



National Audit Office

May 2010

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**Independent Supplementary Review**

**One North East**

Our vision is to help the nation spend wisely.

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

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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.

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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** One North East (the Agency) has been marked as follows under the three descriptors 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?	The Agency has demonstrated strong performance under this question.
How effectively is the RDA implementing improvement plans?	The Agency has demonstrated good performance under this question.
How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation?	The Agency has demonstrated good performance under this question.

## Part Three: Context

**3.1** The North East is the smallest of England's regions both in terms of population and, with the exception of London, geographically. Running from Tees Valley in the south to Northumberland in the north, the region covers an area of 9,000 km<sup>2</sup> and has a population of 2.5 million. It consists of four sub regions (Northumberland, Tyne and Wear, County Durham and Tees Valley) and a total of 12 local authorities. The region has three major conurbations at Newcastle, Durham and Middlesbrough.

**3.2** The North East is not served by a major motorway network but has lower levels of congestion than other regions. The A1 provides a link between Edinburgh, Newcastle, Durham, Leeds and London while the A19 provides a link between Newcastle, Middlesbrough, York and Doncaster. The region has two international gateways through airports at Newcastle and Tees Valley and has ports at Blyth, North Shields, Sunderland and Hartlepool.

**3.3** The North East economy was valued at £40.9 billion in 2008, up £1.3 billion (3.2 per cent) compared to 2007 (£39.6 billion). Gross Value Added (GVA) per head was calculated at £15,887 in 2008, the lowest of England's regions. GVA per head rose 2.8 per cent to 2008, from £15,460 in 2007, slightly slower than the national increase of 2.9 per cent. GVA in the region was 77.4 per cent of the national average in 2008, broadly unchanged from 77.5 per cent in 2007.

**3.4** The employment rate in the North East is the lowest of England's regions with the exception of London, but the decline over the past year has been slower than nationally. There were 1.1 million people employed in the region in November 2009, an employment rate of 69 per cent, down 1.4 per cent on a year earlier. The employment rate in England fell 1.7 per cent over the same period to 72.7 per cent in November 2009.

**3.5** The unemployment rate in the North East is the highest of England's regions, with 100,000 people unemployed in the region in November 2009. The regional unemployment rate is 9.8 per cent, up 1.6 per cent on a year earlier. The national unemployment rate rose by 1.5 per cent nationally over the same period, to 7.9 per cent in November 2009.

**3.6** The North East has fewer businesses per head of population than all other regions in England, but growth in the number of businesses is faster than the national average. The region had 63,450 active business units in 2008, the smallest of the nine English regions. The number of active businesses in the North East rose by 2.2 per cent in 2007-08, compared to growth of 1.9 per cent in England overall. However,

the number of businesses ceasing to operate in the region rose by 5.6 per cent over the same period, compared to a 2.9 per cent fall nationally.

**3.7** The Regional Economic Strategy aims to enable the region to close the gap with the rest of the UK in terms of productivity, and ultimately improve the region's contribution to the national economy. The strategy has three main themes- business, people and place with the following key targets:

- Increase Gross Value Added (GVA) per person to 90 per cent of the national average;
- Increase employment by between 61,000 and 73,000 new jobs; and
- Create between 18,500 and 22,000 new businesses over the next 10 years.

**3.8** The North East experienced a sustained period of relative economic decline in the traditional heavy industries such as mining and shipbuilding and ONE has focused interventions on increasing the diversity of the regional economy. The Agency has responded to large scale redundancies during the economic downturn, as demonstrated by the difficulties faced by Northern Rock, Nissan and Corus.

**3.9** ONE North East has the fifth largest budget of England's regions. In 2008-09, the Agency was allocated £245 million funding. Since the budget settlement in 2008-09, the RDA Network has experienced budget allocation reductions totalling £422 million. The total reduction in resources to the Agency is £49 million over 2009-11, the impact of which will be mainly felt in 2010-11. Revised budgets within the Agency are now £232 million for 2009-10 (down from £234 million) and £181m for 2010-11 (down from £230 million).

**3.10** The Agency is responsible for securing additional investment from within the region to match the funding from Europe and, in the case of physical regeneration work it must match the funding with its own money. The Agency received £29.5 million from the European Regional Development Fund (ERDF) in 2009-10, equivalent to 13 per cent of the Agency's total funding.

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

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

1. Robust intelligence from business supports a strong regional evidence base that informed the Agency's approach to support during the downturn and the design and delivery of interventions for short and medium term benefit.
2. Use of robust criteria and contribution to regional growth to prioritise projects.
3. Using the impetus of the downturn for the region to lead a coordinated approach and develop initiatives for the future.
4. Alignment of priorities with partners and development of joint investment planning through sub regional investment plans.

## Economic Analysis

**4.2** The Agency's Economic Unit comprises 13 staff, split across three areas of work: Regional Intelligence, Evaluation and the Regional Observatory. As is the case in a number of other regions, both the Regional Observatory (North East Regional Intelligence Partnership (NERIP)) and regional staff for the Office for National Statistics are located within the Agency. The Economic Unit has a budget of £1.6



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million fully funded by the Agency. NERIP is jointly sponsored by the Agency and the Association of North East Councils (ANEC).

**4.3** The Agency has strengthened its analytical capacity since its 2006 Independent Performance Assessment. It appointed a Chief Economist on secondment for a fixed term contract to increase capacity of the Agency and develop the analytical expertise across the Agency. This has resulted in much greater understanding both within the Agency and across the region of the economic data that is available and has helped to inform policy and prioritisation of interventions. The Agency plans to continue to fill its Chief Economist position on a secondment basis.

**4.4** Similar to other regions, the Economic Unit provides analysis and intelligence to help support the needs of the Regional Ministers Economic Development Group, the Board, staff, stakeholders and other regional partners, including the private sector (through the Northern Business Forum and Business Link). Economic analysis is used in the Agency's appraisals and evaluations.

**4.5** The Economic unit produces a range of outputs including:

- Policy briefings.
- Board reports – monthly.
- Regional Intelligence Snapshot – monthly.
- Economic Monitoring report – monthly.
- Briefing for Regional Ministers – every six weeks.
- Sector analysis – updated where relevant.
- Updates to staff on regional intelligence.
- State of the region report – updated monthly.

**4.6** The Economic Unit uses a range of mechanisms to collect its data. Business information is collected and analysed from Business Link North East (BLNE) and also from Strategic Account Managers (SAMs). In addition, quarterly business surveys are undertaken. The Agency also uses information from the Office of National Statistics and Local Authorities.

**4.7** The Agency works closely with NERIP on the development of the joint evidence base for the Integrated Regional Strategy. The Agency and NERIP jointly prepare the State of the Region report which is available via a web portal on their websites. The information on the portal is reviewed monthly to ensure that the State of the Region Report is always up to date. The State of the Region report can be broken down to sub regional and local level.

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**4.8** The Agency works closely with a number of Universities within the region to gather and disseminate intelligence and has an academic review contract with both Durham University and CURDS (Centre for Urban and Regional Development Studies) to quality assure its work. Both Durham University and CURDS comment on the intelligence gathered and also on the research reports which are commissioned by the Agency.

