



National Audit Office

MAY 2010

Independent Supplementary Review

South East of England Development Agency

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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 The South East England Development Agency (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 good performance.
How effectively is the RDA implementing improvement plans?	The Agency has demonstrated adequate performance.
How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation?	The Agency has demonstrated adequate performance.

Part Three: Context

3.1 The South East region covers 19,000 square kilometres, stretching around London from Thanet in the East to the New Forest in the West, and Aylesbury and Milton Keynes in the North. Its cities include Brighton, Canterbury, Reading, Oxford, Portsmouth and Southampton. It has a total population of 8.3 million; the largest of any English region, with an increase of more than 11 per cent expected between 2006 and 2021. The majority of the population, (78 per cent), live in an urban area. Forty per cent of the region has been protected through its status as an Area of Outstanding Natural Beauty, Green Belt or Site of Special Scientific Interest. Seventy two km² has been designated as heritage coast.

3.2 The South East is the closest region to mainland Europe, with ports in Dover, Southampton and Portsmouth, alongside the Channel Tunnel providing access to the continent. Twenty two per cent of the English motorway network can be found in the region and 14 per cent of 'A' roads. The region is well served by Gatwick and regional airports, in addition to Heathrow which is located on the regional boundary.

3.3 The regional economy contributed £182 billion (workplace) to the UK economy in 2008, with Gross Value Added (GVA) per head calculated at £21,700 in 2008, the second highest of any English region and around 10 per cent higher than the UK average. GVA per head is highest in Berkshire, Buckinghamshire and Oxfordshire. Although the South East is one of the most prosperous English regions, there are pockets of severe deprivation within its boundaries, with over 485,000 people living in the 20 per cent most deprived areas of the UK.

3.4 The economy is categorised by high value, highly skilled jobs with strong financial and professional services sectors in Surrey, Berkshire and Kent. Brighton has a digital industry cluster, whilst Oxford has a high tech manufacturing cluster. Manufacturing accounts for 11 per cent of the region's GVA. Business start-up rates are around 60 per 100,000 residents (adult residents), the highest rate outside London. Business survival rates and self employment are also above the UK average.

3.5 The Agency is committed to supporting six sectors in particular: environmental technology and energy; advanced engineering and marine; aerospace and defence; life sciences and health technologies; ICT and digital media; and financial and professional services. It has identified eight growth areas, referred to as Diamonds for Investment and Growth, where the Agency focuses its investment: Basingstoke, Brighton & Hove, Gatwick, Milton Keynes & Aylesbury Vale, Oxford, Reading, Thames Gateway Kent and urban South Hampshire.

3.6 Unemployment data shows the region had six per cent unemployment rate in July-September 2009. Unemployment data had increased 1.5 percentage points on the same period in 2008¹.

3.7 Within the region there are 19 county and unitary authorities and 55 districts; the largest number of local authorities within an English Region. Prior to the Agency being established there was no regional structure for effective local authority liaison. A Partnership Board was established in April 2009 between the Agency and local authorities to lead the creation of the Integrated Regional Strategy. A Strategy Board has been set up to supplement the Partnership Board and will have responsibility for the detailed planning and implementation of the Integrated Regional Strategy.

3.8 The most recent Regional Economic Strategy for the South East aims to make the South East a world class region that achieves sustainable prosperity. It focuses on three key themes: Global Competitiveness, Smart Growth and Sustainable Prosperity. The Agency's Corporate Plan sets out how it will help the region to achieve these objectives, with a focus on priority places (Ashford, Hastings, Bexhill, Dover, Margate and the eight Diamonds for Investment and Growth identified for investment growth) and priority investments in key sectors.

3.9 In 2008-09, the Agency received a single pot allocation of £154 million. The Agency's budget will be reduced by £52 million due to budgets cuts and reduced receipts, resulting in a total budget of £251 million over the two years 2009-11.

¹ Taken from Labour Force Survey: <http://www.statistics.gov.uk/lm-interactive-flash/graph.html>

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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.

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

- The Agency has undertaken comprehensive economic analysis and responded realistically to the challenges of the downturn.
- Whilst the Agency has consulted on the implications for stakeholders of the Agency's revised project priorities, there has been less opportunity than in other regions for stakeholders to work with the Agency on shaping those priorities.
- Whilst the Agency has a number of fora in which to develop a shared understanding with stakeholders of the priorities for the upturn, the absence of strong sub-regional governance with which the Agency could partner inhibits joint investment planning and alignment of priorities.

Economic Analysis

4.3 The Agency has an Economics and Research team within the Strategy Directorate, led at Executive Director level by an experienced economist. The team includes economic, sector and market intelligence analysts and two ONS regional staff. As is the case in a number of other regions, the Regional Observatory, the South East England Intelligence Network (SEE-IN), is co-located and integrated with the Agency's eight-strong team, giving a total of 11 staff with an annual budget of £400,000. They work collectively but also specialise in particular skills or sectors and

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collate information relevant to particular parts of the South East economy. The work of the Economics and Research team is peer reviewed internally and externally, particularly through the Regional Development Agencies working together in the Greater South East. Its work is not, however, subject to additional academic review, something which is common in a number of other regions.

4.4 A research programme is undertaken each year, looking at areas such as growth potential and particular challenges or opportunities for priority sectors or areas. An annual budget of approximately £370,000 is distributed across these research activities.

4.5 The Agency undertook research and analysis to keep the Board regularly informed on the downturn from January 2008 and the Board receives economic updates at each meeting as well as presentations from the Director of Strategy on particular issues. Since July 2008, Area Economic Updates and the Agency's response has been a standing agenda item. These have been supplemented since December 2008 by a regional economic conditions report. Board members told us that these reports are informative, relevant and useful.

4.6 As was the case in a number of other regions, the Agency has carried out a range of research to examine the impacts of previous downturns on the South East economy. This included commissioning a general review in December 2008, and also for specific sectors such as the labour market and creative industries. These reports have been made available across the region and have been used to inform forward planning by the Agency and its partners.

4.7 In response to the downturn the Agency has reviewed its economic products and has increased the number of outputs. It has increased the frequency of some products such as the Economic Reviews and business surveys and introduced new products such as the monthly Regional Intelligence Snapshots, an economic dashboard and the labour market updates.

4.8 The Agency has more than doubled the size of the South East element of the National Business Survey, and amended questions to try and gain a better understanding of the impact of prevailing economic conditions. The Agency has also introduced a monthly business-based questionnaire that is sent to the main business representative organisations and organisations such as Regional Action and Involvement South East linking to the third sector and those representing the land industries.

4.9 Like other RDAs, the Agency produces a range of products on a regular basis. The products include:

- Monthly Regional Intelligence Snapshots;
- Monthly Economic Dashboards;

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- Monthly Economy Reviews;
- Monthly Labour Market and Purchasing Managers Index reports;
- Quarterly Business Survey Snapshots for the South East;
- Quarterly South East England Economy Reviews; and
- Bi-annual IPSOS MORI National Business surveys.

4.10 The Agency also produces tailored reports for partners and sub-regional partners, such as “Locate in Kent”, Hastings and Bexhill Renaissance Limited and Oxfordshire County Council. The products are disseminated direct to stakeholders and partners and are easily available through the Agency’s website. Unlike some other regions, the Agency does not systematically produce real-time information updates from sources such as Business Links providers to partners and stakeholders, although it does access this data to formulate specific responses or provide information requested.

4.11 The intelligence reports are designed to identify key challenges, such as access to finance or increasing raw material costs, as well as indicators of increasing confidence or opportunity. The monthly Regional Intelligence Snapshot provides summary information at the sectoral level, set against a regional overview and the quarterly Economy Review provides detailed analysis of challenges, examining such elements as the labour market, gender specific impacts, different industries and unemployment trends. These are set against a summary of the global and UK conditions.

4.12 Similar to other regions, the Economics and Research team regularly attend the quarterly meetings of the regional business representative organisations, such as “EEF”, the manufacturers’ organisation and joint partner organisations such as the South East Business Support Advisory Board, to proactively share data and analysis with these groups and meet with sub-regional partners to supplement their products with presentations tailored to regional, sub-regional or sectoral analysis. This work is also supported by the Area Directors and is well received by partners. These teams also encourage information sharing, data aggregation and use of a common evidence base.

4.13 Feedback from the stakeholders and partners we interviewed indicated that these products are used across the region by a range of partners in both the public and private sectors and are regarded as providing a valuable source of consistent and well collated information. The appropriateness of the data was emphasised by public sector partners, and well supported by private sector partners in small to medium sized organisations.

4.14 Individual larger and, in particular, global organisations have told us that they found less relevance in these products and did not use or contribute to them. Nor

were these companies aware that the Agency has produced reports that draw comparisons with other world regions. As the agency sees itself operating in a global context it needs to do more to demonstrate that it has an understanding of the needs of larger businesses and the global setting of their activities.

