



National Audit Office

MAY 2010

Independent Supplementary Review

East Midlands Development Agency

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: £890 million in 2009-10.

Contents

Part One: Preface	4
Part Two: Summary	5
Part Three: Context	6
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?	8
Economic Analysis	8
Effectiveness of reprioritisation in response to economic downturn and funding constraints	11
Stakeholder engagement in prioritisation	17
Corporate Planning	18
Part Five: How effectively is the RDA implementing improvement plans?	20
Robustness of IPA Action Plan	20
Updating Improvement Plans	23
Delivering Improvement Plans	25
Part Six: How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation?	27
Effective evaluation	27
Effective appraisal process	32
Benchmarking and sharing best practice	35
Efficiency and effectiveness in administration and programmes	36
Part Seven: Technical Annex	39
Independent Supplementary Review Methodology	39
Background	39
Approach	39
Evidence	40
Consistency	40

The National Audit Office study team consisted of:
Alison Hood, Jennifer Bayliss and Stephen Kingston
under the direction of David Corner.

This report can be found on the National Audit
Office website at www.nao.org.uk

For further information about the National Audit
Office please contact:
National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

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 East Midlands Development Agency (the Agency) has been marked as follows under the three questions for this assessment:

Question	Assessment
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?	East Midlands Development Agency has demonstrated strong performance
How effectively is the RDA implementing improvement plans?	East Midlands Development Agency has demonstrated strong performance
How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation?	East Midlands Development Agency has demonstrated strong performance

Part Three: Context

3.1 The East Midlands is England's fourth largest region by area, running from Derbyshire in the north to Northamptonshire in the south, but second smallest in terms of population (4.3 million).

3.2 It is a diverse region including the areas around the former coalfields in the north with the cities of Derby, Nottingham and Leicester which share the industrial heritage of the West Midlands, North West and Yorkshire, whilst the south of the region around Milton Keynes and the housing growth areas has more in common with the South East, and Lincolnshire with its sparse population and rural economy has more in common with East Anglia. Unlike most other regions, the East Midlands has no regional capital, although Nottingham is one of England's nine core cities.

3.3 The region is served by a dense and congested set of transport links including the M1, A1 and the Midland Main line and East Coast Main Line. The region has one major international gateway through East Midlands Airport.

3.4 The regional economy is valued at around £80 billion (6.3 per cent of the UK total) with Gross Value Added (GVA) per head calculated at £18,041 in 2008 – 87.9 per cent of the UK average. In comparison with many other regions, the East Midlands is dominated by sectors that involve a high percentage of low-skilled jobs.

3.5 There are some 180,000 VAT registered businesses in the East Midlands, with a predominance of small to medium-sized enterprises. Manufacturing represents 23 per cent of output and 13 per cent of employment. Key sectors include engineering, transport equipment, food and drink, healthcare and construction.

3.6 The region has demonstrated resilience to the economic downturn in some sectors such as digital and creative industries. Construction and retail have been most affected. Automotive supply chain businesses have suffered as have exporters. Employment levels have fallen by 20,000 since the start of the economic downturn, a one per cent loss, compared to 566,000 losses in the UK (1.9 per cent). Unemployment stood at 7.1 per cent in June 2009, a 1.1 per cent increase from the previous year.

3.7 A Leaders' Forum (East Midlands Leaders' Board) of local authorities was established in 2008 to help lead local authorities' work with the Agency on the development of an integrated regional strategy. This organisation has played an important wider role in helping establish regional priorities for development.

3.8 In 2008-09, the Agency's grant in aid budget was £156.2 million which, with receipts, increases to a single pot of around £161.6 million. Due to budget cuts, this is likely to fall to £140 million in 2010-11. The Agency currently employs around 270 staff in four directorates. The Agency's Chief Executive has been in post since 2005 and the current Chair was appointed in August 2004.

3.9 In 2005, the National Audit Office assessed the Agency's performance as strong, scoring 22 out of a possible 24. We identified a number of areas for improvement which included smoothing the annual spend profile and improving communication of investment and policy decisions. The Agency's progress against these improvements is discussed in Chapter Five.

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 provide value added benefits for the region in the economic downturn and in preparation for the upturn.

We have assessed East Midlands Development Agency as having demonstrated strong performance. The key factors that lie behind this assessment are:

-
- A strong strategic relationship with, and robust intelligence from, business supports a strong, academically reviewed, regional evidence base that informed the Agency's approach to support during the downturn and strong business input into design and delivery of interventions.
 - Use of robust criteria and sophisticated assessment of contribution to regional growth based on robust and extensive evaluation evidence to prioritise all projects
 - Strong alignment of priorities with partners and good level of development of joint investment planning through sub-regional investment plans and strong long-term working with the East Midlands Leaders Board in development of the new integrated regional strategy

Economic Analysis

4.2 The Agency has a team of five economic analysts. The staffing costs for this team were £229,000 in 2008-09. This does not include research work done by the Agency in the areas peripheral to direct GVA contributions such as carbon footprint and the green jobs agenda. The Agency's analysts also provide economic research and analysis for the regional observatory (Intelligence East Midlands). The

East Midlands Development Agency **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?** 9

observatory's main role is to disseminate, facilitate, coordinate and promote access to research and data on the region in order to inform policy making. The sub-regional observatories (for instance in Lincolnshire and Northamptonshire) have good links to the regional observatory.

4.3 The Agency's economic work is subject to academic review and it maintains a panel of independent academic experts.

4.4 The Agency produces a range of regular analytical outputs which include:

- Regional Economic Dashboard;
- Fortnightly Business Link reports;
- Monthly horizon scanning analysis; and
- Quarterly Risk Finance Forum briefings.

4.5 These are provided to particular recipients, such as the Dashboard which is primarily intended for the use of the Regional Economic Cabinet, while the Business Link reports are chiefly for internal use by the Agency.

4.6 The Regional Economic Dashboard summarises real-time regional economic data. It uses qualitative and quantitative information from Business Link, along with official sources (such as ONS) and qualitative intelligence from the private sector. This document pulls together available information to form a digest that can be readily absorbed by key stakeholders.

4.7 The Agency has a good strategic relationship and effective two way communication with key private sector bodies and acts on intelligence from them. This was commented on by all the stakeholders to whom we spoke. The Agency uses its close working with businesses to ensure it has a comprehensive understanding of what is happening within the region. The Agency routinely consults its partners, such as local authorities and sub-regional partnerships, to help ensure there is a shared view of regional opportunities and challenges.

4.8 We received positive feedback from all partners that we spoke to on the timeliness and quality of economic information provided directly by the Agency in its briefings and more generally through the observatory. No stakeholders in these discussions believed that the Agency was failing to provide necessary information, or providing too much. The Agency has provided substantial levels of economic information to partner organisations in preparing other regional strategy documents.

4.9 In common with other Regional Development Agencies, the Agency also provides Central Government with regional economic intelligence through the Regional Economic Council and participation in the Department for Business, Innovation and Skills' Economic Intelligence Group. The Agency's representatives

10 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? East Midlands Development Agency

attend this Group monthly to provide updates on the impact of the downturn in the region, and influence Central Government policy.

4.10 In addition to the regular economic outputs, the Agency produces a Regional Economic Strategy Evidence Base that contains a comprehensive view of the state and trends of the regional economy. It is updated every six months and academically peer reviewed by a panel of experts. It presents an analysis of regional demography, housing, transport infrastructure and environmental issues as well as economic data such as labour marketing, productivity and deprivation. Recent iterations have introduced sub-regional (down to county/ city level), spatial and sectoral analyses. It is available on the Agency's website. At the onset of the downturn, the Agency updated the Evidence Base and conducted a public consultation through the Intelligence East Midlands website.