**4.9** The Board first had information about a possible downturn in summer 2007, from a visiting economist from America. In autumn 2007, the Agency used its economic forecasting model from Durham University to examine the possible impact on the region. In early 2008, the Chief Economist worked closely with Northern Rock to understand the impact on the financial sector and, in mid 2008, the Chief Economist started giving monthly updates to the Board on the downturn and what impact it could have on regional businesses. As well as producing regular briefings, the Chief Economist has attended numerous partnership meetings, including the Northern Business Forum and the Regional Ministers Group, to update them on the impact of the downturn on the region and longer-term consequences.

**4.10** The Economic Unit has worked closely with local authorities to develop their capacity to assess the impact of the downturn and to prepare local economic assessments. All the local authorities have access via the web portals to intelligence at a local level, and the authorities we interviewed stated they found this level of information extremely helpful. All of the local authorities interviewed agreed that the regional intelligence from the Agency had been greatly enhanced and strengthened since the appointment of the Chief Economist.

**4.11** Business Link North East has developed a business index which it shares with the Agency. This collates real time business information down to postcode level and similar arrangements exist in some but not all other regions. In addition, SAMs have relationships with the top 500 companies within the north east, and feed in business information to a central client relationship management system which allows for easy dissemination of intelligence. The information from the SAMs is also shared with Business Link North East.

**4.12** In common with some other RDAs, in 2008, the Agency undertook internal pieces of research to look at previous recessions which has helped to underpin its response to the downturn. One looked at unemployment and the other at access to finance. The Agency also used evaluation evidence from Northern Way (a body which looks at the whole of the northern region and is funded by One North East, North West Development Agency and Yorkshire Forward) which had commissioned Deloitte to look at labour market statistics from previous recessions and the impact on major industries.

**4.13** In October 2009, the Agency commissioned SQW to undertake a specific piece of research looking at its response to the downturn. ONE North East is the first RDA to have commissioned such a piece of work.

**4.14** The Agency and NERIP have developed, within the last six months, the North East Research Library which holds electronic copies of all the regional intelligence and research reports which have been written for the public and private sector bodies across the region. It hosts over 300 research reports which are widely available.

**4.15** Stakeholders and partners to whom we spoke told us that the analysis provided by the Agency has been timely and of a high quality. The Chief Economist has developed relationships with a number of bodies and has been highly visible in disseminating the information gathered. Stakeholders unanimously agreed that there has been greater clarity in information since the Chief Economist was appointed and all felt that the monthly economic reports were good at bringing all the intelligence together and disseminating it in an easy to read and understand format.

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

**4.16** The Agency became aware of the impending downturn in summer 2007 after an American Economist's visit and this was confirmed with the collapse of Northern Rock in autumn 2007. The Agency's Chief Executive was asked by HM Treasury to chair the response group that was set up to deal with the job losses at Northern Rock.

**4.17** The Agency, together with the other RDAs, 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 commitments as at 1 October 2008 equated to £201 million (84.2 per cent). The budget reductions equate to £49 million (21 per cent of grant in aid allocation). This has seen the Agency's budget reduce from £245.4 million in 2008-09 to £194.8 million in 2010-11.

**4.18** The Agency took a paper and revised draft Corporate Plan 2009-11 to its November 2008 Board meeting seeking endorsement for reprioritisation of funding and support measures in response to the downturn. The Agency has a track record of reviewing its Corporate Plan and financial plans every six months and works on a rolling five year financial plan. In order to facilitate a comprehensive review, the Agency recognised that a number of key aspects had to be drawn together to complete the review. This included; the response to the downturn for business, the budget cuts and the response to the downturn in the construction sector. The Board also asked the Executive to consider all other potential options for additional resource generation including ERDF and income from Buildings for Business (its land special purpose vehicle).

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**4.19** The Board agreed key principles in November 2008 that all investments must demonstrate in order to be approved or to continue to receive funding:

- Continuing to hold to the Regional Economic Strategy and associated Agency Strategic direction;
- Balancing the short and long term view and recognising the need both to invest now and in direct response to the downturn but also to invest for the upturn and for the medium to long term economic prosperity of the region;
- Utilising key criteria across programmes, including economic impact (GVA), deliverability, results from evaluation and value for money; and
- Ensuring legal commitments are delivered and moral commitments honoured as appropriate.

**4.20** The Agency started its review of its legally committed projects in January 2009, slightly earlier than in some other regions. This involved meetings with all partners to agree the priority projects and to cut projects which did not meet the Board's criteria. Feedback from partners to this approach has been positive. Meetings were undertaken initially with Directors and lead managers, but were also followed up by meetings with the Agency's Chair and Chief Executive. 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 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** The reprioritisation exercise resulted in the proportion of the Agency's resources going to business initiatives increasing during the Corporate Plan period. In 2008-09, 58 per cent of Agency resources went on business initiatives and this is set to increase to 68 per cent for 2010-11. There is a corresponding reduction in the proportion of funding for place initiatives from 34 per cent to 24 per cent<sup>1</sup>.

**4.22** The revised Corporate Plan 2009-11, confirmed that the objectives from the previous plan were appropriate but the revised plan focuses on more short term interventions of business support and development of projects that will meet future longer term priorities of the low carbon and energy agenda.

**4.23** The Agency's response to the downturn has been led and coordinated by the Chief Executive via the Strategic Directors team. No additional posts have been created to oversee the Agency's activity. Whilst there is no overarching plan of action,

<sup>1</sup> Business and Place categories are based on the Public Value Programme categories

individual initiatives have been delegated to Strategic Directors to undertake and they report back to the Chief Executive on a weekly basis. Progress on initiatives is also reported to the Board on a monthly basis. Most of the Agency's response has been branded under the "Real Help for Business" campaign. Whilst the "Real Help for Business" campaign is a national brand, the Agency has decided to expand this to keep consistent messages within the region.

**4.24** The Agency has developed a strong business ethos and a good understanding of the priorities within its sectors. The region's economy has changed substantially over the past 30 years, moving away from heavy industries such as coal mining and ship building to one focused on advanced manufacturing including wind energy, low carbon vehicles, and the New Industries New Jobs agenda. This has been a priority for the Agency over the last six years and the Agency has invested in a number of projects such as science city, offshore wind facilities at Blyth, and training facilities at Nissan for low carbon vehicles. Partners told us that this re-focussed agenda has helped to lessen the impact of the downturn in the region.

**4.25** Feedback from business support partners has generally been positive on the Agency's response to the downturn. They told us that the Agency understands business needs and it 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.

**4.26** The Agency took on responsibility for managing Business Link in 2007. The Agency rationalised the four separate bodies into one and re-branded it as Business Link North East (BLNE). BLNE has approximately 400 staff. It received enhanced funding during 2008-09 of £2.4 million which has been used for health checks and mentoring services. BLNE operates as an investment centre and has responsibility for delivering a number of Agency funded investment schemes. This delivery model has been highlighted by Central Government as good practice. BLNE has undertaken over 4,500 health checks during the downturn and feedback on performance from private sector partners generally rates them highly, although feedback on BLNE from some local authorities was less positive stating that there was an inconsistency in staff across the region and mixed messages were being given to businesses.

**4.27** The Agency hosted a meeting with business representatives in October 2008 to discuss the downturn and its impact on the region. It followed up the meeting with consultation with partner bodies such as the CBI, Chamber of Commerce, Northern Business Forum and Local Authorities to help shape the programme in response to the downturn. The Agency has also undertaken a number of events for business throughout the downturn which have focussed on specific activities such as debt management and exporting.