4.15 Stakeholders and partners told us that their need for consistent economic analysis and data increased significantly as the downturn became apparent and started to impact on their decision making. Stakeholders found they needed more regular and up-to-date analysis of regional and sub-regional economic circumstances to enable them to prioritise their own activities. They told us that the Agency has responded well to these needs and felt that there had been a marked improvement in the relevance, quality and quantity of the analysis being made available. Partners also reported using analysis tailored by the Agency to their particular area or sector.

4.16 The Agency brings together data from a wide range of sources to inform its regular economic analysis and support its monthly and quarterly reports. The Economics and Research team collects information from across the region through regional and sub-regional partners and stakeholders including local authorities, businesses and other agencies as well as from national sources such as the ONS and wider business surveys.

4.17 The Agency's Area teams undertake local intelligence gathering and provide additional qualitative and contextual information, such as common concerns or information requests, topics of conversation with stakeholders and early indicators of potential redundancies. This information is fed back to the Economics and Research team and used to enhance the relevance of the sub-regional and regional outputs.

4.18 Like some other RDAs, the Agency also undertakes daily scanning of press and journals and collates information relevant to the South East under categories of economic, business, regional and political news, across parliament and Westminster and RDA news.

4.19 The majority of stakeholders we interviewed reported they had received requests from the Agency to provide relevant economic data for collation and analysis and regularly contributed data on a more informal knowledge sharing basis, in particular through the Area teams. Stakeholders such as the Business Links providers and business representative organisations regularly provide information based on their own client analysis and reports of current 'hot topics' providing qualitative and quantitative information on subjects of particular or continuing interest to their members.

4.20 Similar to other regions, the Agency was required to establish an economic council and, working with the Government Office for the South East, it established the South East Economic Delivery Council in November 2008. This is jointly chaired by the Agency's Chairman and the Regional Minister and brings together representatives

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from the Learning and Skills Council, JobCentre Plus, South East England Chambers of Commerce, Institute of Directors, Federation of Small Businesses, “EEF”, the manufacturers organisation, Trades Union Congress and Confederation of British Industry. Led by the Agency, these organisations review the regional economic conditions and issues impacting on business, such as access to finance, increases in queries relating to making redundancies and skills and retraining.

4.21 In November 2008, the Agency set up an internal group of Executive Directors, Directors, Investor Development Managers, Areas teams and the Economics and Research team called the South East Briefing & Review (SEBR), which is chaired by the Chief Executive. This group met on a weekly basis until June 2009 when it reduced its meetings to fortnightly. Since January 2010, SEBR has met monthly, and continues to review information on the restructuring and redundancy announcements in the region to enable support to be initiated through the Rapid Response Task Forces.

4.22 In common with all RDAs, the Agency has developed a Regional Evidence Base. This has been built up from the local and sub-regional level and is based on common information standards and approaches to data collection and analysis across the contributors. The data is brought together from a range of partners such as local authorities, business representative groups, and the Agency’s own research. This evidence base is used as the common foundation for regional strategy development, including the Regional Economic Strategy and the Regional Spatial Strategy. The evidence base is also used by partners across the region as the basis for developing their own sub-regional strategies and approaches.

Effectiveness of reprioritisation in response to economic downturn and funding constraints

4.23 The Agency has undertaken a fundamental review of the activities and structures needed to support the delivery of the Corporate Plan 2008-11. The drivers behind this review were:

- To be in a position as an organisation to better deliver regional priorities;
- To deal with budget cuts imposed by Government; and
- To respond to the economic downturn.

4.24 The activity was carried out in three phases. The first phase of this review, occurring throughout 2007, resulted in the restructuring of the Agency to align its Directorates to the three core themes of Global Competitiveness, Smart Growth and Sustainable Prosperity and the development of the Regional Economic Strategy Implementation Plan.

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4.25 Phase Two began in early 2008. The Agency developed its Corporate Plan 2008-11 to reflect its role in delivering the Regional Economic Strategy. The Agency recognised that it needed to restructure to a smaller and leaner organisation.

4.26 Phase Three involved the Agency carrying out a project level review of its activities to respond to the downturn and the budget reductions, and ensure that activities were aligned to the future direction of the Agency. The third phase was implemented from Autumn 2008, and during this time the Agency produced its Refreshed Corporate Plan and Fit for the Future transformation programme. A major restructuring of the Agency was implemented in November 2009 to address the combined needs of focused delivery and reduced budgets.

4.27 The Agency became aware of the changing economic conditions early in 2008, and made the Board aware of potential problems that could affect their decision-making in June 2008. The Agency's quarterly economic monitoring in May 2008 highlighted lower indicators of growth than expected and set out the position of the South East economy to stakeholders. The Agency recognised the need to refocus expenditure towards business support activities and the Executive Board integrated this change into the ongoing organisational review. The key activities are set out below in Figure One

Figure One: Timeline of Agency activity

Sept 2007	The Government steps in to help Northern Rock.
Jan 2008	Initial discussion at Board meeting regarding potential economic downturn
May 2008	Publication of South East Economy Review revealing mounting evidence of a slowdown.
June 2008	Board alerted to potential impact of identified slowdown on its decision making.
August 2008	SEEDA launches a £10 million Rapid Response Rescue package of support for small businesses.
August 2008	Published Joint Response document with BIS.
Sept 2008	Lehman Brothers file for bankruptcy proceedings.
Oct 2008	Economic snapshot, Dashboard and Labour Market updates introduced.
Nov 2008	Transitional Loan Fund launched.
Nov 2008	South East Economic Delivery Council first meeting.
Nov 2008	South East Briefing (SEBR) process set in hand to anticipate and shape the response to economic crisis across the region.
Dec 2008	SEEDA commissioned Deloitte to review previous recession.
Dec 2008	The UK economy officially enters recession.
Jan 2009	£240k Business Link Awareness scheme launched.
Jan 2009	Rapid Response Team assisted Ford, Southampton.
Feb 2009	Board Away Day to reprioritise projects.
April 2009	BMW assisted by Rapid Response Task Force.

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April 2009	Innovation and Growth Teams become operational (April to October).
June 2009	Corporate Plan 2009-11 refresh published.

4.28 As well as the changing economic situation, the Agency had to review its commitments in light of reduced income. The Agency was told, in Autumn 2008, of the budget reductions of £27.4 million for the period 2009-11. In addition to this, the downturn had reduced the value of the Agency's expected capital receipts by £17 million over the same period and the loss of a further £8 million of planned receipts equate to a total budget shrinkage of £52 million, an 18.5 per cent reduction. This has seen the Agency's budget reduce from £303 million to £251 million over the two years 2009-11. The Agency's legal commitments for the two years 2009-11 at 30 September equated to £192 million, 76 per cent. The Agency's Corporate Plan Refresh, published in June 2009, sets out the full effect of the downturn and budget changes.

4.29 During the period July to September 2008, the Executive Board undertook a fundamental review of the Agency's structure and activities through a series of internal workshops and planning meetings. This developed a new vision for the Agency's structure that would make it leaner and more able to respond to the changing economic conditions. This work was continued into 2009, with formal consultation with staff undertaken from July 2009. The Agency established focussed on three core areas that they regarded as critical to future success:

- International trade and inward investment, nurturing global companies.
- Innovation, through collaborations to commercialise new ideas.
- Business growth, through excellent infrastructure and expert support.

4.30 In January 2009, as part of this fundamental review, the Executive Board agreed a set of criteria by which to judge whether an activity was core work for the Agency. The Executive Board had developed these through an examination of the Agency's existing Corporate Plan responsibilities and the functions of the revised, leaner Agency to determine fundamental drivers for activity. The Executive Board used these criteria to guide a re-prioritisation exercise and carried out a full review of the Agency's projects, which it then reported to the Board. The criteria were:

- Economic: contribution to Innovation and Productivity, Skills,
- Infrastructure, Enterprise and Employment;
- Political: requirements of the Secretary of State or other elected politicians to undertake the activity;
- Legal/Statutory: requirements by law or contractual bindings;
- Environmental: contribution to ecological footprint reduction; and
- Social: unique contribution to the economic criteria.

4.31 During this process the Executive Board examined all the current and proposed Agency spend and tested it against the criteria, asking the overarching question “Does the activity contribute to GVA growth/per capita growth?” to determine whether the expenditure should continue.

4.32 Similar to the approach taken in most other regions, the benchmarks established by the PriceWaterhouseCoopers impact evaluation report were used to assess projects and programmes for their levels of potential achievement against the thresholds within the report. This process was reported to the Board in February 2009 for discussion and further development, and the Executive Board continued to plan the forward expenditure programme until reporting back to the Board in March 2009 for approval for the revised programmes of activity.