4.11 Board members told us that the nature and amount of economic information they receive is appropriate. In June 2008, the Board received an update on the work that the Regional Development Agencies were doing with Government in response to the downturn. In September 2008, the Board received a full presentation on the economy by the Executive Director for Strategy and Communications. Since then the Board has received regular qualitative and quantitative information on the state of the regional economy as well as reports on the Agency's interventions to support business.

4.12 In line with other Regional Development Agencies, the Agency established monthly economic fora in September 2008 as the impact became apparent. A Regional Economic Cabinet was created in September 2008, chaired by the Regional Minister Phil Hope MP. This forum provides an opportunity for the Agency to both listen to and support other partners and stakeholders, and provide them with economic reports and analysis.

4.13 In response to the downturn the Agency has strengthened its approach to horizon scanning. Business Link East Midlands has been providing additional qualitative information on sectoral and sub-regional issues since August 2008, and the Agency has been undertaking daily scanning of all relevant media for emergent issues with a summary going to the Board monthly. From August 2008 to October 2009, Business Link reports were produced weekly, but these are now on a fortnightly basis as the urgency of the need has diminished.

4.14 The Agency's own additional research and analysis in response to the recession has focussed on improving the Regional Evidence Base, in particular to help understanding with Advantage West Midlands and the ONS of the apparently different effect of the downturn on manufacturing in the two Midlands regions. The construction and retail sectors were those most affected in the region. Among manufacturers, automotive supply chain businesses suffered as a result of reduced demand for cars.

Exporters have suffered from weakening demand in overseas markets which outweighed exchange rate effects.

4.15 The Agency considered that there was limited need for commissioning additional specific research to understand the impact of previous downturns. It has considered past experience and found it useful in assessing the changing state of the economy, but considered this downturn differed from previous ones being initially driven by a financial crisis. Whilst there have been some similar impacts (for example on the manufacturing sector), credit and labour markets have been very different so it found comparisons only useful to a point. The Evidence Base discusses the downturn at length and acknowledges that the recession of 2008-09 was the most serious in thirty years but does not explicitly discuss any lessons learned from the previous experience in the region.

Effectiveness of reprioritisation in response to economic downturn and funding constraints

4.16 The Agency's original CSR07 settlement for 2009-10 to 2010-11 totalled £312 million (excluding receipts). This reduced to £290 million following budget cuts of £22 million (seven per cent). The Agency recognised that the scale of the budget cuts and the need to respond appropriately to the downturn would require a comprehensive review of its investment programme. The Board determined that this should be undertaken on the basis of the economic impacts the investment would have in the region, based on the Agency's evaluation findings.

4.17 A full reprioritisation exercise occurred in July 2009 using the ECOTEC evaluation findings to estimate the likely return on investment (ROI) of all project proposals in the Business Plan. The Agency then prioritised those projects which generated the best return on investments, also taking into account other criteria, which were:

- Contribution to the New Industries New Jobs (NINJ) agenda;
- Existing level of commitment (contracted, moral, unapproved);
- Availability of ERDF match funding; and
- Delivery risk and stakeholder sensitivity for capital projects.

4.18 The Agency managed its resources so that it was able to maintain enough budget headroom to prevent any cancellations of contractual commitments. Part of this was achieved by working closely with partners to assist them, where appropriate, to secure alternative funding through ERDF. It worked with other Agencies to bring in different sources of funding to enable projects to continue which otherwise would have been affected by the withdrawal of its funding.

12 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? East Midlands Development Agency

4.19 At the end of September 2008, the Agency's total strategic commitments for the year were £93 million, against the budget of £98.8 million but the Agency also had moral commitments of £12.9 million. The Agency had £73 million committed (excluding moral commitments) for 2009-10 with headroom of £17 million¹.

4.20 Whilst the Agency had to make cuts to its morally committed regeneration projects, it has continued to support three major transformational regeneration projects which had particularly strong support from business, using its £3 million fiscal stimulus monies.

4.21 At the end of 2008-09, the Agency's spending on Enterprise and Business Support totalled £42 million and £26.5 million on Land and Development. In 2009-10, after the budgets had been reprioritised, the Enterprise and Business support budget was £38.5 million, which represented 42 per cent of the revised budget, and Land and Development was £23.6 million (which includes the £3 million fiscal stimulus funds). In 2010-11, the Agency's regional budget (not including sub-regional allocation) reduces to £73.6 million and Enterprise and Support will have 49 per cent of the budget (£35.8 million), and Land and Development 20 per cent (£14.9 million).

4.22 A reprioritised Business Plan was presented to the Board for approval in late July 2009. The priorities for programme spending in the 2008-11 Corporate Plan period were:

- Business Support;
- Innovation;
- Land & Development;
- Employment, Learning & Skills; and
- Energy & Resources;

4.23 These priorities have not changed greatly in the revised Corporate Plan 2009-11 but the balance between them has shifted, so that Business Support is receiving relatively greater weight, in line with national priorities.

4.24 In early 2008, the Agency's research highlighted the potential for credit issues to affect the regional economy. The Strategy team presented a paper to the Board in March 2008, which suggested there might be a slowdown in growth, but that the impact on the 'real economy' had not manifested. Figure one presents an overview of the Agency's response to the downturn.

¹ Insert definition of moral and legal commitments when BIS have cleared it.

Figure one: Timeline of Agency activity in response to the downturn

Sept 2007	Government assistance to Northern Rock.
Jan – Feb 2008	First reference to downturn risk in monthly Economic Monitor.
March 2008	Board meeting discussed emerging downturn risk.
May 2008	Board Resources Group discussed Blueprint Property Financing.
June 2008	Board presentation on economic downturn. Launch of Enterprise Loans East Midlands.
July 2008	Launch of the joint BIS/HMT/EMDA response to Economic Downturn.
Aug 2008	Board Resources Group discussion on downturn. Extension of Business Transformation Grants.
Sept 2008	Lehman Brothers file for bankruptcy proceedings. Agency launches Monthly Economic For a.
Oct 2008	The Agency establishes the 'Survive and Thrive' programme. County-based credit crunch events. Business Link Health Checks launched.
Nov 2008	National announcement of Transition Loan Funds to be set up. Business Transformation Grant turnaround specialist support. Launched.
Dec 2008	The UK economy officially enters downturn. 'Survive and Thrive' events held.
Feb 2009	'Survival of the Fittest' events. 'Showcase Market and Sell' events.
May 2009	£5m Economic Recovery Package approved.
July 2009	Corporate Plan 2009-11 refresh approved by BIS. Business Plan reprioritisation exercise undertaken.
Oct 2009	Regional Risk Finance forum terms of reference reprioritised.
Nov 2009	2010-11 Business Plan approved by Board.

Source: NAO Analysis of regional evidence

4.25 The Agency has a strong business ethos and a good understanding of its sectors and priorities. We were told by several stakeholders and partners that the Agency has a good understanding of business needs and that it was proactive in bringing businesses together to understand the potential impact of the downturn, and quick to deliver initiatives to help. In the light of the downturn, the Agency reviewed its business support provision to ensure it was responsive to the changing economic climate.

