perform a benchmarking exercise to review back office costs and the productivity of key functions. The preliminary results indicated that the Agency was below the mean cost for all areas included in the exercise, cost-effective within each function area and overall the most cost-effective RDA. The total back office costs in the Agency were 1.5 per cent of total running costs, below the mean rate for the Regional Development Agency network of 2.4 per cent.

**6.52** The Agency has assisted partners in finding alternative sources of funding to mitigate the impact of efficiency savings and has secured EC approval to use the European Regional Development Fund to support projects which were no longer fundable through the Single Pot. The Agency has also used money available from the Rural Development Fund for England for the same purpose where appropriate.

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**6.53** The Agency is committed to continuing to drive efficiency, including the ongoing review of Agency processes and the introduction of automated or internet-based systems. The Agency is also continuing to work with other Regional Development Agencies to achieve efficiencies by reducing duplication, for example the procurement of tax advisors and the potential to share IT services with the East Midlands Development Agency, and the development of TOPAZ software with the East Midlands Development Agency, One North East and Yorkshire Forward.

Areas of good practice	Areas for improvement
<ul style="list-style-type: none"> <li>• The Agency has set differentiated targets for GVA across the range of investments.</li> <li>• The Agency is the only RDA currently looking to raise rates of return.</li> <li>• The Agency demonstrates a consistent and comprehensive approach to sharing findings with partners.</li> <li>• The Agency offers bespoke training and collaboration events with partners on sharing lessons from evaluation.</li> <li>• The Agency uses a mature vfm investment tool which is sophisticated to calculate GVA and additionality and it is used to inform all appraisal decisions.</li> <li>• The Agency has an extensive programme of benchmarking of indicators against external organisations.</li> </ul>	

# Part Seven: Technical Appendix

## Independent Supplementary Review Methodology

### Background

**7.1** The National Audit Office has undertaken this Independent Supplementary Review at the request of the Department for Business, Innovation and Skills, which is the sponsor department of the Regional Development Agencies.

**7.2** The Regional Development Agencies established under the Regional Development Agencies Act 1998 to further regional economic development, promote business efficiency and competitiveness, increase employment and the skills base, and contribute to regional environmental sustainability.

**7.3** The National Audit Office's Independent Supplementary Reviews cover the eight Regional Development Agencies outside London by April 2010. Different accountability arrangements apply to the London Development Agency

### Approach

**7.4** During 2006-07 the National Audit Office conducted Independent Performance Assessments of each of the Regional Development Agencies.

**7.5** Unlike those assessments, the Independent Supplementary Reviews focus on the robustness of the processes and procedures the Agencies have put in place to respond to particular current challenges. They do not assess the overall impact or value for money of the Agencies. In particular they assess performance against three questions:

- How effectively has the RDA prioritised programmes or projects that offer high added value benefits to the region in the economic downturn and in preparation for the upturn?
- How effectively is the RDA implementing improvement plans?
- How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation?

**7.6** We have made a judgement on each question on the basis of the guidance which we prepared in agreement with the Regional Development Agencies.

**7.7** The range of assessment scores against each question is:

- Inadequate Performance
- Adequate Performance
- Good Performance
- Strong Performance

## Evidence

**7.8** We reviewed and triangulated a wide range of information using a range of methods to complete our assessment. This included a review of documents, observation of routine meetings, site visits and tailored interviews and focus groups with internal and external stakeholders.

**7.9** The key documents reviewed include; Corporate Plan 2008-11 and Revised Corporate Plan 2009-11, Regional Economic Strategy Delivery Plan, Annual Report and Accounts 2008-09, State of the Region Report, Appraisal Guidance, Evaluation Guidance, Independent Performance Assessment Improvement Plan, and various Board papers and minutes.

**7.10** We also examined six project files in detail to look at aspects of appraisal. We also examined a further six projects to review evaluation processes.

**7.11** We obtained information from the Department for Business, Innovation and Skills giving a collective view from a range of central government organisations.

**7.12** In arriving at a final assessment score for each question, we compared the weight of evidence collected against illustrative examples of different performance levels for each question, agreed in advance with the Regional Development Agencies.

## Consistency

**7.13** To ensure consistency in evidence collection, analysis and the overall assessments reached:

- The assessments are of performance as at 23rd November 2009
- The same period for document review and site visit at each Agency
- A single team of NAO staff were used to undertake all the assessments



- An independent consultant was appointed to undertake consistency checks of the underlying evidence and the reports and to provide advice to consistency and moderation panels
- Internal consistency panels considered the evidence, reports and grades
- All Agencies were provided with opportunities to provide additional evidence on draft reports
- An independent consistency panel chaired by an Assistant Auditor General met twice to consider 4 RDA reports and grades
- A final moderation panel considered all the reports against each other and agreed the final assessment grade.

**1** A final moderation panel considered all the reports against each other and agreed the final assessment grade