4.33 The review confirmed the Agency's ability to honour all current legal commitments. However, in common with most other RDAs, it also recognised the need to refocus other planned expenditure towards business support activities. The Board agreed an initial set of proposed funding changes, including withdrawal from a number of projects and programmes being worked up for future investment, such as Southampton's Northern Above Bar project and additional funding for the Shoreham Harbour master plan. Stakeholders affected by these decisions were engaged in discussions to determine whether funding could be found from elsewhere and to develop appropriate exit strategies, such as completing work on an initial phase. These discussions were carried out by the Area Directors, the Chief Executive and the Executive Directors as appropriate and consulted the partners on the best way to manage the proposed changes. As a result of this consultation, the Agency modified a number of its proposals to reflect local conditions or opportunities and to ensure that the most appropriate projects were taken forward.

4.34 This exercise concluded with revised budgets being agreed in May 2009, and the Corporate Plan Refresh published in June 2009, which set out the agreed changes in the regional context. The Agency has continued to assist affected projects seek funding from alternative sources wherever possible. Approximately 20 per cent of proposed investment was cancelled in order to move £14 million into direct support for businesses in response to the downturn. This allocation is summarised in Figure 2.

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Figure 2 – Agency additional funding for Business Support 2008-09

Business Support Activity 2008-09	£m.
Business Links, including Health checks and marketing	6.4
Transition Loan Fund	3.0
Grants for Business Investment	0.5
Manufacturing Advisory Service	0.2
Tourism South East	0.2
	10.3
Time of existing Area Resource & Investment Development Managers (50 per cent)	4.1
Total	14.4

Source: South East England Development Agency

4.35 The Agency, as for all Regional Development Agencies, was requested to produce a joint response to the downturn with the Department of Business, Innovation and Skills and HM Treasury. This was presented to the region in early August 2008.

4.36 The Agency launched Rapid Response Taskforces in August 2008. These are led by the Agency, informed by the South East Briefing & Review and are instrumental in co-ordinating support to assist companies dealing with potential large scale redundancies (over 200 employees) or where there is a significant economic impact to the area. To date, the nine Taskforces have been operating with various companies sized from 250 employees to 1800, supporting over 4,600 employees. Companies assisted include Vestas on the Isle of Wight, Ford in South Hampshire BMW in Oxfordshire, Linde in Hampshire, HBOS (two Taskforces in Sussex and Aylesbury, Parker Pen in Sussex, BAE in Kent and Edwards in Sussex. The Taskforces work closely with the Jobcentre Plus, through the joint Continuous Employment Support Service (CESS) and with other government agencies such as the Learning and Skills Council to offer free, tailored, in-house packages of support. CESS is a jointly funded Agency and Jobcentre Plus initiative providing day to day redundancy support to any size company planning or implementing redundancies. Since April 2008, CESS has helped approximately 450 companies (including some of the companies supported via the Taskforce) and assisted 25,000 individuals being made redundant.

4.37 Similar to arrangements seen in other regions. The Agency launched a Transition Loan Fund of £3 million in November 2008. By March 2009, this had received over 100 enquiries and the Agency had approved 12 loans to a total of £1.3 million to safeguard or create 300 jobs. At the same time a new Commercialisation Fund of £3 million to support businesses with high growth potential to bring new products and services to market was established. Both these initiatives are managed through Finance South East, a privately governed regional funding organisation set up jointly by the Agency and Business Link in 2002.

4.38 The Agency committed an additional £200,000 in November 2008, to support the Manufacturing Advisory Service (MAS) in providing access to their lean innovation programmes to businesses. This service is provided by EEF who carried out a survey to determine whether previous beneficiaries required further assistance as a result of the downturn conditions. MAS undertook a programme of work that enabled 239 companies to be assisted through seminars or consultancy projects.

4.39 There are six Business Links providers working across the South East as a consortium. The Agency allocated an additional £6.4 million to enhance their activities. The Business Links providers were able to increase their provision of health checks, access to finance advice, “survive and thrive” advice and resource efficiency programmes together with specialist skills assessments and providing links to sector consortia. Between October 2008 and March 2009, they carried out an additional 6,000 free Business Health Checks.

4.40 The Agency is continuing to analyse the possibility that the Property Regeneration Partnership joint venture with the Homes and Communities Agency will use a JESSICA². The Agency has outline plans to develop a JEREMIE³ fund in the next 12 months which will be developed in partnership with the European Investment Bank.

4.41 In March 2009, the Agency published documents to promote its response to the downturn and identify the sources of support available to businesses. These included “Keeping the South East Working” and “Open for Business – a guide to business support in the South East” leaflets that outlined sources of help such as; enhancements to the Business Links service; the availability of Grants for Business Investment and lean innovation through the Manufacturing Advisory Service; the Agency’s Transition Loan Fund and Commercialisation Fund; redundancy support through the Continuing Employment Support Service and Train to Gain; and support to overseas trading and inward investment opportunities, providing key contacts and routes for additional information. These leaflets were well received by business representative organisations.

4.42 Stakeholders interviewed were supportive of the actions taken by the Agency and felt that interventions had been timely and relevant.

4.43 In planning its response to the downturn the Agency has sought to maintain a balance between re-directing funds to immediate business support, re-prioritising current activities to support economic development and planning for the future so that the business community is well placed to take up opportunities as they occur. The Agency has been restructured to refocus activity on productivity. This has been in

² JESSICA - Joint European Support for Sustainable Investment in City Areas

³ JEREMIE - Joint European Resources for Micro to Medium Enterprises

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development since March 2008, prior to the economic downturn. The needs of both the Agency's activities and the economic conditions were closely aligned during this process to give consistent messages to stakeholders.

4.44 Through out the reprioritisation the Agency has taken a dual approach to respond to immediate need and to support planning for the future. In setting out its priorities the Agency has sought to increase or maintain support for activities that it identifies as having the greatest potential for future growth and opportunity. This has been informed both by its analysis of the South East Economy and the PwC Impact Evaluation to identify the most relevant sectors and the types of intervention that give higher rates of return.

Stakeholder engagement in prioritisation

4.45 The Agency has a Stakeholder Engagement and Management Strategy that was approved by the Board in August 2008. The strategy defines a framework for the Agency to map its stakeholders and identify the priority stakeholders. It will allocate stakeholders to one of four categories depending on a combination of their level of interest in the Agency and their level of power in its activities. This will determine whether the stakeholders fall into groups that should be Informed, Involved, Consulted or Partners. We have found evidence that the initial stages of this strategy have been implemented through the refocusing. A number of key staff have been appointed, including a Head of Stakeholder Engagement in February 2009.

4.46 High level stakeholder identification has been undertaken and is supported by a corporate database. The detailed stakeholder categorisation has not been completed but key stakeholder relationships have been identified, and these relationships are owned by the Chair, the Chief Executive and the Executive Directors as appropriate. The Agency has also developed a structured plan of engagement with South East MPs from all parties, which has been in operation since summer 2009. The Agency has further work to complete to fully identify its stakeholders and define their relationship to the Agency, as well as the most effective ways to communicate with them. The Agency is continuing to work to improve stakeholder engagement through a project to introduce, by spring 2010, an Agency-wide customer relations management system building on that already introduced for the Business Links services.

4.47 Although the Agency has yet to fully implement its Stakeholder and Engagement Strategy, it continues to improve its engagement processes. Like all RDAs, it uses a range of channels to communicate information to its stakeholders, including Board dinners, VIP visits, Workshops, group meetings, 1-2-1 meetings, phone calls, letters and email to exchange information. It also engages regularly with business forums, developing partner strategies, task groups and regional presentations. It undertakes regular surveys such as the quarterly business survey and the monthly Purchasing Manager Index, and one-off surveys and consultations on specific business issues to

inform the Agency's policy, such as the next generation broadband. Prior to 2009, the Agency carried out formal consultations on its Regional Economic Strategy and the South East Plan and on a range of its activities through the former Regional Assembly.

4.48 The Agency's primary methods of stakeholder communications at the sub-regional level are through the Area Directors. The Area teams provide a good level of regular contact between the Agency and stakeholders and this is effective in keeping both informed of changes and progress on projects and programmes. Stakeholders we spoke to felt that the Agency had been effective in communicating decisions made in the light of re-prioritisation to them, but told us they had had limited opportunity to contribute to the early stages of the decision-making process. In our interviews, these stakeholders told us that the Agency does not typically use the discussions with the Area teams to formulate its policy or collect feedback on its performance. These discussions are more delivery focused. Stakeholders told us they felt that initial communications on the re-prioritisation had been more one-way than two-way, but many acknowledged that the Agency had been proactive in discussing the decisions with them and seeking to agree alternative ways for projects to be progressed within the new constraints.