14 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? East Midlands Development Agency

4.26 The Agency has invested a total of £10.5 million additional funding in initiatives to help businesses survive the downturn. In addition, it has brought forward three construction projects specifically aimed at kick starting the construction industry, as part of the “fiscal stimulus” programme (using £3.171 million). The feedback on the Agency’s response to the economic downturn from external partners and stakeholders interviewed has been very positive. Many told us that the Agency had been proactive and able to respond quickly.

4.27 The East Midlands has a significant engineering and manufacturing sector. The Agency has supported the Manufacturing Advisory Service (MAS), which, in common with other regions, is the main support programme for manufacturing companies. In January 2008, as the downturn became apparent, the Agency invested an additional £2.4 million to expand the service. The Agency committed a further £7.5m funding in June 2008 for financial years 2009-10 onwards.

4.28 The Agency was aware that access to finance would be an issue for business as the downturn impacted. In response, it enhanced its financial offer to ensure it met the needs of the region’s businesses².

- In June 2008, it launched a £3 million Enterprise Loans East Midlands (small loans for business). Additional funding of £410,000 (from sub-regional partners) and £1 million (ERDF) has been since been secured. As at November 2009, 88 loans had been awarded.
- A further £1m was added to the Business Transformation Grant programme³ to provide small capital grants in August 2008.
- In February 2009, the Agency launched a £6 million Transition Loan Fund. This fund provides loans of up to £250,000 to businesses affected by the credit crunch. The Agency has advised that 41 loans have been awarded (safeguarding 2,819 jobs).

4.29 The Agency has considered the use of the JEREMIE (Joint European Resources for Micro-to-medium Enterprises) mechanism in 2009 but decided it was not appropriate due to the scale of investment required and the existing range of finance products already available to SMEs in the region. JESSICA⁴ East Midlands was

² The Agency has traditionally had a number of financial products available to business and they sit within a financial escalator. The “escalator of finance” has been available since 2002 when the Agency first launched a Regional Venture Capital Fund. Since that time they have added a range of products including grants, loans and equity support for viable businesses.

³ Business Transformation Grant was launched in October 2007 with funding of £7.6 million. As at the end of November 2009 1,066 applications had been approved.

⁴ JESSICA is the acronym for Joint European Support for Sustainable Investment in City Areas. JESSICA is a joint initiative for financing sustainable urban development, operated by the European Commission It has the objective to provide finance for urban renewal and development actions as well as for social housing, using a combination of grants and loans.

incorporated as a company limited by guarantee in late 2009, and will be launched in Spring 2010. It has a £20 million loan fund.

4.30 Representatives from the banking sector told us that the Agency listens to them. Those we spoke to consider it acted quickly to break down barriers between banks and business and worked effectively to get them talking to each other. It has used forums, such as the Regional Risk Forum (which meets quarterly), to promote effective two-way communication and the CEO holds regular meetings with Regional Bank Directors.

4.31 In August 2008, the Agency, in partnership with the Department of Business Enterprise and Regulatory Reform and HM Treasury and after consultation with stakeholders, published 'The East Midlands Economy - a joint response to changing economic circumstances'. This document, in common with those prepared by other Regional Development Agencies, detailed the international, national and regional support available to business and individuals and identified the priorities for the region in the medium and longer term.

4.32 The Agency's most important and distinctive early response to the recession was the 'Survive and Thrive' programme. Launched in October 2008, the programme consisted of five events, each featuring four master classes delivered by expert business advisors. These focussed on small and medium-sized enterprises (SMEs) and presented key survival techniques such as cash-flow management, cost control and credit negotiation. The events were attended by some 2,000 business people and have been well-received by regional stakeholders. Almost 19,000 people have accessed information on the associated website.

4.33 In 2009, a number of further business events were held:

- 'Showcase, Market and Sell' - developed with the Chambers of Commerce and funded by the Agency. These events were held in each of the five counties in the region. In each case, 10 major local customer entities (public or private) took part in 'meet the buyer' activities. The events also provided exhibition space for a further fifty companies.
- 'Survival of the Fittest' events were delivered with East Midlands Business Link between January and March 2009 and they offered an introduction to resource efficient practices, practical advice on how to achieve cost reduction under adverse economic conditions, workshop sessions focussing on particular areas of resource efficiency and direct support from resource efficiency experts.

4.34 The Agency has had direct responsibility for managing Business Link since 2007. Since then it has rationalised the service, simplified the products on offer to business and increased the number of front line advisers by 40 per cent. In 2008-09, Business Link further increased its front-line workforce by 50 per cent to 250 staff. It has

16 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? East Midlands Development Agency

worked closely with the Agency to ensure that all its communications were up to date and relevant.

4.35 Business Link has undertaken more than 14,000 Health Checks in the East Midlands during the economic downturn. This is out of 95,000 delivered in England in the year to 31 October 2009 (15 per cent of the total, for an economy that represents seven per cent of the England total). Business Link East Midlands has also been the brand owner for a 'Routes to Market' programme delivered by the University of Northampton of five five-day workshops to enhance business skills. Feedback from partners interviewed was unanimously positive about the assistance provided by Business Link.

4.36 The Agency's Career Chain project was originally developed to provide a redeployment service for professionals in the engineering sector under threat of redundancy. To date it has provided careers advice to 1,800 individuals, 750 have received training and 450 businesses received redundancy support. In response to the downturn, the Agency expanded the project to include the construction sector.

4.37 In its capacity as the lead Regional Development Agency for the Department of Business Innovation and Skills (BIS), the Agency has worked closely with Central Government and the Regional Development Agency network during Autumn 2009 to negotiate additional national funding for the Manufacturing Advisory Service. This resulted in an additional £8m at the national level of which the Agency's share is £0.5 million. The initiative is intended to support the 'New Industry New Jobs' (NINJ) agenda including support to low carbon industries and advanced manufacturing technologies.

4.38 The Agency quickly adopted the 10-day payment regime and is consistently meeting targets to deliver this on a weekly basis. Performance continues to improve and as at October 2009, performance stands at 89.2 per cent, cumulative since 1 April 2009, against a target of 90 per cent.

4.39 In October 2009, in preparation for the upturn, the Agency revisited its commitments to ensure that decisions made earlier in the year were still appropriate and to focus on assisting emerging technologies that will help the region to gain competitive advantage in the longer term; notably in low carbon, sustainable construction and advanced manufacturing.

4.40 The Agency has worked closely with the Homes and Communities Agency and the Government Office for the East Midlands, to identify a number of planned key regeneration schemes the delivery of which can be brought forward to commence within the next twelve months to help support safeguarding of jobs.

4.41 The Agency has been working closely with the East Midlands Leaders' Board (the regional local authorities group) to develop the Integrated Regional Strategy

which will have a 20 year horizon. This new partnership has driven forward the long term planning for the region and a draft Integrated Regional Strategy will be consulted upon for the first time in January 2010 which will set the longer term priorities for the region.

Stakeholder engagement in prioritisation

4.42 The Agency uses a number of methods to engage with its partners and stakeholders. In April 2007 the Agency produced its Communications strategy for 2007-10. The Strategy is regularly updated with the latest review taking place in July 2009 in response to feedback from stakeholders in the customer perception survey. A dedicated Board Communications Group meets every two months.

4.43 The Agency has a proactive Marketing and Communications team who have undertaken a number of initiatives to market and publicise the work of the Agency during the economic downturn. It has also run a number of PR campaigns through the local media and worked jointly with Business Link East Midlands to publicise its work using a number of different media. Partners commented positively about emails and news updates which the Agency produces on a regular basis. They also stated that the Chair and Chief Executive are highly visible and accessible. The Agency has Sub-regional Partnership teams that lead the day-to-day relationships with Local Authorities, and stakeholders to whom we spoke said that the Agency was working well with Local Authorities.