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**4.28** In November 2008, the Agency set up the Skills and Employment Response Group (SERG) to coordinate an employment and skills response by the region-wide government agencies (Learning and Skills Council, Job Centre Plus, the Agency, Government Office and Business Link North East) to the economic downturn. As a result a joint strategy setting out the offer for businesses and individuals affected by the downturn was developed. The strategy incorporates four key themes; resilience, redundancy/redeployment, recruitment/retention and readiness for the upturn. The SERG group has coordinated over £200m of funding in the region during the downturn. Meeting monthly, SERG reports its actions and outcomes to the Regional Ministers group (Public Sector Economy Forum).

**4.29** To support the SERG strategy, a communication sub group was formed in December 2008 to develop a marketing and communication plan to promote the help available - the "Real Help for Business" campaign. With the Agency leading, the regional partners worked together to launch the region-wide campaign in January 2009. The aim of the campaign was to signpost businesses and individuals to the help available. A crucial part of the partnership working was to agree that only "three calls to action" would be promoted to provide the quickest and easiest route to support and that all communication plans would be shared and resources pooled to avoid duplication:

- Business Link for business support and advice;
- Jobcentre Plus for getting people back into work; and
- Next step (LSC) for changing jobs and updating skills.

**4.30** The Regional Ministers Group was set up in 2008, and the Agency has been a key member of the public sector group. The Chief Economist from the Agency has provided the monthly intelligence for the meeting, and the Chief Executive and Chair have been pivotal members of the group. The Regional Minister has kept this group focussed on the priorities that the public sector can address, but has also used the Northern Business Forum to maintain regular contact with the private sector. The Regional Ministers group was meeting on a monthly basis during 2009 but now meets every six weeks.

**4.31** The Agency expanded its range of financial products during the downturn. During Autumn 2008 and early 2009, the Agency put additional funding of £2.5 million into the Grant for Business Investment fund, and an additional £6.25 million in to the North East Investment and Co-investment Fund which provides access to finance for growing firms.

**4.32** The Agency has provided £2.4 million of additional funding to Business Link North East to fund health checks, workshops, mentoring and new product development. In addition, a further £1 million of funding has been made available for Energy Resource Efficiency, £0.5 million for Company Rescue Pathfinder, £1 million

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for the Regional Enterprise Loan Fund and £1.7 million for proof of concept work through the three pillar investment fund. At the end of November 2009, over 300 businesses had benefited from these funds.

**4.33** As in most other regions, support for the Manufacturing Advisory Service has been enhanced. The Agency provided an additional £1.5 million to support Energy Resource Efficiency. In 2008, the Manufacturing Advisory Service merged with the North East Productivity Alliance to form MAS North East and feedback we received on this enhanced service from partners was positive.

**4.34** In 2009, the Agency invested £25 million in a Strategic Acquisition and Regeneration Initiative Fund (Onsite North East) with property investor and developer Langtree. The Agency has transferred its land portfolio into the new company which will manage and invest in the sites and work with a wide range of partners to ensure sites are brought forward, new activity is encouraged and jobs are created. It is hoped that this will stimulate growth in a sector which has been in decline.

**4.35** In December 2008, the Agency launched a £2 million Transition Loan Fund. Due to demand this was increased to £9.9 million in early 2009. By August 2009, £8 million had been spent and an additional £1 million committed. During early 2009, the Agency also launched a Large Company Research and Development scheme and approved £2.4 million of funds, which will be matched by private sector investment. "Build" sees the launch of a £1.6 million fund for high growth coaching, £1.5 million for economic shocks, £2.4 million for innovation vouchers, £6 million for capacity to develop skills supply and £1 million for horizon - a joint initiative with UKTI to help companies develop and expand their export capacity.

**Figure one: Timeline**

Summer 2007	Visit by US economist to Board meeting.
<b>Sept 2007</b>	<b>Government Assistance to Northern Rock.</b>
Jan-Feb 2008	First reference to downturn risk in monthly economic monitor.
Sept 2008	Publication of joint BIS/HMT/ONE North East response to economic downturn.
Sept 2008	<b>Lehman Brothers file for bankruptcy proceedings.</b>
Sept 2008	Board received report on economic slowdown and gave consideration to shape of response.
Oct 2008	Major event held for Businesses and other partners which spelt out emerging shape of a response to the recession.
Oct 2008	Agency announces 10 day payment terms to SMEs.



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Nov 2008	Agency set up Business Investment Group and Regeneration Investment Group to determine whether any short term investment is necessary in light of downturn.
Nov 2008	Board paper setting out revised Corporate Plan 2009-11 and criteria for prioritisation of projects and interventions.
Nov 2008	Skills and Employment Response Group (SERG) formed.
Nov 2008	Agency started regular meetings with Banks.
Nov – Dec 2008	A number of interventions were enhanced including, SFI, North East Investment and Co-Investment Fund, Company Rescue Pathfinder, Energy Resource efficiency scheme, Economic Shocks Fund, and Health checks for SMEs via Business Link North East.
<b>Dec 2008</b>	<b>UK officially enters recession.</b>
Dec 2008	Transition Loan Fund announced.
Jan 2009	Start of meetings with Local Authorities and other partners on revisions of budgets and project reprioritisation.
Jan 2009	Real Help for Businesses Campaign launched.
Feb – Apr 2009	New initiatives set up such as Build, Horizons, large company R&D Scheme.
March 2009	Revised Corporate Plan 2009-11 agreed by Board.
March 2009	Nissan Response Group formed.
Sept 2009	Corus Response Group formed.
Nov 2009	JEREMIE Fund approved.

**4.36** The Agency was the first RDA to have approved and launch a JEREMIE fund (Joint European Resources for Micro to Medium Enterprise) which will provide vital venture capital funding for businesses within the region. The fund will provide £125 million of funding, £62.5 million from European Funds and this has been matched by the Agency. Over a period of five years, the fund is expected to provide 850 businesses access to finance which was previously not available.

**4.37** The Agency was asked by government to lead on one major response group, which was set up for Northern Rock (early 2008). The Agency also led the response groups for Nissan (January 2009) and Corus (May 2009). The Agency has worked closely with partners to support affected employees and workers in the associated supply chains, with advice on accessing job vacancies, retraining opportunities, updating CVs, interview skills and benefits. These major companies have made over 3,800 redundancies alone in the region. Feedback from these organisations has been overwhelmingly positive on the Agency's role.



**4.38** The Agency has also worked with key partners to respond to a further 170 companies which were making redundancies of over 20 employees. The Strategic Account Managers were tasked to provide up to date business information to help ensure that no major companies have made staff redundant without the Agency being involved at an early stage.

**4.39** The Agency commissioned SQW to undertake an evaluation on its response to the downturn in October 2009. The evaluation looked at the specific interventions developed in direct response to dealing with the downturn, the existing interventions which had been enhanced and some existing interventions which had continued in the same way but with a renewed focus. The evaluation has examined £52 million of Agency investment, much of which had been reallocated from other programmes as a result of the reprioritisation exercise. SQW consulted with a range of partners and undertook interviews with over 100 businesses assisted through various interventions. Key early finds are:

- Both new and existing businesses have benefited from recession activities;
- Over 90 per cent of those interviewed expressed satisfaction with the support;
- 76 per cent of the businesses interviewed said that the support was either important or crucial to their business; and
- 1,700 net jobs have been created or safeguarded.