4.49 As is the case in other regions, a significant amount of the Agency's external oversight and feedback on performance previously came from the South East England Regional Assembly. The Assembly undertook a proactive scrutiny role that engaged stakeholders from across the region and priority sectors in a series of reports and reviews each year. This examined a wide range of the Agency's activities and strategic planning, including the 2008-11 corporate plan. Following the dissolution of the Assembly, the Agency has been subject to challenge and scrutiny from a range of formal bodies, including the South East England Leaders Board and the Regional Select Committee. The Agency's policy proposals have been steered by the new regional Boards, in particular, the Economic Development and Skills Board.

4.50 The Agency has revised its communication with stakeholders as a result of the economic downturn and its reprioritisation of activities by seeking to increase its facilitating and influencing roles through representative organisations and other Agencies. As the Agency has moved away from direct delivery and focused its activities towards business support, it has brought together a number of new communications fora across sectors or areas. These include:

- The South East Financial Services Forum, set up in June 2009, that brings together banking and financial experience from across the region to discuss regional and national conditions and appropriate responses;
- The South East Business Support Advisory Board in March 2008 that engages the Government Office, UKTI, local authorities, business representative organisations; and
- Skills focused organisations to review the South East economic conditions

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and look for opportunities and address issues.

4.51 The Agency has also sought to change its relationship with smaller organisations by ensuring they become more closely associated with, and where possible funded by, organisations with common or aligned priorities as they are no longer regarded as priority activities and will not receive future funding. This includes the Brownfield Land Assembly Trust that drives the redevelopment of small urban sites, and is now working more directly with the Homes and Communities Agency.

4.52 The Agency also conducted discussions on the refocused activities of the Agency and the more restricted budgets at the regional level with representative organisations such as the South East England Leaders Board and Councils, the South East Business Support Advisory Board, the Institute of Directors and the Federation of Small Businesses. The Agency's Board also undertook a series of dinners with local businesses and partners that provided an open forum for discussion.

4.53 During the refocus and the reprioritisation, the Agency ensured that the Area teams acted as the key point of contact for stakeholders, in their relationship management role. Staff were provided with briefings on the process, intranet based FAQs and scripts for key stakeholder concerns to ensure that the messages were consistent at all levels. Feedback from our discussions with stakeholders indicated that this approach had been mostly successful, with high levels of understanding demonstrated of the need for re-prioritisation, the circumstances driving it and the response that the Agency was taking to support particular sectors and opportunities.

Corporate Planning

4.54 In common with the other Regional Development Agencies, in March 2009, the Agency was instructed by the Secretary of State for Business, Innovation and Skills to review its Corporate Plan in light of the economic downturn and budget cuts. It published its Corporate Plan Refresh in June 2009.

4.55 The Corporate Plan Refresh clearly set out the need for revision to the previous plan. The Agency was not required to formally consult stakeholders during the formulation of the Corporate Plan Refresh. Unlike most other RDAs, the Agency did not undertake formal consultation on the corporate plan in its entirety during this exercise. The Agency was already engaged in a formal refocusing process that had been communicated to stakeholders since March 2009, through letters from the Chief Executive. The Agency considered that the messages of reducing budgets and reprioritising expenditure to support businesses and economic development were considered by the Agency to be well understood within the region. The Agency viewed the refocusing of its activities and the re-prioritisation of its expenditure as being so closely aligned that the decisions taken to define the refocus had also defined the re-prioritisation. Stakeholders that we discussed this with were supportive

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of the decisions that the Agency had made and agreed that they had been clearly communicated to them.

4.56 The refreshed corporate plan sets out a framework for the revised priorities for the Agency's activities. It reaffirms the overarching vision of the current Regional Economic Strategy but identifies that the targets will not be achieved in the previous timescales. The plan sets out how the Agency has refocused its activities and how it will concentrate its activities to support the priority sectors and businesses. It also sets out how the Agency is moving away from methods of direct delivery and how it will work more closely with partners to ensure that some activities continue with a different lead.

4.57 The Agency has focused its investments towards activities that it identifies as best placed to support the region through the downturn and position it well for an upturn. The priority activities for the Agency are programmes that support Global Competitiveness and Business-supporting Infrastructure. Programmes that support activities such as skills development and lowering carbon usage have seen a reduction in their funding, in both real and percentage terms.

4.58 The Agency's intends to more directly focus on transformational programmes for future success:

- Strengthen the 'core offer' of the agency by investing in services such as Business Link, the Manufacturing Advisory Service and the place-based Innovation and Growth Teams.
- Support the success of businesses operating internationally, giving greater focus to working with global investors in the region and new sources of investment from global markets.
- Support high growth companies to innovate and commercialise science based research and development.
- Investing in business critical infrastructure in partnership with the Homes and Communities Agency.
- Lead and drive mainstream investment in education led regeneration projects.
- Realise opportunities to use capital investment in education and skills to align with employment programmes.

4.59 All stakeholders we spoke to agreed that the priorities brought forward by the Agency were appropriate to support the longer term success of the region. Stakeholders supported the decisions that had been made in the reprioritisation and felt that the short term, immediate support for businesses has been appropriate and relevant to the current needs.

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Areas of Good Practice	Areas for Improvement
	<ul style="list-style-type: none">• The Agency needs to strengthen its stakeholder engagement in order to ensure shared priorities and alignment of priorities and actions as seen in most other regions.• The Agency was not proactive in engaging stakeholder views on which investments should be supported.• The Agency needs to engage with stakeholders to ensure the integration of longer term planning into regional programmes.

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 South East of England Development Agency as having demonstrated adequate performance. The key factors that lie behind this assessment are:

- The weaknesses of the monitoring information that was provided to the Board regarding progress against the original improvement plan.
- The use of a number of different initiatives and management arrangements at different times since 2006-07 to drive the Agency's approach to continuous improvement has hampered its coherence and co-ordination.
- There are limited arrangements for capturing detailed stakeholder feedback on the Agency's operational performance with the last survey being conducted in 2003.
- The recent use of the Portfolio, Programme and Project Management Model (P3M3) provides a more coherent framework for continuous improvement across a range of processes and procedures but the Agency has some way to go to improve performance as measured by the model.

Robustness of IPA Action Plan

5.2 In 2006, the Agency scored 21 out of 24 during the Independent Performance Assessment (IPA). This is equivalent to performing strongly overall. Three areas for improvement were identified: review of its organisational structure to support the delivery of the Regional Economic Strategy; development of training and learning strategies to support the skills required for delivery of the Regional Economic Strategy; and better monitoring of the effectiveness and impact of the Agency's actions (including the development of a more transparent investment process, improving communication and consultation with partners).

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5.3 In February 2007, the Board approved an improvement plan in response to issues identified in the IPA. This plan was incorporated into phase one of the Agency's Organisational Development Programme 2006-09⁴.

5.4 The IPA improvement plan identified three areas for improvement. Each of these areas was underpinned by a set of objectives, supported by specific areas for action, 18 in total:

- Review of the Organisational structure to support new RES delivery (this included restructuring the Agency, and improving internal and external communication business systems - six areas for action);
- Development of training and learning strategies to support skills required for delivery of the 2006-16 RES (this included increasing internal and external organisational capacity to deliver objectives, developing internal flexibility and more effective use of appropriate information in reaching decisions - five areas of action); and
- Increased and better monitoring of effectiveness and impact of RDA actions and the development of a more transparent investment process, improving communication and consultation with partners (which was about achieving cohesive, robust and inclusive business engagement, improved partnership working, become an exemplar on Sustainability and Equality and Diversity issues - seven areas of action.)

5.5 Each of the 18 areas of action was allocated to a senior responsible owner at Director level, given a start and end date, with key milestones and resources identified. The plan covered a three year period. Structures were put in place as part of restructuring to oversee improvements, and augmented over time. These structures included a Continuous Improvement Board, which was established in May 2006 to review the Organisational Development Programme, look at actions to date and keep it relevant. In 2007, to ensure that the breadth of activities were embedded as part of normal business at a senior level a Directors Group was set up; one of its responsibilities was to deliver the Organisational Development Programme, and therefore the IPA improvement plan. Other structural changes to implement the Organisational Development Programme included the creation of a Programme Office in 2007 and in January 2008, the new post of Director of Human Resources set up a Learning and Development team, to increase organisational capacity.

5.6 The IPA improvement plan was reviewed every month by the Continuous Improvement Board and updates sent to the Executive Board every six months. The Agency reports to the Non-Executive Board (the Board) on specific continuous improvement initiatives, such as the communications programme in October 2007.