4.44 The Marketing and Communications team works closely with the Economic Development team to ensure communications are targeted and current, holding regular liaison meetings. Stakeholders interviewed as part of this assessment told us that the marketing materials and communications from the Agency were clear and accessible.

4.45 The Agency deliberately took a measured approach to informing stakeholders of the consequences of budget cuts and reprioritisation. Beginning in Autumn 2008, when the likelihood of budget reductions became clear, it used existing communication channels to advise partners of the greater need for project prioritisation, and consideration of how to achieve efficiencies.

4.46 Recognising that construction is always affected by a downturn, the Agency formed a Regional Infrastructure Group in July 2008 to enable interested partners to engage and participate in information sharing and help to identify issues. It also held regular meetings with business representative bodies such as EEF and the East Midlands Business Forum.

4.47 The Agency undertakes Customer Perception and Satisfaction Surveys on an eighteen month to biannual basis to gather the views of actual and potential stakeholders. The most recent were in 2007 and 2009. In 2009, 70 per cent of

18 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? East Midlands Development Agency

respondents overall believed that the Agency was a 'proactive organisation that adapts its position in line with movements in the regional economy and market conditions'.

4.48 The survey also found that 61 per cent of private sector respondents hear or read about the work of the Agency on at least a monthly basis. Although good in itself, this is lower than for the public sector and third sector. The Agency has noted that private sector respondents both to the perception and satisfaction sections of the survey tended to be more negative than the public and third sector respondents. However, in the longer-term context the results of these surveys show a favourable trend and since 2002 the results show that there has been clear improvement overall.

Corporate Planning

4.49 The Agency's Corporate Plan is coordinated by its Corporate Services function, and Strategy and Communications Directorates. In common with other Regional Development Agencies, the Agency was asked to review its Corporate Plan in the light of the economic downturn and the budget cuts for 2009-10. The Department issued guidance in January 2009, and gave a timetable for approval by July 2009.

4.50 Although not required by the Department, the Agency carried out consultation on the revisions to the corporate plan. Feedback was sought from key stakeholders and partners in April 2009 and a revised version was agreed by the Board in June 2009.

4.51 The Agency reviewed its corporate plan in the light of its updated Evidence Base and the results of the ECOTEC evaluation reports. The plan sets out how the Agency will deliver its responsibilities under the 11 objectives of the Regional Economic Strategy. These objectives have been rebalanced to reflect the economic climate, with Business and Enterprise Support being given higher priority than previously.

4.52 The Executive team and Directors team hold weekly meetings to consider financial and strategic issues and monitor delivery plans.

4.53 The Agency can demonstrate that its partners and stakeholders are aligning their priorities with the RES, through its sub-regional investment plans. Across the region there are seven sub-regional partnerships comprising public and private sector bodies, each with a Sub-Regional Investment Plan (SRIP). These identify the priorities and key areas for investment within the sub-region and align these priorities with those of the region as a whole, as defined in the Regional Economic Strategy. Since 2004, the Agency has allocated a proportion of its budget to sub-regional partners and it continues to devolve a third of its funding through to the sub-regions. Each of these funded partners develops a SRIP which is based on a rolling three-year programme. These are revised annually and agreed with the Agency, through the Board Resources Group.

East Midlands Development Agency **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 Stakeholders to whom we spoke were aware of the Agency’s priorities and those within the Regional Economic Strategy.

Areas of good practice	Areas for improvement
<ul style="list-style-type: none"> • The Agency provides a strong shared regional evidence base which is recent and relevant. • A panel of economic experts peer reviewing economic analysis and outputs ensures high quality assessments. • The Agency used robust criteria including sophisticated assessment of GVA based on strong evaluation evidence for reprioritisation for all projects. • The Agency actively sought out and sign posted partners to alternative funding sources to enable projects to go ahead in face of budget cuts. • The Agency’s well developed relationships with the business sector has ensured there is a strong business input into design and delivery of interventions. • The Agency has supported close alignment of partner activities and priorities through shared region wide planning. 	

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

5.1 Following the NAO's 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 each Agency has taken forward plans since then and implemented continuous improvement within their organisations.

We have assessed East Midland Development Agency as having demonstrated strong performance. The key factors that lie behind this assessment are:

-
- Clear drive and emphasis on continuous improvement led by the Board and Senior Management, with impact widely throughout the Agency evidenced by engagement of staff at all levels in the improvement agenda.
 - Strong integration of improvement and corporate planning aligned with Regional Economic Strategy clearly cascaded down to business plan and individual area plans
 - Robust processes for identifying improvements through feedback from staff and stakeholder surveys with clear evidence of action taken
 - Strong and regular tracking of improvement through performance management systems

Robustness of IPA Action Plan

5.2 The Agency scored 22 out of 24 as part of the Independent Performance Assessment (IPA) in 2006. This placed it in the performing strongly category.

5.3 In March 2007, the Agency's Board approved an Improvement Plan in response to issues identified in the NAO Independent Performance Assessment. The improvement plan focused on seven key themes:

- Evaluation: ensure the evaluation of activity and feedback into strategy and policy development is mainstreamed;
- Spend profile: smooth the spend profile over the year;
- Commissioning: continue the momentum in developing a commissioning

approach;

- Management structure: ensure management structure, organisation and processes are aligned to deliver the Regional Economic Strategy;
- Communication: improve communication of the Agency's investment and policy decisions, Index of Sustainable and Economic Well Being and raise the national profile of the Agency;
- Diversity: continue to champion the diversity agenda in the region; and
- Board skills: work with Government Office East Midlands to ensure the Agency's Board has relevant expertise.

5.4 Each theme in the improvement plan was supported by an action plan, for delivery within a 12 month timeframe. Responsibility for action on themes was allocated to an appropriate Directorate, who then incorporated the actions required into its own improvement planning and delivery processes. Each action had milestones, desired outcomes, specified responsibilities, resources and timeframe for completion.

5.5 The Board places significant emphasis on continuous improvement. Every month the plan was updated, quarterly progress reports were presented to the Audit Committee and six monthly progress reports were made to the Board. These all clearly explained actions completed, actions planned for the next quarter and any future areas where further improvements could be delivered. These reports were also published on the Agency's website.

5.6 The Agency has met all its actions for the first year within the agreed timeframes. The Agency has delivered a range of improvements in response to the original improvement plan. Some examples include:

- During 2005 the Agency commissioned ECOTEC to carry out impact evaluation of all its activities between 1999 and 2007. Lessons were shared with all staff. The Agency also established an external panel of consultants to carry out key evaluations, and provided training for all staff. The appraisal process was adapted to ensure evaluation plans are in place before investments are approved.
- The Agency now reviews expenditure profile and forecasts on a weekly basis and the spend profile has steadily improved: on 20 February 2009 around 77 per cent of expenditure had been spent, compared to 54 per cent in 2006 at a similar stage.
- The Agency has expanded the scope of commissioning and the amount of expenditure through this route has continued to increase.

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

Midlands Development Agency

- The Agency revised its organisational structure into four directorates in January 2008.

- All staff and sub-regional partnership teams have had training on Equality Impact Assessments. The Agency established an Equalities Group in January 2008, which takes the lead in "diversity proofing" all business support products. Equality is now a standing item on the Chief Executive Officer's monthly reports to the Board.