**4.40** The Agency has been at the forefront of enabling the region to take advantage of the opportunities offered by the NINJ and low carbon agendas to prepare for the upturn. The Agency's role helped to secure the award for the region of Strategic Investment funding for; Industrial Biotechnology (£12 million), Wave and Tidal testing (£10 million), Printable Electronics (£10 million) and wind turbine blade testing facilities (£11.5 million).

## Stakeholder engagement in prioritisation

**4.41** Like most other RDAs, the Agency has 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, including the Association of North East Councils. It has also used its partners' networks of city regions, urban regeneration companies, sub regional partnerships, and private sector groups.

**4.42** The Agency has had a communication strategy for a number of years. The latest communication strategy was refreshed in March 2008 and covers the period until 2011. At the start of each year of the Strategy, the Agency's Executive team agree a set of key messages and themes and these influence every aspect of corporate communication activity over the next 12 months. The Agency's communication Action

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Plan supports the overarching strategy and sets out detailed activities, responsibilities, and timescales for delivering the recommendations. The Agency uses a wide range of media to communicate with partners and stakeholders. It produces quarterly magazines and runs regular PR campaigns. The Agency has won numerous awards for its marketing campaign “Passionate People, Passionate Places” and this is regularly tailored for key messages – ie. 2009 was used for businesses. It has updated its website and also produces regular email alerts for registered users.

**4.43** The Agency’s Marketing and Communications team has worked jointly with the SERG sub group to publicise the work of the Agency during the downturn. It has also worked closely with the media to run a number of PR campaigns and a marketing campaign to ensure that the region knew what assistance was available to them. All communications regarding the “Real Help for Business Campaign” have been undertaken jointly with Jobcentre Plus and the Learning and Skills Council to ensure a single message.

**4.44** The Agency was proactive with partners in advising them of the budget reductions and the effect this would have on its ability to match fund projects in 2010-11 and in 2011-12. With the Board developing a clear set of criteria for project prioritisation, the Agency met individually with all of its partners in early 2009 to advise them of the criteria and agree the priority projects for each sub region. Partners told us that the approach was collaborative and open and they had a good understanding of the impacts and short term priorities.

**4.45** The Agency's need to match fund the £30m of government funds for the Tees Valley (to support Corus) has required a significant reduction in Agency funding available for regeneration projects in the region. However, even those local authorities who have had regeneration projects cut or delayed felt the Agency had taken the right steps to communicate difficult messages, had kept them informed and were supportive of the approach.

**4.46** The Agency has worked closely with the Homes and Communities Agency and the Government Office for the North East to identify a number of planned key regeneration schemes, the delivery of which can be brought forward to commence within the next 12 months to help support the safeguarding of jobs.

**4.47** The Agency, working with other partners, has aligned public sector investment with wider regeneration objectives to stimulate business growth, employment opportunities and private sector leverage in the longer term. The Region’s Urban Regeneration Companies (URCs) in Tees Valley and Sunderland; a City Development Company (CDC) in Newcastle and Gateshead; Durham City Vision; and the South East Northumberland North Tyneside Regeneration Initiative (SENNTRI) have a key role in driving developments and each have planned activity and investment over the next three years.

**4.48** The Agency undertakes its stakeholder satisfaction surveys on a regular basis to gather views on performance. The Agency undertakes a full stakeholder survey every three years. The Agency also undertakes monthly satisfaction surveys on particular topics.

**4.49** Feedback from stakeholders in the 2008 survey was generally positive. The majority of stakeholders agree that they have a partnership with the Agency and half of those asked have a close working relationship with the Agency. Ninety-two per cent of stakeholders described their experience and perceptions of the Board as positive. The majority of stakeholders had direct contact with members of the Board, most notably through meetings involving a partner organisation. Ninety-seven per cent of stakeholders described their experience and perceptions of the Leadership team as positive. The majority of stakeholders similarly had contact with members of the Leadership team, most frequently through meetings with partnership organisations or through consultation over a specific project. Stakeholders felt that the leadership role of the Agency had improved, with the leadership team being more willing to make difficult decisions.

## Corporate Planning and Delivery

**4.50** As with all RDAs, 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 January 2009 and gave a timetable for approval of all Corporate Plans by the Secretary of State by July 2009.

**4.51** The Agency's Corporate Planning function is jointly led by the Strategy and Resources Directorates.

**4.52** The Agency had already undertaken a review of its Corporate Plan as part of its six monthly financial review in November 2008, and the Board had agreed the criteria for reprioritisation at that time. The Board agreed the following six priorities for the long term work of the Agency:

- Building on progress made in increasing the quantity and quality of business start-ups and in strengthening the business plans, particularly in high value and internationally competitive business through targeted support for enterprise, access to finance, business support, manufacturing production and targeted attraction of investment;
- Continue to develop and embed innovation across the regional economy in key sectors;
- Targeting "people" related activities towards the aim of improving labour market productivity and increasing inclusion along with talent attraction and retention;

**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?** One North East

- Recognising the importance of investment in "place" and communities by continuing the complementary and holistic nature of investment in business and place regeneration;
- Taking positive steps to continue to align funding with the HCA, Local Authorities and other partners, as well as exploring innovative approaches to regeneration funding to ensure maximum impact for investment; and
- Investing in strengthening regional evidence and analysis to ensure robust and effective policy development, appraisal and evaluation.

**4.53** The Agency also agreed short and medium term priorities which saw a concentration of effort on providing assistance to businesses and affected individuals and then to stimulate recovery and growth. The short term priorities saw a shift in funding of some £49m towards the business agenda.

**4.54** In common with other RDAs, the Agency consulted partners on the development of the revised plan although this was not a formal requirement. Partners told us they understood the corporate plan priorities and that these linked clearly to the longer term objectives of the Regional Economic Strategy. The final Corporate Plan was approved by the Board in May 2009.

Areas of good practice	Areas for improvement
<ul style="list-style-type: none"> <li>• Strong engagement with partners and open dialogue on priorities.</li> <li>• The Agency had a coordinated media campaign for real help for business campaign.</li> <li>• The Agency undertook an evaluation of its approach to downturn, which has confirmed benefits in short and medium term.</li> <li>• Clear evidence of using recession responses to move towards shared long term regional priorities.</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 each Agency has taken forward plans since then and implemented continuous improvement within their organisations.

We have assessed ONE as having demonstrated good performance. The key factors that lie behind this assessment are:

1. The development of strong and coherent continuous improvement strategy and plan which integrates nine other Agency strategies and frameworks.
2. Strong oversight and management by a sub-committee of the Board and regular risk reporting against the strategy, although there is scope to improve the quality and timeliness of information in monitoring reports.
3. Evidence of strong staff contribution to, and engagement in, the improvement agenda.
4. Regular mechanisms for obtaining feedback from staff and stakeholders with evidence that feedback is acted upon.

### Robustness of IPA Action Plan

**5.2** In 2006, the Agency scored 22 out of 24 during the Independent Performance Assessment (IPA), equivalent to performing strongly overall. The areas for improvement identified included enhancing analytical capacity and regional intelligence and incorporation of sustainable development into mainstream activity.