⁴ This had three phases: the first, in 2007, was to implement the Regional Economic Strategy; the second, in 2008, to implement the Corporate Plan; and the third, from 2009, to deliver step change through the Fit for the Future programme

However, there were no overall IPA improvement plan progress reports to the Board until April 2008, 14 months after its approval, so the Board would not be aware of the totality of progress against a plan it had committed to deliver. The Agency acknowledged this in its report to the Audit Committee in March 2008, "Whilst progress made in OD and RES implementation has been reported to the Board, these developments have not been brought together with other action areas in the form of overall IPA improvement plan progress reports. A summary of progress towards the IPA improvement plan milestones has been recorded and presented to the Board on the following dates: April 2008, February 2009, and October 2009.

5.7 Updates on the IPA improvement plan are given in the Agency's Annual Performance Reports, and are available on the Agency's website.

5.8 The Agency has delivered a range of improvements in response to the original IPA improvement plan. Some improvements include:

- Restructuring of area teams to provide relationship management with stakeholders;
- Establishment of a Programme Office in 2007, to facilitate sharing of best practice in evaluation between teams;
- In April 2008, the Agency restructured into three Executive Directorates to reflect the RES;
- Development of a new ICT strategy;
- Revision of the risk management strategy in June 2008, along with the introduction of new templates and monthly reporting;
- Launch of new intranet in 2008, and refresh of website October 2009;
- Introduction of flexible working practices;
- Environmental Management System established October 2008; and
- New fit for purpose legal contracts designed and staff training on legal aspects of contracts delivered.

5.9 In November 2008, the Agency conducted a staff survey (with a 80.6 per cent response rate), which showed that many of the improvements from IPA had been put in place. For example, 81 per cent of staff considered working arrangements were flexible. Staff feedback in relation to improved internal communications and breaking down silo working were less positive. For example, 48 per cent of respondents stated they did not hear things through official channels, but on the grapevine and only 10 per cent of respondents considered communication between parts of the organisation was good, 65 per cent did not.

5.10 In early 2009, the Agency considered it had met 17 out of the 18 major areas for action within the original IPA improvement plan. The objective not completed related to internal communications which, given the results of the staff survey, remained open (see point 5.18). During 2009, the Agency introduced a Communications Strategy for improving its approach to cascading messages about phase two of the Organisational Development Programme. It introduced an Organisational Development bulletin and new upward communication channels such as submissions from staff of Frequently Asked Questions on the intranet. It refreshed its Communications Strategy in October 2009. Although the Agency's first full staff survey since 2008 will not be complete until Spring 2010, it has used formal mechanisms, including all staff away-days and the Joint Staff Council, and has received feedback from staff which shows that the new strategy and revised ways of working are having a positive impact.

Updating Improvement plans

5.11 The Corporate Plan 2008-11 includes a corporate objective on Continuous Improvement, and a formal commitment to deliver the IPA improvement plan. "SEEDA will implement an intense programme of development to ensure that the organisation delivers the improvement plan agreed with the NAO. SEEDA will be adaptable and flexible, delivering multiple outcomes and cross-cutting themes through effective cross-team working".

5.12 The Agency's approach to continuous improvement has evolved. The Executive Board has the responsibility to lead and mentor continuous improvement. The Organisational Development Programme began in 2006, and is still operating. All aspects of change fell within this programme. It has two main phases. Phase one ran up to early 2008; when the second phase called Fit for the Future began. It is not always clear how the Agency has coordinated these initiatives and this may have implications for delivery in terms of resource planning and prioritisation.

5.13 In December 2005, the Agency used LEAN processes to support continuous improvement and develop a programme to reduce business waste (phase one ran from December 2005 for one year). Mid 2006, the Agency embarked on an Organisational Development Programme. The IPA improvement plan was part of phase one of the Organisational Development Programme. It was evident over the three year period that the IPA Improvement Plan ran that actions identified within it continued to evolve. In May 2007⁵, the Agency considered that a Continuous Improvement Board was needed to drive continuous improvement. The second phase of continuous improvement/ LEAN programme was launched in May 2007 for 2007-08.

⁵ SEEDA LEAN Communications Strategy and Plan; P J Taylor; May 2007

5.14 In July 2007, Adaptive Learning was launched, in which a series of cross-agency groups were formed to address specific tasks attached to aspects of the IPA Improvement Plan.

5.15 In February 2008, all improvement activity in the Agency was formally brought together into a revised Organisational Development Programme Plan. The Leadership team then began to look more radically at the Agency's role and organisational development, with work starting in Spring 2008 and continuing through to Spring 2009 when the Agency's board away day agreed more focussed priorities. To deliver this change, the Fit for the Future programme was launched formally across the whole Agency in May 2009.

5.16 The Agency is now using Portfolio, Programme and Project Management Maturity Model (P3M3)⁶ to drive continuous improvement in how it manages its investments. As agreed by the Executive Board in February 2009. Aspire consultants carried out an assessment of the Agency against the P3M3 in February 2009. The Agency was assessed at Level 1; with a Level 2 for finance management (Level 5 is the highest level). The consultants report included an action plan to deliver improvements on each of the seven perspectives:

- Management control;
- Benefits management;
- Organisational governance;
- Finance management;
- Risk management;
- Stakeholder management; and
- Resource management.

5.17 The Agency uses a range of methods to gather feedback from its own staff. Every two years the Agency carries out a survey and produces an action plan to respond to issues identified. The staff suggestion scheme and the Joint Staff Council are also used to identify areas for improvement.

5.18 There are two staff away days each year (and three during 2009) which provide opportunity for staff feedback and suggestions for improvement. Feedback from these away days is on the Agency's intranet. Four work streams came out of the actions

⁶ P3M3 assesses an organisation against five levels, ranging from 1 to 5, 5 being the most mature level. 1- Awareness of process, 2- repeatable process, 3- defined process, 4- managed process and 5- optimised process. And against benchmarks for seven perspectives: management control, benefits management, organisational governance, finance management, risk management, stakeholder management, resource management and provides a plan for continuous improvement

identified in the February 2007 staff away day (management structure, leadership and management, infrastructure and behaviours and values) which were incorporated into the wider Organisational Development Programme. In addition in March 2008, the Agency carried out a review of all the RDAs improvement plans and drew up a list of further improvement actions it could consider. We were told that some of these actions were incorporated into directorate action plans, but have not validated the extent of this.

5.19 Unlike most other regions, excluding the three annual scrutiny reviews carried out by the Regional Assembly, there are limited formal systems in place to capture stakeholder feedback. The Agency's last stakeholder survey was conducted in 2003⁷. The Agency told us it had not carried out surveys since then as it was conscious of potential consultation fatigue having carried out consultation during summer 2006 on the draft RES, the RES implementation plan in summer 2007, and via the Regional Assembly on its Corporate Plan during spring 2008. However, it was not clear to us how these activities gathered feedback on organisational effectiveness. The scrutiny reviews carried out by the Regional Assembly did provide limited feedback on the Agency's performance within the areas considered, the last of these reviews was completed in January 2009. Stakeholders told us they could discuss issues with the Area Directors, but would like to be asked by the Agency for their views.

5.20 The Agency has been subject to two independent reviews against the P3M3 framework. The first of these, in February 2009, established a baseline for their performance against the model and a second assessment in November 2009 demonstrated improvements in the Agency's Project and Programme Management. The Agency has also been externally audited in order to achieve its ISO 14001 accreditation.

5.21 The Agency can demonstrate how it acts on feedback when it is received, such as the revision of its model for Innovation and Growth teams. However, many of the stakeholders we spoke to did not consider the Agency provided them with an opportunity to feedback on where it could improve its approaches.

Delivering Improvement Plans

5.22 Since May 2008, as part of the monthly Operational and Finance Review, the Board has received the corporate scorecard which provides an overview of the Agency's performance. This includes the IPA improvement plan - where a traffic light rating is given for each action. There is no further detail on progress against individual strands which limits the Board's ability to monitor progress and challenge any deviation from planned milestones.

⁷ A Stakeholder Survey was underway as at February 2010

5.23 In addition to the corporate scorecard, there is quarterly reporting (originally by the Continuous Improvement Board and from May 2008, by the Resources Executive Director) on progress on improvement plans to the Directors Group and the Executive Board.

5.24 Overall responsibility for managing delivery lies with the Chief Executive and Executive Directors. Responsibility for monitoring progress against actions to deliver continuous improvement lies within the individual directorates. The Continuous Improvement Board last met in May 2008. In May 2009, the Fit for the Future Programme Board was set up to oversee the implementation of improvement plans. At the same time, a sub group of the Board (comprising four Board members) was set up as a steering group to give high level advice to the Fit for the Future Programme Board on the implementation of the Agency's restructuring. The Fit for the Future Programme Board reports progress to the Executive Board fortnightly and to the Board Steering Group every two months.