5.7 Progress against all actions was evidenced in staff and stakeholder surveys which clearly showed how both these groups had experienced improvements.

Updating Improvement Plans

5.8 We found strong evidence that the Agency is focused on efficiency and effectiveness and is driven to deliver continuous improvements in all areas of its work. Continuous improvement has been a central theme in the Agency's vision since 2005. The revised Corporate Plan (published in July 2009) includes outlines of how improved outcomes are to be achieved for all its objectives. Each of these is linked to the Regional Economic Strategy priorities, and has a range of outcomes and milestones which support delivery of the overall objective. The annual business plan prioritises actions for the year ahead, which cascades how improvements are to be delivered into the directorate plans.

5.9 Each of the four Directorates (Regeneration, Business Services, Corporate Services and Strategy and Communications) has an action plan which is supported by team plans, which in turn are supported by individual staff performance plans. We reviewed several corporate objectives and could trace supporting actions from the Corporate Plan into staff's personal objectives. Directorate plans are formally reviewed every quarter by the Directors' Group, who along with the Executive team are responsible for delivering continuous improvement in the organisation.

5.10 The Agency has taken a proactive approach to gathering feedback. In addition to the annual performance reviews undertaken by each Directorate, the improvement planning and delivery process is regularly refreshed by feedback from staff and stakeholders.

5.11 Every two years the Agency commissions a staff survey called the *employee perception survey*, and any actions required to address issues identified are set out in an action plan. The Staff Group⁵ develop the action plan. The Investor in People steering group (cross teams and levels) monitors progress quarterly and provides regular updates on progress to the Board. All the actions identified in the 2006 action plan had been completed before the next survey was carried out in Sept 2008. An annual report goes to Board. The progress update for September 2009 for the

⁵ Staff Group membership is based on an employee from every team in the Agency (chosen by the staff in each team), together with management of the Agency including Chief Executive and HR Director. The Group is chaired by a staff representative.

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

Midlands Development Agency

employee perception survey action plan shows that the targets in relation to the six key actions areas: job satisfaction; empowerment; resources; learning and development and improvements, all are on track for delivery. Examples of actions in place include a skills audit in annual employee performance appraisal and the introduction of recycling throughout the office.

5.12 In 2008, the staff survey achieved a 91 per cent response rate. Mori considered that the results are amongst the most positive it has ever recorded, "*portraying emda as an excellent employer and place to work*". The Agency scores above average on over 80 per cent of aspects (29 out of 36), and shows improvement on the 2006 results. The Agency reviews the results of staff surveys against external benchmarks to assess performance across a range of public and private sector organisations, the national average across both sectors, and to Mori's top ten scoring organisations in these surveys.

5.13 Staff display confidence that the Agency will act on the findings of the survey. Thirty seven per cent of staff were confident that the results of this survey would bring about improvement. This is an increase of 10 percentage points on levels in the 2006 survey, and although the figure seems low it compares well to the average score of 23 in other organisations, and is equal to that within the top 10 organisations. The survey confirms that staff support the need for change, have a clear vision of where the organisation is going, have confidence in their manager and feel well informed.

5.14 The Agency has a range of mechanisms in place to obtain ad hoc feedback. Sessions are held every Friday at 9.30 am to offer the opportunity for Board and Executive and other managers to share information with staff. They are open to all staff and around 70-80 staff attend each session on average. Each session is recorded and reported on the Agency's intranet.

5.15 There is also a staff suggestion scheme on the intranet. In 2009, around 50 suggestions were received, of which around 20 were acted upon. Examples include the development of project information summary on the intranet to ensure all staff are aware of all live projects and a revised travel booking scheme that has achieved savings for the Agency.

5.16 Every year since 2002, the Agency has carried out a customer perception survey, which in turn informs an action plan. Feedback from customers on staff performance has continued to improve, as has helpfulness of staff at 80 per cent, responsiveness at 74 per cent and overall customer service at 80 per cent. Stakeholders believe the Agency's communication has improved - particularly regarding "*providing accessible feedback mechanisms*". The Agency has around 400 Business Champions who also provide a conduit for feedback.

Delivering Improvement Plans

5.17 We found that the Board drives improvement. The Chair champions continuous improvement and is focussed on customer needs, efficiency and effectiveness. The CEO and the Executive team promote an organisational culture of looking for ways to do things better. This is based on the Toyota Production System approach of creating a lean organisation, getting things right first time and ensuring stakeholder clarity on what the Agency does.

5.18 Investing in people is a key element of the Agency's approach to delivering continuous improvement. An Employee Learning and Development Programme aims to help employees maintain the competences and skills required to carry out their roles. Specific emphasis is placed on appropriate leadership and management skills. The Agency was awarded the Investor in People award in 2002 and reaccredited in February 2008.

5.19 Performance management is highly developed and used to keep improvement plans on track. Performance against all plans is closely monitored and reported, and progress shared throughout the organisation.

5.20 The Agency uses a wide range of techniques and approaches to deliver its continuous improvement activities. Methods identified include:

- Lean reviews;
- Cross team task and finish groups;
- Examining Private sector approaches;
- Action teams comprising stakeholders and the Agency; and
- Sharing experiences within the wider RDA network.

5.21 The Agency reviews some implemented improvement actions to identify good practice and lessons learnt, for example, the revised staff appraisal system is due for review in early 2010.

5.22 The organisation's focus on performance management and challenge has resulted in a track record of delivering improvements and exceeding performance targets. Operational performance is measured across four areas: financial; outputs; critical success factors⁶ and efficiency. The Agency measures outputs against 11 indicators and in 2007-08 9 of these exceeded the targets set. (The other two were within the performance range set).

⁶ Critical success factors are 16 key deliverables required to meet corporate objectives. This includes delivery of the IPA improvement plan.

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

Midlands Development Agency

5.23 In 2008-09 the Agency exceeded performance targets on 10 out of 11 output indicators (the other being within the performance range set). It has exceeded its efficiency saving target by 30 per cent (£1.2 million).

5.24 The Agency uses a corporate risk register which is updated regularly and reviewed quarterly at meetings of the Board and Audit Committee. We found a strong risk aware culture which helps to ensure areas for improvement are identified.

5.25 The Agency has introduced a number of measures to inform staff and stakeholders of improvements actioned as a result of their feedback. Every month the CEO presents a paper to the Board updating it on progress and achievements. These are available on the Agency's website.

5.26 Stakeholders to whom we spoke told us the Agency has improved its practices since 2005, and the Regional Assembly is aware of the programme of continuous improvement and considers the Agency has done well to maintain a focus on this. A number of stakeholders told us they consider the Agency's processes are sharper.

Areas of good practice	Areas for improvement
<ul style="list-style-type: none">● Organic approach to continuous improvement which is clearly cultural and well embedded in the organization.● There is a clear golden thread from corporate plan to individual objectives.● There are systematic mechanisms for identifying areas for improvement.● The Agency gathers and responds to stakeholder and staff feedback, and makes use of forums such as the business champions.● The Agency uses comprehensive performance monitoring systems for continuous improvement which is embedded into wider performance reporting.	

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.

We have assessed East 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.
 - A long and continuing record of commissioning robust evaluation across the range of the Agency's interventions.
 - Clear exposition of key decision factors in appraisal documentation.
 - The development and use of an innovative indicator to measure progress towards and help guide investment in wider aspects of regional economic wellbeing.
 - The development and use of sophisticated VFM tools to inform project appraisal including evaluation evidence on additionality and to counteract optimism bias.