**5.3** The Agency's IPA Improvement Plan was developed within one month of its Independent Performance Assessment and was approved by the Board in January 2007. The plan focused on six key themes:

- Regional intelligence base: to further improve the evidence base available to the Agency and the region;

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- Sustainable development: to embed the achievement of sustainable development into the work of the Agency and clarify how the work of the Agency contributes to sustainable development;
- Regional economic strategy: to demonstrate how the actions of the Agency and its partners will have a positive impact on the achievements of the objectives of the Regional Economic Strategy;
- Delivery arrangements: to ensure the delivery arrangements for the Agency's single programme resource meets the current and future needs of the region;
- Agency and regional performance: to ensure the Agency remains fit for purpose, understands performance against objectives in the regional economic strategy and communicated progress to both partners and stakeholders; and
- Rural programme: to ensure the Agency's rural programme continues to contribute to the goals of the regional economic strategy.

**5.4** Management of the IPA Improvement Plan was delegated from the Executive team to the Head of Organisational Performance, who submitted quarterly reports on the performance of the Agency for review to the Board. Progress against the IPA Improvement Plan was monitored in a separate section which included the number of milestones completed during the quarter, detailed whether milestones were completed on time and revised deadlines for when delayed actions were expected to be complete.

**5.5** The areas for improvement within the plan were supported by clearly identified outcomes and impacts, the required actions and key milestones, specified responsibilities and timescales for completion. Deadlines for the 23 actions identified in the plan were spread over three years, with all actions expected to be complete by April 2009.

**5.6** Delivery against the overarching actions was positive. By October 2009, the Agency had completed 22 of the 23 required actions identified in its IPA Improvement Plan. The scheduled agreement of the Regional Assembly Scrutiny Programme, originally due in April 2007, was superseded owing to changes in regional government. However, the Agency did participate in five scrutiny reviews conducted by the Regional Assembly on Agency activity over this period.

**5.7** Whilst delivery against the overarching actions was positive, as noted in 5.1.5 above, initial progress against the interim milestones supporting the overarching actions was mixed, with 50 per cent of required actions being completed within originally agreed timeframes during 2007-08. Staff explained delays largely reflected changes in internal priorities but justification for those milestones not met was not detailed in the performance reports.

**5.8** The Agency developed a Risk Management Strategy which includes a risk register dedicated to supporting the implementation of the IPA Improvement Plan. The risk register included identification of the risk itself, the team and Directorate responsible, assessment of unmitigated risk, mitigating action, early warning indicators and updated status.

**5.9** The Agency has delivered a range of activities through its Improvement Plan, including:

- The incorporation of sustainable development into the Agency's Corporate Plan, published in March 2007;
- The completion and launch of the Regional Economic Strategy Action Plan in April 2007, including annual monitoring to demonstrate delivery;
- The completion of the Delivery to Development programme to integrate strategy and delivery into one directorate following the identification of a lack of clarity of roles and responsibilities; and
- Appointing a Chief Economist and enhancing the analytical capacity within the Agency.

## Updating Improvement plans

**5.10** In 2008, the Agency incorporated its original IPA Improvement Plan into a Continuous Improvement Strategy. The Continuous Improvement Strategy included nine other strategies and frameworks from within the Agency and consisted of eight key vision statements:

- Vision and values which are explicit in the work of the Agency and its staff;
- A systematic planning approach that identifies priorities and drives actions;
- Effective mechanisms to provide leadership and influence government;
- Well managed resources, supported by quality decision making;
- Effective processes, systems and infrastructure to support Agency business and values;
- An effective evidence base and analytical capacity to underpin policies, priorities and investment decisions;
- Appropriate measures and targets to monitor, manage and evaluation operations and outcomes; and
- A well managed extended enterprise which supports the delivery of regional strategy.



**5.11** The Continuous Improvement Strategy is supported by an action plan which includes expected impact, specified responsibilities and links to relevant corporate strategies and areas for development identified within the IPA Improvement Plan. Responsibility for delivery against the action plan lies with the Head of Organisation Performance and the Organisational Development Manager.

**5.12** A sub committee of the Board leads on the oversight and management of the Continuous Improvement Strategy and Action Plan. This sub committee is attended by six members of the full Board. The Board receives and reviews copies of the quarterly performance reports and meeting minutes from the Corporate Resources Committee. Staff are largely supportive of the approach taken by the Agency and 68 per cent of those who participated in the staff survey in 2009 felt that continuous improvement was well managed within the organisation.

**5.13** The Continuous Improvement Strategy sets the overarching mission for the Agency. The Continuous Improvement Action Plan sets targets for individual activities and quantified metrics are set for areas where considered appropriate. The performance reports detail progress against the action plan and contain a summary of key points, with an annex providing an updated action plan. The performance reports also include assessments, updated quarterly, of the probability and impact of strategic risks based on risk registers produced at an operational team level. While the reports and annexed update provide general information on progress, their format lacks the clarity and level of detail observed in those produced for the IPA Improvement Plan, where specific reference was made to the number of milestones and targets complete and any revisions made to deadlines.

**5.14** The Continuous Improvement Strategy and Action Plan are reviewed annually and the updated Action Plan is submitted to the Corporate Resources Committee for approval. The minutes of the Corporate Resource Committee meetings are available on the Agency's website, with some papers being available from the secretariat on request. Progress against the Continuous Improvement Action Plan is published on the Agency's website and intranet pages for stakeholders and staff respectively.

## Delivering Improvement Plans

**5.15** The Agency uses a variety of approaches to deliver improvements, including the adoption of Lean Techniques in 2008 to achieve a ten day payment turnaround for processing invoices. The Agency was first awarded the Investors in Excellence Standard in 2007 and achieved the award again in November 2009. In 2009, the Agency was awarded a gold recognition against the Investors in People Standard, having first achieved the award in 2007.

**5.16** The actions required to deliver improvements are identified in the organisational development work plan. The plan is agreed annually by Directors' teams and quarterly by the resources team. These actions are selected on the basis of informal



consultation with staff and the review of options for delivery is based on judgements made by staff in the light of experience rather than formal processes or review.

**5.17** There is a clear emphasis within the Agency on communicating continuous improvement with staff and comprehensive information is available on its intranet. Progress against actions is communicated to staff via quarterly staff briefings by the Chief Executive and Directors, monthly Heads of Team cascades, monthly 'Essential Guides' covering a range of Agency activities, weekly staff e-briefings and the publication of quarterly monitoring reports on the staff intranet. Staff have responded positively to the level of communication within the Agency and consider the methods of communicating information from line managers, team meetings and quarterly staff briefings to be particularly useful.

**5.18** Continuous Improvement is a key competency against which staff performance is judged. The Agency monitors staff engagement with the work of the organisation through an online survey which was most recently conducted in 2009. The survey demonstrated that over two-thirds of staff consider continuous improvement to be well managed within the Agency. Thirty seven out of 38 questions showed a positive trend from the previous staff survey. Staff reported a stronger understanding of the Agency's values and increased consideration of these during their work compared to the results of the staff survey previously conducted in 2006. Staff similarly reported a strong understanding of the way in which their role and the achievements of individual teams contribute to the overall objectives of the Agency.