5.25 Like most RDAs, the Agency uses a range of approaches and techniques to deliver its continuous improvement activities. Methods identified include:

- Adaptive learning groups;
- Use of LEAN office initiative to review processes and procedures;
- Benchmarking;
- Task and finish groups; and
- In-house teams supported by external specialists.

5.26 Four adaptive learning groups were set up in 2007 to review contact management, projects to programmes, corporate planning (these three reported April 2008) and State Aid (which reported in May 2008). The contact management group recommendations were used to inform the Client Relationship Management system, and the projects to programmes group recommendations informed the development of the Programme Office.

5.27 Since the P3M3 assessment in February 2009, the Agency has demonstrated progress against its initial position and in November 2009 was assessed as Level 2 in three further areas. It is aiming for level 2 in all areas at its next assessment in March 2010. There are five levels, from one to five.

5.28 In common with a number of other RDAs, the Agency has Investors in People accreditation and invests in developing its staff. In 2008, all project managers received project management training, and the Agency has a future leaders programme.

5.29 The Agency carries out post implementation reviews, which are very frank about how the project has been conducted and provide lessons learnt which can be used on

other improvement projects. An example of how these lessons are being put into practice on the restructuring exercise includes greater use of the Joint Staff Council as a sounding board to help Human Resources develop ideas and activities before they are implemented across the whole Agency.

5.30 The IPA improvement plan is on the Agency’s website and the Agency’s Annual Performance Report has a section on Continuous Improvement and reports highlight achievements against the Business Plan milestones.

Areas of Good Practice	Areas for Improvement
<ul style="list-style-type: none"> • The Agency has established the P3M3 framework as a basis for external validation of its continuous improvement achievements. • The Agency undertakes post implementation reviews. 	<ul style="list-style-type: none"> • The Agency needs to develop systematic systems for gathering and disseminating feedback with stakeholders. • The Agency would benefit from greater levels of involvement by the Board receiving comprehensive performance information through which allows it to monitor and challenging progress more effectively. • There is scope to develop a more comprehensive monitoring system for continuous improvement.

Part Six: How effectively has the RDA implemented improvements in performance management 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 the South East Regional Development Agency as having demonstrated adequate performance. The key factors that lie behind this assessment are:

- The Agency has improved its evaluation approach including by updating its strategy and plan, commissioning from a panel of external consultants and using champions. However, as at November 2009 evaluations were not consistently adequately assessing the impact of projects on regional growth and there is a need for stronger quality assurance.
- The lack of a quality assurance process covering the whole project appraisal process increases the risk to the Agency of delays and not maximising investment returns.
- Whilst evaluation findings have been used to inform broad strategic investment decisions, lessons from evaluation are not yet systematically used to improve the appraisal of potential projects. The Agency's Gateway Group and Major Projects Committee suggest where evaluation work could improve a project but this is not consistently addressed by those bringing projects forward. As part of recent restructuring at the Agency a Programme and Knowledge Office and Head of Evaluation post have been established to help facilitate cross-Agency learning but it is too early for the impact to be assessed.
- The Agency does not consistently and systematically compare and test the outputs expected from different types of new project with the experience from evaluation, including on such issues as additionality and optimism bias.
- The Agency does not consistently share lessons from evaluation with its partners and stakeholders.

Effective evaluation

6.2 In February 2006, the Government published a Regional Development Agency (RDA) Impact Evaluation Framework (IEF⁸). Following publication of the IEF PricewaterhouseCooper's were appointed in December 2007 by the Department for 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 a whole", and to assess RDA achievements against the objectives in the RES and Corporate Plans. The Impact Evaluation report was published in March 2009⁹. The NAO's 2006-07 IPA 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 IEF and the Impact Evaluation report's findings.

6.3 The Impact report assessed 25 programmes and projects covering 81 per cent (£469 million) of the Agency's programme and project spend between 2002-03 and 2006-07. It found on, average, £5.60 was generated for every £1.00 spent by the Agency through its programmes and projects. The Agency secured its highest rate of return in business interventions (range of £0.20-£23.00), with people interventions providing its lowest return rate (range of £0.70-£1.50). The report highlighted areas where the Agency could strengthen its performance including; taking a strategic cross agency view of people interventions to allow the full value to be captured; and identifying how success will be measured at project or programme appraisal.

6.4 The Agency is committed to developing its evaluation processes and ensuring evaluation results are taken into account when making investment and strategic decisions. It established a group of 11 Evaluation Champions, in March 2008, to co-ordinate the work undertaken by PricewaterhouseCooper's and to commission additional work to identify areas where it performed well and areas where it could improve its impact going forward. The additional work, completed in February 2009, ranked the Agency's interventions within a performance measurement framework which included: economy, efficiency, effectiveness, value for money, additionality, quality, strategic added value, immediacy of impact and holistic impact.

6.5 Following the Impact report, the Agency reviewed its evaluation processes to ensure they remained IEF compliant. As a result, the Agency has committed to evaluating 60 per cent of its expenditure each year and has introduced an evaluation check list. As part of Agency-wide improvements, all project appraisals, from 2005, must include an evaluation plan identifying the aims of the work and the resources required. In addition, it has established two new groups in May 2009; an Operations Committee which considers how to improve the Agency's performance regime using the IEF framework; and a Gateway Group to review appraisals during their formative

⁸ DTI Occasional paper No.2, Evaluating the Impact of England's Regional Development Agencies: Developing a Methodology and Evaluation Framework, February 2006

⁹ Department for Business, Enterprise, Regulatory Reform, Impact of RDA Spending- National Report, Vol 1, Main Report, March 2009

stage with a stated aim to ensure that evaluation evidence is considered as part of project development and that the project has strategic fit.

6.6 The Agency launched its evaluation strategy in April 2007 and plans to update it on a three year basis. The strategy has four main aims; to use evaluation to shape programmes; aid the use of evaluation data in corporate decision making; ensure evaluation is used when making investment decisions; and ensure compliance within the evaluation process. The strategy is supported by an evaluation plan, which is updated annually, that outlines which programmes and projects will be evaluated spend on each evaluation and start and end dates. Progress against the plan is monitored by the Executive Board as part of the corporate scorecard where progress is rated red, amber or green depending on progress against milestones. The Agency plans to evaluate at least 65 per cent of its expenditure across the full range of its interventions.

6.7 The Agency completes evaluations at programme and project levels. Programme evaluations aim to demonstrate Strategic Added Value (SAV), identify synergies between projects and estimate the economic impact of a programme of work. Project level evaluations seek to identify feedback on how well specific activities have worked and provide information on outputs achieved to be used in programme level evaluations.

6.8 As part of the Agency's restructuring exercise and in response to the findings of the Impact report, it established a Programme and Knowledge Office on 16 November 2009. This office is intended to act as a central hub to hold information on appraisal and evaluation work to facilitate cross agency learning from the experiences of others. It will report progress to the Executive Board. The Programme and Knowledge Office model draws on a review of the approach used by Scottish Enterprise. Prior to this, the Agency operated a Programme Office which acted as a co-ordination point to encourage teams within the Agency to share their learning.

6.9 The November 2009 restructuring will create a Head of Evaluation post to align evaluation work with the Agency's economic intelligence. The post will not start until February 2010 so it has not been possible to assess its effectiveness as part of this review. Evaluation within the Agency was previously led by an evaluation manager who was located within the Programme Office. The new Head of Evaluation post will be based within the strategy team to align evaluation work with the Agency's economic intelligence.

6.10 The Board is involved in the Agency's evaluation work through the Major Projects Committee, set up in 2004. This sub-committee of Board members reviews completed evaluations and provides challenge to new projects being appraised. The Major Projects Committee reviews evaluation work (including project, programme and area specific work), and the full Board also receives all programme level evaluations. The Agency could support better sharing of best practice and lessons learnt discussed

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at the Major Projects Committee, through senior responsible officers (who attend these meetings) to the wider Agency to improve the quality of investment decisions. We have found some evidence of this taking place, but not as part of a formalised process. Currently the minutes of these meetings are available through the intranet and the senior responsible officers receive verbal feedback on good practice and lessons learnt, but the Agency could bring together these lessons into a single document to make it more accessible for staff.

6.11 A suite of evaluation training was carried out in 2007-08 and the Organisational Development bulletin carried an evaluation article in December 2008. Updates are available to all staff through the evaluation pages on the intranet where evaluation templates, policy summaries, key term definitions and completed evaluations can be easily found.