Effective evaluation

6.2 In February 2006, the Government published an Impact Evaluation Framework (IEF)⁷ to govern the Regional Development Agencies' approach to evaluation. Following publication of the IEF, in December 2007, PricewaterhouseCooper (PwC) was appointed by the then Department of Business, Enterprise and Regulatory

⁷ DTI Occasional Paper No.2, Evaluating the Impact of England's Regional Development Agencies: Developing a Methodology and Evaluation Framework, February 2006

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

Midlands Development Agency

Reform (BERR) to provide “an independent assessment of the impact of the spending by each of the nine RDAs and the RDA network as a whole” and to assess RDAs achievements against the objectives against their Regional Economic Strategies and Corporate Plans. The impact of RDA spending report was published in March 2009⁸.

6.3 The NAO’s 2006-07 Independent Performance Assessments also identified weaknesses in the quality and robustness of evaluation across most Regional Development Agencies. However, we found the Agency was the only RDA to have appointed an external consultant in 2005 to undertake impact evaluation across its activities from 1999 to 2006-07. Our report commended the Agency’s bold and innovative approach to evaluation.

6.4 PwC reviewed the Agency’s evaluation programme covering spend of nearly £704 million (95 per cent of Agency’s expenditure between 1999-00 and 2006-07). They found that the Agency had generated substantial outputs with over 64,000 jobs created or safeguarded of which 44 per cent were additional at the regional level.

6.5 When considering value for money, PwC concluded that the Agency has achieved its highest average return rate of £5.1 to £1 for business interventions, with the lowest return rates being shown for place interventions at £0.5 to £1. The highest specific achieved returns are for business support £7.3 to £1, people and skills interventions £4.4 to £1 and inward investment £3.7 to £1. The PwC report considered the Agency’s performance against objectives and demonstrated that 90 per cent of the projects reviewed were assessed as having been effective or very effective in meeting their output and outcome objectives.

6.6 The Agency has a longstanding commitment to developing its evaluation policy and strategy and as a result was able to provide practical assistance to PwC in developing the methodologies to be used for the BERR sponsored National RDA Impact Study. The Agency was the only RDA to have an organisation wide evaluation study underway at the time the BIS Study was commissioned.

6.7 In 2005, the Agency commissioned ECOTEC to undertake an evaluation of its work from 1999 to 2006-07 (covering 94 per cent of investment). The ECOTEC methodology followed the evaluation guidance set out by the “Green Book⁹” and the 3R’s guidance¹⁰. It was also compliant with the IEF. The ECOTEC work was structured around the strands of the then current Regional Economic Strategy (Destination 2010 RES) and its objectives were:

⁸ Department for Business, Enterprise and Regulatory Reform, Impact of RDA Spending – National report, Vol 1, Main Report, March 2009

⁹ Appraisal and Evaluation in Central government, HM Treasury January 2003

¹⁰ Assessing the Impacts of Spatial interventions: Regeneration, Renewal and regional Development Department for Communities May 2004

- To provide evidence on the extent to which the programme activities under each strand of the RES had been effective and efficient;
- To provide evidence of how and why particular activities and interventions were working, or failing to work; and
- To assess the Agency's Strategic Added Value (SAV).

6.8 This was an extensive piece of work and examined 250 projects through a detailed methodology including staff and delivery organisation discussions, workshops, beneficiary surveys, case studies and stakeholder interviews. The material gathered was then used to inform estimates of impact, primarily in terms of jobs created or safeguarded and Gross Value Added (GVA) which could then be aggregated to estimate total impacts derived from the Agency's activity and expenditure. This work also formed the basis for the Agency's work with the National RDA Impact Study.

6.9 In comparison with the PwC report, the ECOTEC report found that the Agency spending is estimated to have generated a present value of GVA of between £8.90 and £14.70 for every £1.00 spent, and that an estimated £1.5 billion had been levered into the region.

6.10 Although the final report was not published until March 2009, the ECOTEC work had been structured into a number of work packages which enabled the Agency to use information generated by draft and interim reports to inform its developing evaluation policy and strategy. In addition to examining the RES strands, separate examinations were undertaken for the National Coalfields Programme and Single Regeneration Budget interventions. Brief assessments were also made of the National Enterprise Programmes, Manufacturing Advisory Service, the Special Finance Initiative for England, Research and Development Grants and Business Link.

6.11 In May 2009, ECOTEC developed a further report for the Agency that examined the lessons learnt from the impact evaluation. This report set out the key factors that have influenced the economic impacts and effectiveness of projects; including project focus, project design, and appraisal and delivery process. It provides further analysis of cost effectiveness, the effectiveness of interventions and process factors that influence project effectiveness and highlights key considerations for the initial design and development of projects to increase their effectiveness.

6.12 This work informed the Agency's most recent Evaluation Strategy which was published in July 2009. An Evaluation Action plan details work to develop evaluation of economic impact, strategic impact, impact against corporate objectives and the effectiveness and value for money of intervention. Planned improvements include an evaluation report database, enhanced programme-level evaluations and meta-evaluation/aggregation of evaluations.

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

Midlands Development Agency

6.13 The evaluation strategy is now focused on the Corporate Plan programmes rather than the RES strands and will offer a more granular approach. This is intended to ensure that evaluation activity reflects the structure of the Agency's administrative systems and is more transparent to staff so that they can identify where evaluation has been undertaken and how it is relevant to their roles and responsibilities. The Corporate Plan Update 2009 defines budgeted programmes of evaluation activity with clear links to the RES priorities and identifies what activities will be undertaken, the expected outputs, including tasking framework outputs, the outcomes that will be realised and the impacts these will have, such as increased GVA.

6.14 The Agency has a Programme Evaluation Plan for the financial years 2007-08 to 2009-10. It covers both programmes and projects. Programme level evaluation examines Strategic Added Value, synergy between projects and the economic impact of activities. Project level evaluation examines the practical experience of delivery, identifying lessons and providing information for programme level impact assessment. All expenditure will be evaluated.

6.15 Each Project falls within a strategic programme and its monitoring and evaluation plans relate to that of the programme. Applications for funding are required to clearly set out the objectives for their project and the inputs, outputs, outcomes and impacts that it is expected to deliver. A monitoring plan sets out what data will be captured, and when, and an evaluation plan that relates to and provides information for the overarching programme evaluation.

6.16 The Agency has developed the Regional Indicator of Sustainable Economic Wellbeing as a quantifiable measure against which its achievement of the Regional Economic Strategy will be monitored. This indicator integrates a series of economic, social and environmental cost and benefit measures into a single metric. This measure has been adopted by other Regional Development Agencies and the Agency is continuing to develop cross regional comparisons.

6.17 All evaluations are IEF compliant. The Programme Evaluation Plan determines which projects require independent external evaluation. This is determined at the project level using the following criteria:

- If project costs over £1m;
- The project will deliver a significant number of/proportion of outputs;
- The project is a pilot, is high risk and/or high profile; and
- The project is seeking continuation funding.

6.18 Where any two or more of these criteria are met, the project requires an independent external evaluation. In 2008-09, 32 per cent of projects were subject to an external evaluation, representing 62 per cent of project expenditure.

6.19 All external evaluation work is commissioned by the Agency Project Managers working in consultation with the Evaluation Manager. They are required to develop an evaluation tender request that is sent to the Evaluation Panel of six specialist consultancies. This panel was procured through an OJEU procure in 2007 and allows a simplified process between these pre-selected companies. All work of these panel members is monitored and quality assured by the Evaluation Manager to ensure consistency and compliance with the RDA IEF. Work is also underway to ensure that it will remain compliant with the emerging revised version of this guidance.