**5.19** Comprehensive information on continuous improvement, including the IPA Self Assessment, Final NAO Report and Improvement Plan, and the Continuous Improvement Strategy and Action Plan, is published and accessible on the Agency's website.

**5.20** In 2008, the Agency introduced a Corporate Communications Strategy which clarified the priorities for communication for 2008-11. This was supported by an action plan which detailed activities, internal responsibilities and timeframes. As a result, the Agency introduced a Communications Toolkit in 2009 for use across the Agency and with key external stakeholders. This allows staff to communicate shared messages about the work of the Agency and key achievements and is easily accessible via the Agency's intranet. Staff feel that the Agency is valued by stakeholders and customers in the region, although the strength of this perception has fallen slightly since 2006.

**5.21** The Agency commissioned external consultants to conduct a stakeholder survey in 2008 which was designed to compare progress against the previous performance areas highlighted in the 2005 stakeholder survey and included a section designed to gather views on the issues identified in the IPA Improvement Plan. The survey demonstrated that stakeholders consider the Agency to communicate its purpose well and are satisfied with the range, quantity and quality of information provided by the Agency. The results were communicated to the Board and resulted in an Action Plan

to address areas for development. Stakeholders we interviewed were positive about the way in which the Agency communicates information and progress. However, stakeholders told us that the way in which the Agency co-ordinates consultation and delivers feedback on the actions taken as a result of surveys could be improved.

**5.22** Feedback from staff and stakeholders are considered key benchmarks for measuring the performance of the Agency. There is evidence that feedback is acted on and incorporated into appropriate action plans and the Continuous Improvement Strategy, although there is no overarching or formal approach through which this is co-ordinated. The stakeholder survey in 2008 revealed concerns about the time-consuming nature of business processes within the Agency and the difficulties faced by those applying for funding. In response, the Agency reviewed the complexity of processes and forms for clarity, consistency and removal of duplication and now collects monthly feedback from a sample of organisations involved in the Agency's business processes. In November 2009, 87 per cent of respondents were satisfied with their experience with the Agency's funding processes.

Areas of good practice	Areas for improvement
<ul style="list-style-type: none"> <li>• Systematic mechanisms for regularly gathering and responding to stakeholders and staff feedback.</li> <li>• Separate risk register for continuous improvement plan which is regularly updated and reported to Audit Committee.</li> </ul>	<ul style="list-style-type: none"> <li>• The Agency needs to ensure that reporting arrangements meet the needs of the audience.</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.

We have assessed One North East as having demonstrated good performance. The key factors that lie behind this assessment are:

1. The Agency has strengthened its approach to evaluation including the establishment of a panel of consultants, the creation of a steering group, a robust strategy and plan and the use of external consultants to review its programme.
2. Whilst the Agency's strategic level evaluations are consistently of a high standard, the Agency needs to improve the consistency of project evaluations to ensure contribution to regional growth and additionality are fully addressed.
3. Whilst the Agency has, with two other RDAs, jointly developed a strategic investment tool (VFM) its use was not yet embedded as at November 2009 and there was not yet therefore a systematic and consistent process whereby evaluation experience informs project by project appraisal.
4. The Agency has developed a benchmarking strategy which identifies and codifies the activity that has already taken place and provides pointers to the Agency's future approach.
5. The Agency has built on the Treasury review of back-office functions, developing an action plan to deliver in four key areas and it undertakes regular scenario planning for future funding scenarios.

## Effective evaluation

**6.2** In February 2006, the Government published a Regional Development Agency (RDA) Impact Evaluation Framework (IEF)<sup>2</sup>. Following Publication of the IEF, PriceWaterhouseCoopers were appointed in December 2007 by the Department of Business, Enterprise and Regulatory Reform to provide “an independent assessment of the impact of the spending by each of the nine (RDA) and the RDA network as whole” and to assess RDAs’ achievements against the objectives in the RES and Corporate Plans. The impact of RDA Spending report was published in March 2009<sup>3</sup>.

**6.3** The NAO’s 2006-07 Independent Performance Assessments identified weaknesses in the quality and robustness of evaluation across most RDAs. Improving evaluation has been a key focus for RDAs with the adoption of the Impact Evaluation Framework (IEF) and the impact report.

**6.4** The National RDA Impact Evaluation assessed 12 evaluations, covering 65 per cent (£689 million) of the Agency’s project spend between 2002-03 and 2006-07. It found that the return on investments ranged from a high of £86 to £1<sup>4</sup>, to a low of £0.04 - £0.24 to £1. In January 2009, SQW Consultants were commissioned by the Agency to build on the work of the National Report and estimate the future impact of the Agency’s investment, where it had not been possible to include in the National Report, and to estimate the impact for the Agency’s total expenditure.

**6.5** In May 2008, the Agency, along with Yorkshire Forward and East Midlands Development Agency, reviewed their approaches to evaluation. In 2008, the Agency’s internal auditors also conducted a review of its approach to evaluation. These reviews, along with the National RDA Impact Evaluation, have prompted the Agency to make a number of improvements in its approach, including the establishment of a panel of consultants in May 2009, and the creation of an internal Evidence Base Steering Group. There is a forward programme of work to further develop the approach to evaluation, with up dates to the Agency’s Audit Committee, based around three workstreams; building evaluation evidence, dissemination as a basis for learning, and developing an evaluation and learning culture.

**6.6** In 2005, the Agency adopted a three-tier approach to evaluation; strategic, programme and project. This formed the basis for the most recent evaluation strategy, “Learning from Experience” 2007-09. For each tier of evaluation, the

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

<sup>3</sup> Department of Business, Enterprise and Regulatory Reform, Impact of RDA Spending - National Report, Vol 1, Main report, March 2009

<sup>4</sup> This result is an outlier and was discounted from the National report. The Agency’s next best return was £25 to £1; with all other evaluations have a return of less than £4 to £1.

strategy gives an overview of the overall aim, what the information will be used for, who will use it and responsibilities and support. The strategy explains the links between tiers and how findings from evaluation will be shared.

**6.7** In May 2009, the Agency launched its Evaluation Plan for 2009-10 to 2011-12. The Plan is divided into two, the first part contains the action plans for improving evaluation across the Agency (paragraph 6.1.3), and the second the Programme listing the evaluative work the Agency plans to undertake. Whilst this initial Evaluation plan did not specifically demonstrate that the Agency would meet the IEF target for evaluating 60 per cent of expenditure, nor did it show the resources that will be required to undertake the evaluation, both the target and One North East's performance against it was known and this was reported regularly.

**6.8** In October 2009, the Agency commissioned consultants to review the Evaluation Programme as part of ongoing development. The work has provided assurance that the Programme will meet the IEF target by reviewing the evaluation plans for the Agency's 100 largest investments. The Agency has also begun to develop a database for managing the Programme in the future.

**6.9** The Agency's Project Handling Framework requires all projects to be submitted for a Preliminary Evaluation during the final six months of the project. This evaluation includes an assessment of project deliverables and any immediate lessons learned. For major projects an independent Final Evaluation is required to be completed within five years of project completion.