6.12 A workshop on evaluation lessons, commissioned from PriceWaterhouseCoopers (PwC), was also held in November 2008 to highlight how staff could use the results of the Impact report in their work. Success within evaluation has been identified as: efficiency and value for money, effectiveness in meeting targets, strategic added value, quality and additionality. Following the publication of the Impact report, staff were given a presentation, in March 2009, to demonstrate how the results could inform investment decisions, and how the Agency could adopt a more joined up approach to its activities to maximise its impact. Staff we spoke to were aware of the Impact report and how it could be used to improve investment decisions.

6.13 The Agency uses a panel of 10 consultants to undertake evaluation work. The tendering process to establish the Panel was based on the requirements of the IEF to ensure all evaluations undertaken would be compliant with its standards. The current panel was appointed in November 2006 for three years. However, a six month extension to its tenure was agreed to allow the Agency to re-tender the contract. The Agency provides clear guidance to its staff on how to commission evaluation work, including specification templates, requirements for competitive tendering and how to select a successful bid.

6.14 The Agency does not have an independent quality assurance process to review completed evaluation work and to check it meets specified standards. The Senior Responsible Officer for a project is currently responsible for checking the quality of the completed evaluation. However, the lack of an independent quality assurance process opens the Agency up to the risk of funding evaluation work which does not meet expected standards. This risk is substantiated by our review of a sample of evaluations which were of inconsistent quality and content. The Agency plans to address this through a new Assurance Manager role, created as part of the new Programme and Knowledge Office.

6.15 Our review of a sample of evaluations found most focused on assessing the original aims and objectives of the project and achievements against these, using a range of methods. The evaluations reviewed did not consistently assess GVA and additionality factors. In general, the evaluations failed to present a clear conclusion on whether the project was successful, and dissemination strategies for sharing lessons learnt and best practice were not present in all cases. However, we did find that evaluations completed more recently were better at complying with these elements.

6.16 The Agency has put in place some processes to share lessons from evaluation work internally. It established an evaluation library which holds all evaluations that can be easily accessed by staff through the intranet. It introduced a dissemination strategy template in January 2007, to be completed as part of the appraisal process, which requires staff to identify how lessons will be shared at all stages of the project life-cycle. However, this was not always present in the evaluations and appraisals we reviewed. Directors receive a 'Virtues and Sins' summary, on an annual basis, which highlights best practice and lessons learnt from evaluations and the Agency has previously given evaluation presentations. Senior Responsible Officers also verbally share the lessons and good practice identified at the Major Projects Committee with their staff. However, it lacks a consistent, formalised dissemination process, choosing to rely on Directors to share learning with their staff.

6.17 The Agency does not consistently share lessons from evaluation with its partners and stakeholders. All evaluations are available on the Agency's website and through OffPAT; and the Agency sent a letter to all partners and stakeholders when the Impact report was published. However, partners and stakeholders told us they would like to be informed of the outcomes of this work by the Agency.

6.18 The Agency has made use of evaluation findings to inform its strategic investment decisions and the shift away from place-based regeneration to a stronger focus on transformational programmes. The Board used the Impact report as a key element of its decision making around the reprioritisation exercise, and the Gateway Group highlights where evaluation lessons can help to strengthen investment decisions for the future.

Effective appraisal process

6.19 Projects arise in a variety of ways- from local areas, where partners develop ideas and approach the Agency to gain support and funding; through national and European initiatives; and directly from the Agency. The Agency uses a commissioning approach, when appropriate to do so, to ensure it achieves the biggest impact for its investment. The Area Directors bring project ideas into the Agency and help partners shape projects to better fit the Agency's priorities.

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6.20 The Agency has jointly planned investment with partners to develop regeneration plans for particular areas, in line with priorities agreed through Local Area Agreements and Multi Area Agreements. For example, multiparty planning of investment has taken place with the Partnership for Urban South Hampshire (PUSH) and the Ashford Future Partnership. Partners have told us the Agency has added value to these discussions through its strategic thinking and ability to co-ordinate and influence local partners and stakeholders.

6.21 The Agency updated its appraisal process during summer 2009 with the adoption of HM Treasury Five Case Model Business Case methodology and the Managing Successful Programme's principle. As a result of these changes, all appraisals are now required to be underpinned by four guiding principles: project design is creative, not a form filling exercise; programmes and projects are designed to achieve pre-identified benefits; achieving more through less with better project design; and transparent decision making. All Agency staff undertook training during this period to ensure they were aware of the changes.

6.22 The Agency has put in place a three stage project appraisal process which involves input from across the Agency, with staff from various disciplines and seniority contributing. At Stage One (initial business case); the Agency has a Gateway Group, chaired by an Executive Board member, to examine and challenge projects at their formative stage and establish their strategic fit with the Agency's priorities. Stage Two (full business case) presents a detailed overview of the potential project. At the final stage, Stage Three, an investment decision is made (which investment group examines a project depends on its value. The Agency works collaboratively with partners to ensure that projects progress appropriately through its appraisal and approval processes.

6.23 Initial business cases are developed by a project manager with support and sponsorship from a Senior Responsible Officer (at Director Grade).

6.24 At the Gateway Group a Senior Responsible Officer presents the initial business case for discussion. The Gateway Group can ask for additional work to be completed before making a decision on whether to support or reject a project. If support is granted a project proceeds to stage two where a full business case is completed.

6.25 The full business case develops the project details and provides a full technical assessment. For all projects expected to require funding in excess of £1 million, an external appraisal is commissioned by the Agency, including an economic assessment. The Agency uses an external panel of consultants and in 2008-09 it spent £502,000 on 49 external appraisals.

6.26 For most projects valued at less than £1 million, the Agency does not require economic input to be recorded on the business case documentation. There is limited input from the Agency's own economics expertise to the appraisal process for all

projects; advice is sought at the Gateway Group and at Investment Committee stage, but there is no requirement for economic expertise input during the interim period even though projects can change significantly between the initial and full business case stages. The Agency has told us it plans to address this gap in economic analysis by developing new mechanisms as part of its restructuring exercise.

6.27 Following the completion of the full business case a project is considered by an investment group. Delegation levels have been set across the Agency. Projects under £1m can be approved by Executive Directors; projects valued at between £1 million to £3 million are supported by the Investment Committee chaired by the Chief Executive, and approved by her; and those valued at between £3 million and £10 million are taken forward from Investment Committee to be approved by the full Board on the recommendation of the Major Projects Committee (a sub-committee of the Board). The Major Projects Committee also, on the invitation of the Chief Executive, endorses projects valued at between £1-3 million that are approved by her.

6.28 The Programme and Knowledge Office is responsible for the management of appraisals after the Gateway group stage. Unlike those found in other regions, the Agency does not have a target in place to measure how long it takes for projects to move from Gateway Group to investment decision. The Programme and Knowledge Office will report progress to the Executive Board.

6.29 Lessons learnt from evaluation work can be considered in the appraisal process through the Gateway Group and the Major Projects Committee and through the evaluation library which all staff can access through the intranet. The Gateway Group identifies relevant evaluation work to be reviewed to strengthen a project's strategic case. The Major Projects Committee reviews appraisals and evaluation work and therefore views itself as an integral part of the feedback loop between lessons learnt from evaluation and improved investment decisions for those projects expected to receive funding in excess of £3 million. We reviewed examples where the Major Projects Committee has challenged projects to improve their impact. However, there was little evidence of appraisals considering evaluation lessons in the projects we reviewed. The Agency could introduce a more robust mechanism to ensure this consistently takes place as part of completing the paperwork for an initial and full business case before projects reach investment decision stage. There is guidance on the use of evaluation in appraisal, but there is no requirement for project outputs/outcomes to be benchmarked against measures from the Agency's evaluation work.

6.30 The Agency does not have a quality assurance process in place to check compliance or quality of submissions throughout the appraisal process. The Agency established the Gateway group in May 2009, to provide assurance at the beginning of a project. The role of providing assurance for the remainder of the project development process will be undertaken by the Programme and Knowledge Office as it becomes more established. However, the lack of a complete quality assurance

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process has opened the Agency up to risk of delays to projects reaching investment stage, and not achieving optimal impacts from its investments.

6.31 Easy to follow guidance has been provided for project managers to assist in the completion of the initial and full business case applications. The guidance outlines the information that needs to be provided in each section of the appraisal forms. However, there is scope to improve the guidance on using evaluation. Staff can access guidance through the Project Guidance Centre available through the intranet.

6.32 The Department for Business, Enterprise and Regulatory Reform visited the Agency in 2009 to review a sample of appraisals completed in 2008 as apart of the 2009 Central Projects Review Group appraisal back check exercise. The review found consideration of how a project was to be delivered were good; but justifications for an intervention were weak; and evaluation plans, although present, could be developed further and include more detail. The Agency has since taken steps to address these concerns by completing work on the understanding and use of market failure arguments and assessments.