6.20 As part of our site visit, we examined six evaluation reports which had been undertaken during 2009. Our file review show that all the projects have clear objectives and each has an evaluation plan. The evaluation reports were clear and concise and clearly assessed performance against the original aims and objectives. The reports include an analysis of the contribution of strategic added value, additionality and GVA was assessed where relevant. In some of the earlier files we reviewed the evaluation plans were not specific on how the impacts and lessons from the evaluation report would be disseminated.

6.21 The Agency had already recognised that this situation could be improved and in October 2009, it updated its Evaluation Dissemination Strategy to ensure that lessons learned from both project and programme level evaluations are effectively fed back to the Agency staff to inform future activity and to also ensure the capture and communication of lessons arising from evaluation work. This strategy contains a range of activities designed to share evaluation findings with staff and partners in order to inform future design and delivery of projects and programmes. Communications plans are prepared at the outset of major evaluation studies where they are expected to be of interest to external stakeholders.

6.22 The Agency is encouraging stakeholders to understand and use evaluation. At the conclusion of the ECOTEC impact evaluation work in 2008-09, summary findings were distributed to a wide range of stakeholders and the Agency staff. The Evaluation Manager works with the Sub-Regional Partnerships team to use evaluation findings in the development of the Sub- Regional Investment Plans. Intelligence East Midlands provided training on evaluation techniques to stakeholders. Further training sessions are being developed for external partners on a quarterly basis for applicants and for sub-regional partners.

6.23 The Agency has built up a high level of evaluation experience and expertise. It chairs the Regional Development Agencies' Evaluation Practitioners' Group which aims to promote the sharing of evaluation learning across the RDA network, and in 2008 contributed to a comparative review of practice undertaken jointly by the Agency, Yorkshire Forward and One Northeast. It has also hosted visits for South West and East of England Regional Development Agencies to share its experience of the ECOTEC impact evaluation work.

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

Midlands Development Agency

6.24 The Agency has now developed an Evaluation Toolkit that ensures all evaluation work is undertaken within a common framework and can be aligned with other studies. The toolkit examines a number of evaluation issues and provides a series of standardised methodologies to be used by all its evaluations. This includes areas such as estimating economic impacts, intervention categories such as Enterprise support, Land and property development, and an analytical framework for Strategic added Value. It draws on the findings from the ECOTEC evaluation work.

Effective appraisal process

6.25 Projects are developed through four main routes:

- The Agency develops projects and programmes to address regional priorities, such as infrastructure, and regional delivery of national programmes such as business support and address priorities defined by the Corporate Plan.
- Other organisations within the region may develop programmes or projects and apply for Agency funding. These are usually developed in response to specific conditions and are subject to an early test of potential suitability for Agency funding through the Expression of Interest form. This provides an outline of the developing project or programme and is appraised against the core regional priorities to determine its level of strategic fit and potential to contribute to addressing these priorities.
- The Agency commissions a significant proportion of its investments (17 per cent in 2008-09, increasing to 19 per cent in 2009-10) through Invitations to Apply for Grant Funding (IAGF). A particular output or outcome is identified, along with an available budget and organisations are invited to submit proposals to address these.
- Joint investment planning with the sub-regional partnerships and the Sub-Regional Investment Plans. These plans identify the priorities and key areas for investment within the sub-region and align these priorities with those of the region as a whole, as defined in the Regional Economic Strategy and provide the framework within which project and programmes are developed for consideration for Agency funds. Applications for jointly funded projects are received from sub-regional partners.

6.26 The Agency has a well developed appraisal process, compliant with the requirements set out by GRADE, which comprises seven stages:

- Initial project proposal development;
- Expression of interest;
- Development of full application;

- Appraisal;
- Approval;
- Delivery; and
- Evaluation.

6.27 All staff we spoke to were aware of the appraisal process and considered it had continued to improve over the last year.

6.28 The Agency's appraisal process uses findings from evaluation at a very early stage (development of project idea) to help shape the projects to ensure maximum added value.

6.29 The Agency has used the ECOTEC work to develop a tool to aid investment decisions. The Investment Decision Tool ("Decidicon") is populated with impact evaluation data. This enables appraisal staff to assess potential projects against 18 different types of investment. The tool helps to identify the likely outputs from each investment and can benchmark these against previous impacts realised. It also identifies potential additionality. It provides a quantifiable assessment of VFM in terms of GVA and Return on Investment. We consider this is an innovative approach to project appraisal and represents good practice.

6.30 The Agency considers the risk of optimism bias. It has reviewed 1200 projects to compare the forecasted outputs with the actual outputs achieved and arrived at ratio per intervention type to adjust for variation. There is now a tool within the appraisal template which uses this data to show a range of outputs, from the forecast to an amount, adjusted by the tool, which takes account of possible optimism bias.

6.31 The Agency formed a separate Shared Resource Centre (SRC) in 2005 to provide independent appraisal of projects and provide an independent review of all internally or externally developed projects and programmes for both the Agency and sub-regional partners. SRC team members and the evaluation manager have very early sight of projects being developed to ensure they are being developed in line with guidance and take account of evaluation. They are then involved again when the project has been appraised and needs to be quality controlled. The SRC also undertakes compliance checks and general quality assurance.

6.32 All Agency staff undergo compulsory training on appraisal, monitoring and evaluation. The training programme is delivered internally and complements the training offered externally through OffPAT. External partners are also trained in the Agency's appraisal process. Guidance on appraisal is available to all staff through the Agency's intranet, which is in our opinion clear and easy to navigate. Approaches to assessing market failure, return on investment, and demonstration of value for money, strategic added value and consideration of options have recently been strengthened.

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

Midlands Development Agency

6.33 Any project over £1 million needs approval from the Board Resources Group (BRG)¹¹. It must be supported by a recommendation from the Principal Economist. The BRG is presented with a standardised one page summary (A3) of the investment decision for each project. This ensures that BRG are given consistent information in an easily comparable format that clearly identifies the key strategic considerations and the process by which the proposal has progressed. We found the summaries were well presented and captured the key information needed to challenge and reach decisions.

6.34 The BRG provides additional challenge to the project development process to ensure that projects offer the best possible value and will achieve the greatest impacts. Board members told us that this forum allows them early sight of projects being developed and an opportunity to shape proposals. The minutes of these meetings that we reviewed confirmed that the challenge was very robust and brought in a commercial perspective.

6.35 The Agency reviews its application guidance and appraisal paperwork annually. In addition we saw that it responds to feedback and regularly revises it forms. The Agency has a combined application and appraisal form which has streamlined key processes but also enables applicants to see the appraisal considerations. This has helped to improve the standard of applications as partners are more aware of the areas considered in detail. For partners who seek both single pot and European funding, a joint form has been developed to make application and appraisal easier.

6.36 Performance on processing appraisals is measured from submission (ie. when project manager finalises application) to the decision being reached. The Shared Resource Centre produces the data which is looked at monthly by the Directors Group. The target of 20 days is achieved for nearly all appraisals (99 per cent) and average performance is 13 days.

6.37 The Agency's internal auditors undertake an annual audit on its appraisal system. The auditors use a risk based approach to assessing whether approaches taken meet the published process and they report on an exception basis. They gave a green rating on internal audits undertaken in 2008 and 2009.