**6.10** The Agency has a Central Evaluation team of three staff located within the Agency's wider research team. The team is responsible for the development of the Agency's approach to evaluation, the co-ordination of evaluation activity, and the dissemination of lessons learnt from evaluation. The Evaluation Plan is managed through the Evidence Based Steering Group. There is a central budget of approximately £300,000 per year to commission research and evaluation from which strategic and programme level evaluations are funded. The costs for project level evaluations are built into the costs for the project. The forms for project Evaluation Plans in the Business Case were improved in November 2009 to clearly state the expected cost of evaluation. The Agency trains staff on the requirements of the Evaluation Plan and guidance has been issued including on how to estimate the cost of evaluation.

**6.11** The Agency has developed a Strategic Investment Tool<sup>5</sup> with the London Development Agency and East England Development Agency, which can use evaluation data to project the potential impact of differing programme allocations. This

<sup>5</sup> This uses impact and evaluation cost-benefit estimates to inform management of the Agency's portfolio of investments. It compares impacts of programmes against each other and looks within programmes to assess areas of improvement to increase future programme impacts.

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tool was developed using the technical information from the PA Consultant/SQW work and presents a visual overview and comparison of the level of return on investments at three levels (by project, activities or programme). At the time of the assessment, the tool was not fully operational.

**6.12** In May 2009, the Agency established an Evaluation Panel of Consultants following an OJEU procurement exercise. All external evaluations are commissioned through the Panel which will run until at least May 2011. The Panel is divided into four based around the Agency's programme structure. Guidance has been produced for staff on how to procure evaluations through the Panel.

**6.13** As part of our assessment nine evaluations conducted between February 2008 and November 2009 were reviewed. The strategic level evaluations reviewed were of a high standard. However, the quality of programme and project evaluations varied in presentation. While the evaluations made use of beneficiary surveys, the assessment of the economic impact varied in its depth depending on the size and type of project. The Agency should therefore ensure that evaluation reports are more standardised in presentation and as a minimum contain a discussion on economic impact even if the impact cannot be quantified exactly.

**6.14** The Agency has used the North East Research Library to disseminate all of its evaluation reports. Set up in conjunction with NERIP, the library contains links to all the evaluation reports which are available from the Agency and other public sector partners. In addition to the Research Library, the Agency publishes its evaluation reports through OffPAT.

**6.15** It was evident from discussions with Agency staff, and with some stakeholders, that the lessons learnt from evaluation are used to influence future activity at the strategic, programme and project level. Staff and some stakeholders were able to name specific evaluation activity and how it impacted upon the work that followed. It is, however, difficult to evidence the use of evaluation within business cases for project appraisal and general papers reviewed during assessment. The Agency could better demonstrate the use of previous evaluations by clearly referencing them, particularly in business cases. This would help to provide greater internal and external assurance that the lessons of evaluation have been systematically considered.

## Effective appraisal process

**6.16** The Agency manages projects through its Project Handling Framework (PHF) which we found to be GRADE compliant. The PHF process consists of seven distinct stages:

1. Project Initiation & Planning.
2. Development.

3. Appraisal.
4. Approval.
5. Management and Monitoring.
6. Claims.
7. Closure.

**6.17** The Agency divides its investment programme into three key priority areas of Business, People and Place under which sit eight programmes, comprising 24 activity areas. Ideas for new projects are required to be developed within this framework.

**6.18** Along with other RDAs, the Agency manages three main funding streams, Single Pot, ERDF Competitiveness Programme 2007-13, and Rural Development Programme for England (RDPE) 2007-13. The Agency has ensured that the process for project development is as similar as possible regardless of the funding stream. All projects are assigned an Agency staff member as developer whether they have an internal or external proposer.

**6.19** Staff are trained on the PHF process as part of their induction with more advanced courses in topics such as market failure. Guidance on the process is available for staff on the Agency's intranet pages, including detailed guidance on completion of the Business Plans with links to more detailed guidance on individual sections of the plan, for example what is required of the evaluation plans. The staff we spoke to were knowledgeable about the PHF process.

**6.20** Projects are developed in the first three stages of the PHF. Following receipt of the Project Initiation and Planning (PIP) document the relevant Manager will undertake an initial strategic assessment of the project to assess strategic fit and identified need. If the PIP is signed off by the relevant Delivery and Strategy Heads of Team, then a Business Case will be developed building on the contents of the PIP and describing how the project will actually be delivered. All projects being developed are reported on to the Head of Team Panel, Director's Team, and Board through the Pipeline Project Report ensuring a link with Business Planning.

**6.21** The Agency introduced Appraisal Conferences in September 2008 to replace desk based appraisal (projects applying for ERDF or RDPE funds undertake an EU technical appraisal). An Appraisal Conference is held to assess each business case to provide quality assurance through peer review. As a minimum a Conference will be attended by the internal Developer, the Conference Chair, and an independent internal verifier. The verifier must be from outside the team developing the project. There is the potential for other attendees, for example, thematic experts (internal or external), stakeholders, or delivery partners, but these are not required. The



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involvement of specific Agency teams, for example the Economic team, is determined based on the risk of the project. The conference results in a recommendation to the relevant approval panel.

**6.22** Any investment over £500,000 must be approved by a panel consisting of three Heads of Team drawn from a Strategy, Delivery and an independent team. This ensures that decisions are made drawing on both a strategic and operational view, along with further peer review. Investments over £1.5 million must be approved by the Directors' team, those over £2.5 million by the Board, and those over £10 million by the Central Projects Review Group.

**6.23** During April 2009, BERR and PwC economists visited the RDAs to review a sample of project appraisals as part of the 2009 Central Projects Review Group (CPRG) appraisal back check. Feedback from the review complemented the Agency's Appraisal Conference process and noted that the evidence for interventions had improved. They also commented that the case for market failure needed further development and that consideration of options appraisal was restricted by the template. In line with the Agency's approach to continuous improvement, it developed and implemented an action plan to address the lessons learnt following the review.

**6.24** As part of our assessment we reviewed the PIP, Business Case and Appraisal Conference papers for six projects. The projects were all approved between March 2009 and September 2009, and varied in value from £160,000 to £17.5 million.

**6.25** The Business Cases reviewed showed that the Agency made use of benchmarking in assessing value for money. In most cases unit costs for outputs were determined and compared to a benchmark though the source of the benchmark was not always clear. The Agency is developing its own benchmarks based on historic spend and output data.

**6.26** The case for market failure in the Business Cases reviewed was found in several different places through the appraisal and therefore the clarity could have been improved. The Agency has recently produced new guidance and training for staff as it was a recognised area for development and market failure is now considered as part of the project rationale as per GRADE guidance. The Agency's forms would benefit from a distinct market failure section which clearly stated the criteria of market failure the project was addressing and how it was addressing it.

**6.27** Each Business Case had a clear evaluation plan stating who will undertake evaluation and if there is a need for interim evaluation. Not all the plans reviewed contained the expected cost of evaluation but the forms were up dated in November 2009 to ensure costs will be included in the future.

**6.28** The Business Case includes a table that must be completed to show how the project will measure Strategic Added Value (SAV). SAV is categorised against three



criteria; Strategic and Catalytic Activity, Increasing Co-ordination Alignment and Partnership, and Improving Intelligence, Influencing and Awareness Raising. This section has limited value as all projects we reviewed said they would deliver against all three categories of SAV. The report would benefit from asking the author to explain how SAV will be measured at the end of the project, setting a current baseline.