6.33 The Agency revised its appraisal documentation in 2009 in response to the introduction of the Managing Successful Programmes principles. This addressed the duplication of effort and inconsistency in information captured across the Initial and Full business case, which we found in some of the projects we reviewed that were completed prior to this change.

6.34 Staff have a clear definition of Strategic Added Value (SAV). The Agency has developed criteria to help project managers identify SAV including:

- Creating confidence in the prospects for regional growth;
- Providing strategic leadership;
- Exerting a strategic influence;
- Levering in investment from other sources;
- Developing synergy with other activities;
- Stimulating an enhancement to beneficial activity;
- Enhancing the quality of regional activity; and/or
- Encouraging engagement with the RES.

6.35 Market failure was considered where appropriate in the appraisals we reviewed and was well explained in these instances. In the sample of appraisals we reviewed we could not find any evidence of evaluation data being used to benchmark outputs against. However, more recent appraisals demonstrated more consistency with this requirement, suggesting improvements have been made.

6.36 Evaluation plans were considered in the appraisal we reviewed. However, the level of detail varied. The Agency could set out guidance on what information is needed at the appraisal stage, for example, an indication of what will be evaluated, timeframes and methods to be used.

6.37 The Agency promotes a project development model which starts with the identification of benefits to be achieved, followed by identifying which activities will most effectively realise these benefits. As a result of this approach, a significant proportion of option development takes place prior to a project being presented to the Gateway Group. In the appraisals we reviewed we found options were consistently presented with 'do nothing', 'do minimum' 'preferred option' and a 'viable alternative' considered. The options were well developed and for each there was an argument as to why the option should be pursued or rejected.

Benchmarking and sharing best practice

6.38 The Agency uses benchmarking effectively as a tool to assess performance and develop specific activities. Benchmarking activities are the responsibility of the Executive Board. The Board is not involved in these exercises.

6.39 The Agency has benchmarked its performance against other RDAs in a range of activities including procurement, capability, IT effectiveness, finance and human resources.

6.40 It has worked with the South West Regional Development Agency and the East of England Development Agency to review its approach to back office costs. It also benchmarks elements from its Corporate Scorecard against private sector organisations.

6.41 The Agency is open to learning from other RDAs. It reviewed the work of the London Development Agency and the South West Regional Development Agency when considering how best to undertake its restructuring exercise; visited Yorkshire Forward to review its Project Management System to inform the development of its own Management Information System; and learned from the London Development Agency when developing its customer and contact management approach.

6.42 The Agency aims to be the "best in a global class" and therefore frequently uses international benchmarks to measure its performance and identify best practice. For example, it ran a workshop to identify common interests and expertise between the two regions and the possibility of joint working on issues of mutual interest. Lessons from this exercise were used to inform the development of the Diamonds for Investment and Growth.

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6.43 The Agency achieved Investors in People status in February 2002, like most other RDAs. It has also been accredited with ISO14001, which assesses the environmental management systems of an organisation.

6.44 The Agency is a member of OffPAT and makes all its evaluation work available through the OffPAT library.

Efficiency and effectiveness in administration and programmes

6.45 The Agency's refocusing exercise identified how the Agency needed "to make deep cuts to become smaller and more agile as well as delivering the savings required". This commitment is outlined again in the refreshed Corporate Plan 2009-11.

6.46 The Comprehensive Spending Review 2007 (CSR07) required value for money savings of at least five per cent per annum, equivalent to £23.5 million. However, the Agency forecasts it will achieve £49.3 million of savings over the three years to 2010-11, due to increased savings realised from its restructuring exercise.

6.47 There are two elements to the value for money savings: cash releasing and performance improvement savings. Cash releasing savings (Grant in Aid reductions) are forecast at £22.8 million, whilst Performance improvement savings (recyclable savings), are forecast to be £26.5 million.

Figure Four: Forecast Value for Money Savings

£'000	07-08	08-09	09-10	10-11	Three Years
CSR07 baseline	163,581				
(a) Grant in Aid reduction		3,854	7,633	11,320	22,807
(b) Recyclable savings		4,417	8,834	13,251	26,502
Savings required each year from 07-08 Baseline		8,271	16,467	24,571	49,309

6.48 The Agency managed its Grant in Aid reductions through its existing budget processes and has reflected the reductions in the refreshed Corporate Plan presented to the Department. Grant in Aid budget cuts were met through revising Area Investment Fund (AIF) activity, and by reducing the investment provided for infrastructure projects.

6.49 The Agency has a Value for Money Delivery Plan which outlines how the savings will be achieved through using less resource to achieve the same level of outputs.

6.50 The Agency has also explored the possibility of sharing corporate services with local authorities and human resource functions with the Government Office South East. It is currently setting up a Joint Venture with the Homes and Communities Agency to deliver regeneration activities.

6.51 The Agency's budget is constructed annually using a zero-based approach. The Agency has successfully managed its budget each year including when it has been affected by Grant in Aid reductions.

6.52 As part of its Fit for the Future programme, the Agency formulated a vision of a new, smaller agency with a reduced back office function in August 2008. This exercise provided the opportunity to review the Agency as part of a blank page approach and allowed a zero-based exercise to be carried out. The Agency developed a set of criteria and assumptions which were then applied to each Directorate to identify savings. As a result, the Agency has undertaken a full review of its staffing compliment and plans to reduce from 424 posts in May 2009 to 270 posts by March 2010. At November 2009, the Agency had achieved a reduction to 376 posts.

6.53 The Agency's restructuring exercise has obvious effects on staff morale and can impact on the effectiveness of the control environment. These risks were highlighted by the Agency as part of the NAO Audit Strategy for 2009-10 accounts. The Agency's Audit Committee is aware of the risks and issues involved.

6.54 The Agency met its value for money saving target for 2008-09 and expects to exceed its targets as the restructuring exercise is completed and savings realised.

6.55 Progress against value for money savings is reported to the Executive Board by the Head of Finance and Performance on a monthly basis. The Board is kept updated on progress through Financial and Operational reports which are provided for every Board meeting. Progress is also reported to the Department on a quarterly basis. The methodology for monitoring and reporting efficiency savings was agreed in advance with the Department.

6.56 The Agency takes on average seven days to make payment on invoices received. It has succeeded in paying 95 per cent of its invoices within the 10 day target set by the Government.

6.57 The Agency is aware further savings may be required in the future and commissioned consultants to undertake scenario planning work to inform its prioritisation exercise. It also undertook scenario planning when designing possible organisational structures in August 2009. The Agency also asked the Manufacturing

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Advisory Service to prepare scenarios around its services that could be offered if budgets were reduced by five, ten or fifteen per cent.

Areas of Good Practice	Areas for Improvement
<ul style="list-style-type: none"> • The Agency undertakes budget reviews on a zero based approach. 	<ul style="list-style-type: none"> • The Agency needs to ensure that lessons from evaluation are disseminated more effectively to relevant partners and stakeholders. • The Agency needs to ensure that learning from evaluation is captured more comprehensively. • The Agency should consider developing a tool which uses evaluation data to enhance its assessment of value for money. • The Agency needs to ensure that quality assurance is integrated into processes for evaluation to improve conclusions on GVA and additionality. • The Agency should implement a quality assurance process for appraisals. • The Agency should set some targets for appraisal and approval processes and monitor their performance against them to drive continuous improvement.

Part Seven: Technical Appendix

Independent Supplementary Review Methodology

Background

1 The National Audit Office has undertaken this Independent Supplementary Review of the South East England Development Agency (SEEDA) at the request of the Department for Business, Innovation and Skills, which is the sponsor department of the Regional Development Agencies. The National Audit Office is responsible for advising Government and Parliament about financial management in public sector bodies. SEEDA is one of nine 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.

2 The National Audit Office's Independent Supplementary Review is covering the eight Regional Development Agencies outside London by April 2010.

Approach

3 The Independent Supplementary Review is structured under 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?

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

- The range of judgements for each question is:
- Adequate Performance
- Good Performance
- Strong Performance

5 Where the Regional Development Agency has been unable to demonstrate adequate performance it will be given an inadequate judgement

Evidence

6 We reviewed a wide range of information sources for our assessment, including existing documents, observed routine meetings, site visits and tailored interviews and focus groups with internal and external stakeholders.

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

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

9 We obtained information from the Department for Business, Innovation and Skills giving a collective view of the Agency from a range of Central Government organisations.

10 We consulted our colleagues who visit SEEDA every year to audit the accounts, developing an insight over an extended period.

11 We triangulated all our evidence to give a rounded view of SEEDA. In analysing each triangulated information source, we referred to areas of review underlying each of the three assessment questions, set out at the start of each report section. We drew observations from each source for as many of the areas for review as were relevant and balanced this against evidence collected from other sources. In arriving at a final judgement 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.

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.