6.38 The Agency went through the Central Projects Review Group appraisal back check exercise in early 2008. It acted as the pilot user of the framework BIS economists were proposing would determine the level of delegation the RDAs would be awarded. It did not receive an official response from BIS, but was provided with some feedback, which stated that overall the Agency's appraisal system was considered to be robust, justifying a likely increase to a £15m delegation. A specific area for improvement related to the options analysis.

¹¹ A sub group of the main Board, comprising a wide range of business experience.

6.39 As part of our site visit, we examined six appraisal files for projects that had been approved since 2008. Our review found that the Agency processes and forms are clear and logical and compliant with the GRADE standards. The form requires consideration of strategic fit, objectives and rationale, managements, options, and sustainability.

6.40 All files reviewed clearly demonstrated strategic fit and had clear and measurable objectives. The rationale for projects is well explained and all projects had identified expected outputs, outcomes and impacts. We saw clear exploration of market failure, strategic added value and value for money.

6.41 Not all the appraisals explored in any depth the other possible options for delivering the projects. The Agency was aware it could improve in this area and has revised the appraisal template in August 2009 to strengthen the options appraisal section. The applicant must now describe alternative options in scope, delivery and implementation, and provide consideration of alternative funding options. The SRC now applies a series of questions that review the impact of the do-nothing option, consideration of a viable reduced funding option and any statutory obligations for the Agency. We saw that later files incorporated this good practice.

Benchmarking and sharing best practice

6.42 The Agency uses benchmarking at a strategic and operational level as an important tool for highlighting areas for improvement and assuring value for money.

6.43 The Directors' Group is a key forum for sharing best practice and benchmarking work. Papers are prepared for discussion of any work undertaken, such as the BIS and HM Treasury benchmarking exercises of corporate services functions.

6.44 The Agency has undertake a range of benchmarking exercises, including staff surveys using IPSOS MORI, IT/Staffing costs, the CIPFA Vfm benchmarking study, and HR benchmarking.

6.45 An OGC based performance review of their headquarters at Apex Court benchmarked a series of key performance indicators including occupation costs profiles, costs per FTE, energy consumption and waste production per FTE and functional suitability. The Apex Court building has been rated in the "Good Performers" (top) category.

6.46 The Agency commissioned a review of RDA contributions to Regional Brussels Offices on behalf of the RDA network. This examined the value RDAs receive from the offices, the value that RDAs have added to the offices and area for potential greater efficiency, including making recommendations for 'smarter' joint working, more effective performance measurement and use of premises.

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

Midlands Development Agency

6.47 The Agency has used information from its benchmarking activities to inform preliminary discussions with Advantage West Midlands on shared services.

6.48 The ECOTEC work developed by the Agency in 2005 influenced the development of the Impact Evaluation Framework and the Agency is continuing to work with BIS on the update to this guidance and to coordinate input from other RDAs.

6.49 The Agency has been working with the regions local authorities and the National Health Service to develop a Regional Procurement Opportunities Plan, which will be launched in January 2010, with the aim of supporting the alignment of activity around common objectives of public procurement.

6.50 The Agency developed a common set of construction standards for projects supported by RDAs and partners which have now been formally adopted by all the RDAs. The Agency has also published a guide to sustainable physical development which helps partners and applicants understand the sustainability standards that are expected from construction projects. Partners told us they welcomed this guidance.

6.51 Staff interviewed demonstrated an understanding of the processes available for internal sharing of good practice. The Agency is a regular contributor to OffPAT developments and cross RDA working groups such as evaluation and the Project Appraisers Group. Directors regularly attend the cross RDA national groups and the Agency use these groups to share good practice.

Efficiency and effectiveness in administration and programmes

6.52 The Agency has an Operational efficiency objective, (which is reported on in its Annual Reports) to ensure that its resources are deployed as efficiently and effectively as possible in order to maximise the contribution to the regional economic growth objective. This is to be achieved through its continuous review of internal processes and investments and through working with partners.

6.53 The CSR07 required value for money savings of £25 million over three years from the Agency.

6.54 The Agency's 2008-11 Efficiency Plan identifies cash releasing savings of £25 million over the three years see figure two and a further £24.9 million of programmes efficiencies. The plan was revised in September 2008, to reflect a modified investment programme which was realigned to respond to the rapid change in economic conditions.

Figure Two: Value for Money CSR delivery plan

Value for Money CSR delivery plan	2008-09 Planned £000's	2009-10 Planned £000's	2010-11 planned £000's	Total £000's
Administration	310	620	930	1,860
Performance improvement	3,781	7,800	11,600	23,181
Total	4,091	8,420	12,530	25,041

6.55 All budgets have been reviewed on a zero-based principle and each budget holder has a clear understanding of their responsibility to ensure delivery is closely associated with the agreed expenditure. This is emphasised with monthly reporting and monitoring against targets and a process of continual challenge and justification.

6.56 The cash releasing savings are to be achieved through increased leverage of funding or outputs, re-contracting, identifying alternative methods of delivery, ensuring efficiency in suppliers for Administrative and Programme expenditure and productivity gains. To date the Agency has consolidated its accommodation and rents space out to associated organisations, such as Blueprint and the Regional Observatory.

6.57 The Agency has not needed to make redundancies or stop contracted activities as a result of the reprioritisation exercise but has had a recruitment freeze in place since 2008 and currently has 26 vacancies. The Agency has been making use of secondments, civil servant placements and temporary or short term contracts to ensure that sufficient flexibility exists to respond to future events. All partners we discussed this with were very supportive of the Agency's approach describing it as effective and business-like. Private sector partners were particularly positive about the way that the Agency is managed in a manner comparable to its own.

6.58 The year one efficiency savings target was achieved at the end of February 2008, and the full year performance for 2008-2009 exceeded the target by £1.2 million (30 per cent). The total efficiencies achieved at 31st March 2009 are £5.3 million, the majority of the efficiencies coming from the increased effectiveness of business support programmes.

6.59 The Agency are currently on target to achieve these savings and updates are reported regularly to the Board through information derived from the Directors' Group, which consists of the major budget holders, and the Executive team weekly meetings.

6.60 Through use of the ECOTEC evaluation data the Agency has ranked its projects and programmes in response to their ability to address priorities and achieve returns on investment and any money released from the current portfolio will be passes to the next highest ranking project or programme, irrespective of which directorate has

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

Midlands Development Agency

released the funds. Administrative spend is also monitored on a monthly basis and any savings are wired to a central fund for redirection to programme spend.

6.61 The Agency has undertaken scenario planning on a range of possible future budgets and priorities and integrates this into its current ways of approaching projects, programmes and organisational management.

Areas of good practice	Areas for improvement
<ul style="list-style-type: none"> ● The Agency has very well evolved evaluation practices based on evaluation evidence. ● The regional indicator of economic wellbeing is measured regularly. ● The Agency uses a sophisticated investment decision tool, which is innovative and informs project appraisal. ● The Agency uses an optimism bias tool developed for use on project appraisal. ● The Agency produces a one page overview of the investment provides clarity and aids decision making. ● The Agency uses programme-level budgeting to ensure the most highly prioritised projects receive available funding budgeting. 	<ul style="list-style-type: none"> ● The Agency should fully embed dissemination of best practice from evaluation

Part Seven: Technical Annex

Independent Supplementary Review Methodology

Background

- 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.
- 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.
- 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

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

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 The range of assessment scores against each question is:

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

Evidence

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.

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.

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.

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

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

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.

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