**6.29** As a minimum a Business Case requires a “do nothing”, “smaller scale project”, “larger scale project”, and “an alternative delivery method” options to be explored in addition to the preferred option. Whilst all options are presented in one section, the form does not allow an easy comparison of options as they are presented without costs, outputs or economic impact clearly quantifiably stated. The Agency is developing an Options Analysis Long List table to make comparison between options easier and more relevant.

## Benchmarking and sharing best practice

**6.30** In 2008, the Agency implemented its first Benchmarking Strategy. The strategy explains the importance of benchmarking, identifies the types of benchmarking the Agency will undertake, and provides guidance for staff on how to undertake benchmarking. The five types of benchmarking activity are;

- Strategic Benchmarking – Improvements to overall performance by examining the long-term strategies and general approaches that have enabled high-performers to succeed.
- Performance or Competitive Benchmarking – Consideration of the Agency’s position in relation to performance characteristics of organisations from the same sector, be it the wider public sector or the closer RDA family.
- Functional Benchmarking – Comparison to organisations from different sectors or areas of activity to find ways of improving generic functions or work processes.
- Internal Benchmarking - Involves benchmarking activities from one area of the Agency to another.
- External Benchmarking - Involves analysing outside organisations that are known as best in class, providing suitable learning opportunities.

**6.31** The Strategy contains a number of milestones aimed at understanding and then developing the Agency’s approach to benchmarking. The first milestone was for the Agency to successfully participate in the CIPFA benchmarking of core functions. The second milestone was for the Agency to compile a record of all benchmarking activity that it has undertaken. The list states that the Agency has undertaken 40 benchmarking activities since September 2006. The list categorises the activities and records the outcome of the activity. Benchmarking activity feeds into the Continuous

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Improvement Plan with either direct actions resulting or the creation action plans for specific areas, for example CIPFA Benchmarking.

**6.32** The Benchmarking Strategy and associated activity should be seen as an area where the Agency is demonstrating best practice. The Agency should build on the information it has gathered to develop a rolling forward programme of benchmarking activity.

**6.33** In November 2009, the Agency was awarded Gold Status in Investors in People, having first achieved Investors in People in 2007. The Agency was also reaccredited as an Investor in Excellence in September 2009. The Agency places great value on these external recognitions, providing it with a clear independent benchmark of performance.

**6.34** The Agency communicates best practice internally through a variety of fora including; staff briefings, Heads of Team cascades, staff e-briefings and the availability of information and toolkits through the intranet.

**6.35** The Agency shares its own approaches with external Agencies. This includes sharing its approach to reviewing back office functions with South West Regional Development Agency, and sharing the lessons learnt from its experience with Northern Rock with Yorkshire Forward.

**6.36** The Agency develops its own approaches by looking at how others perform. This includes undertaking a joint review of approaches to evaluation with East Midlands Development Agency and Yorkshire Forward, reviewing the use of project management systems with Advantage West Midlands and Yorkshire Forward, and working with Advantage West Midlands to understand core functions costs following CIPFA benchmarking.

## **Efficiency and effectiveness in administration and programmes**

**6.37** The CSR 2007 required value for money savings in the Agency of £74 million over three years (figure one). These savings comprise a £36 million reduction in Grant in Aid received from Government, and £39 million in recyclable efficiency savings.

**Figure one: Required Value for Money savings**

£'000	2007-08	2008-09	2009-10	2010-11	3 years
CSR07 baseline	245,400				
Grant in Aid reduction		6,000	11,900	17,600	35,500
Recyclable Savings		6,367	12,966	19,449	38,782
Savings required each year from 07-08 Baseline		<b>12,367</b>	<b>24,866</b>	<b>37,049</b>	<b>74,282</b>

**Source: NAO Analysis of Agency documents**

**6.38** In March 2008, the Agency's Corporate Resources Committee approved the Agency's Value for Money Policy and Strategy 2008-11. The Strategy sets out the Agency's approach to achieving value for money. The Resources and Management team were responsible for the development and delivery of the value for money action plan. The Corporate Resources Committee provides an overview of value for money work on behalf of the Board. The Board receive and update on progress towards efficiency targets as part of the regular Management Accounting report.

**6.39** The Agency has used its 'Driving Values' project, initiated in summer 2007 and led by the Deputy Chief Executive, to help it achieve the efficiency targets. The aim of the project was to improve the way the Agency operated including value for money reviews of particular areas as considered appropriate. The project was organised into three workstreams, Organisation, Programmes and Extended Enterprise, each with an identified lead Officer. The project has resulted in a number of activities aimed at increasing the efficiency of the Agency, including:

- Designing and implementing a new Pay and Grading structure for 2008 onwards;
- The establishment of the Evidence Base Steering Group to review and improve the use of evaluation work; and
- Identifying areas of Agency activity which may transfer to Extended Enterprises.

**6.40** In order to achieve the required value for money saving, the Agency produced a Value for Money Strategy in September 2008. The Agency plans to deliver its recyclable saving target through six areas (Figure Two). The main savings are planned from Business Support Simplification through new contracts with the Extended Enterprise bodies, and prioritising Culture and Tourism activities into the projects which deliver the highest impact. The Agency's most recent reports forecast that they will achieve these targets

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Figure two: Recyclable Savings

Value for Money CSR Delivery Plan for Recyclable Savings	2008-09(£k)	2009-10(£k)	2010-11(£k)	Total 3 Year Savings
Administration Efficiency Savings	429	858	858	2,145
Partnership Administration Efficiency Savings		328	328	655
Business Support Simplification Efficiency Savings	2,500	5,000	7,500	15,000
Extended Enterprise Efficiency savings	0	250	500	750
Innovation Connectors Efficiency Savings	1,160	2,125	5,271	8,556
Culture and Tourism refocusing of Agency priorities	2,278	4,405	4,993	11,676
<b>Total in Plan</b>	<b>6,367</b>	<b>12,966</b>	<b>19,449</b>	<b>38,782</b>

6.41 Following the review of back office functions required by HM Treasury, the Agency identified four areas which it wished to improve and in line with the Agency's approach to continuous improvement it has developed an Action Plan to manage and monitor progress. This is a more developed approach than many other Agencies. The Agency has had lower administration costs than the HM Treasury target of 10 per cent in recent years but budget for 2010-11 show this rising to 13 per cent following budget reductions. However, this percentage increase is caused by late reductions imposed on programme budgets and the Agency has not increased administration budgets in absolute terms.

6.42 The Agency is aware that further savings may be required in the future and undertakes continuous reviews of future funding scenarios. As well as looking at the high level impact of budget reductions the Agency is developing a future Workforce Planning model, and for projects over £1 million the Business Case needs to specify what the impact would be of a 25 per cent or 50 per cent reduction in project funding. The Agency uses a zero-based approach to set the budget for the Corporate Plan period and conducts a full review of business plans every six months.

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Areas of Good Practice	Areas for improvement
<ul style="list-style-type: none"> <li>• Development of strategic investment tool and uses evaluation and other feedback to inform investment decisions</li> <li>• Benchmarking strategy used to capture activity</li> <li>• Agency undertakes continuous reviews of future funding scenarios and is developing mitigation plans</li> </ul>	<ul style="list-style-type: none"> <li>• Use consultant panel to ensure consistent high quality of all evaluations and that GVA and additionality is fully addressed</li> </ul>

# Part Seven: Technical Appendix

## 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.