



National Audit Office

May 2010

Independent Supplementary Review

South West Regional 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 South West Regional 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? | We have assessed the South West Regional Development Agency as having demonstrated good performance |
| How effectively is the RDA implementing improvement plans? | We have assessed the South West Regional Development Agency as having demonstrated good performance |
| How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation? | We have assessed the South West Regional Development Agency as having demonstrated good performance |

Part Three: Context

3.1 The South West is the largest English region running from Gloucestershire in the north to Cornwall and the Isles of Scilly in the south and encompassing Wiltshire, Somerset, Dorset, Devon, Poole, Bournemouth and areas in the West of England. It has a total population of almost 5.2 million; slightly more than 10 per cent of England's total. The region is predominantly rural with 35 per cent of its population living outside urban areas. The region has three major conurbations, Bristol, Plymouth and Bournemouth/Poole. Over 50 per cent of the region's population live within 10 kilometres of the coast as it is a peninsula. Thirty five per cent of the region is nationally designated, with 60 per cent heritage coast line and 72 per cent of ancient monuments located in the region.

3.2 The region is served by the M5 which provides a link between Exeter, Bristol, Gloucester, Cheltenham, the Midlands and the North West. West of Exeter, major road and rail links are limited, with a car journey between Penzance and London taking about six hours. The region is served by five airports at Bournemouth, Bristol, Exeter, Newquay and Plymouth.

3.3 The regional economy is valued at £94.2 billion, with Gross Value Added (GVA) per head calculated at £18,782 in 2008; 91.5 per cent of the United Kingdom average. GVA per head is highest in the Swindon area at £30,116 and lowest in Torbay at £12,506.

3.4 Over 80 per cent of land is used for agriculture. The region has the highest percentage in England of registered small to medium companies, with 99 per cent of South West businesses employing fewer than 50 people. The majority of the population, 76 per cent, is employed in the service sector and 13 per cent is employed in manufacturing. Trade of goods within the region is dominated by advanced engineering, machinery and transport.

3.5 The Agency is committed to eight key sectors; Advanced Engineering, Biomedicine, Creative Industries, Environmental Technologies, Food and Drink, Marine, Leisure and Tourism and ICT, identified in the Regional Economic Strategy. The Agency has confirmed its commitment through its reprioritisation to developing advanced engineering and manufacturing skills to supply key employers including Rolls Royce and Airbus.

3.6 The Regional Economic Strategy for the South West, agreed in 2006, aims to create an economy where prosperity is measured by wellbeing as well as economic wealth, knowledge, service quality and performance. In addition to the sectors

identified as Agency priorities, the Regional Economic Strategy has identified health and social care, retail, engineering, construction, public administration, finance and business services, distribution and transport, paper and printing as important regional sectors. The Agency's Corporate Plan sets out how it intends to contribute to delivering the Strategy. To achieve this vision it will focus on creating:

- Successful and competitive businesses;
- Strong and inclusive communities; and
- An effective and confident region.

3.7 Employment and unemployment data shows the region has not suffered as badly as other regions through the downturn with employment rates at 76.2 per cent, three percentage points above the UK average and unemployment at 6.6 per cent, one percentage point below the UK average. Claimant counts have increased most in the north and east around the urban areas of Swindon, South Gloucestershire, Wiltshire and Poole where the downturn in manufacturing, construction and related services have been hardest hit.

3.8 Within the South West there are four two-tier counties and 12 unitary authorities with a total of 25 districts. Proposals for unitary reform are currently being considered in Devon. Following the implementation of the Sub-National Review the Agency and a newly formed Strategic Leaders' Board will be responsible for creating the Integrated Regional Strategy.

3.9 In 2008-09, the Agency received a single pot allocation of £164 million. With receipts, this will increase to £196 million. Due to budget cuts the Agency will only receive £120 million from the single pot in 2010-11.

3.10 The Agency processes a large amount of European funding; a total of £86 million in 2008-09. This will increase to £99 million per annum by 2010-11 and will continue until 2013. Cornwall is the only county in England to receive Convergence funding which forms a large proportion of the total European funding coming to the region. The Agency is responsible for securing additional investment from within the region to match the funding from Europe and, in the case of physical regeneration work, it must match the funding with its own money. The European Regional Development Fund (ERDF) is equivalent to 43 per cent of the Agency's single pot funding. This is higher than the other RDAs and has implications for the level of flexibility the Agency has in its investment decisions.

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

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

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

- A realistic approach in response to the downturn given the level of available resources, but which retained its focus on long term economic restructuring.
- Using the impetus of the downturn to lead a co-ordinated approach for the region and develop effective sub-regional action forces to support the response.
- Robust reprioritisation of projects using clear criteria including contribution to regional growth and with active involvement of partners in decision-making.

Economic Analysis

4.2 The Agency's Chief Economist leads the Agency's Evidence and Economics team which comprises seven staff. The Agency provides around 80 per cent of funding for the South West Observatory and the Evidence and Economics Team provides economic expertise to the Observatory.

4.3 It subjects its economic work to considerable academic rigour. In 2003, it established a Panel of Economists from the region's universities. The Panel meets four times a year to discuss issues proposed by the Agency. These meetings are attended by the Agency's key Policy and Strategy Officers and other senior Agency Officers depending on the topic of the session. The Agency uses the Panel to

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comment on the quality of various pieces of work including the regional evidence base and selected pieces of commissioned research.

4.4 The Agency plays a key role in gathering and disseminating data in the region. In addition to analysis of Office for National Statistics data, it produces the South West Regional Accounts, an interactive tool that provides a detailed picture of the region's economy. There are seven Local Intelligence Networks attached to the Observatory who provide sub-regional data and analysis. The Agency gathers reports from agencies involved in dealing with the downturn, including Job Centre Plus and Business Link, the Area Action Forces (established to tackle the effects of the downturn in the sub-regions) and from intelligence submitted by businesses, to provide monthly reports to the Regional Economic Task Group (RETG).

4.5 The Agency has strengthened the intelligence it gathers from the business community in response to the downturn and recommendations from the South West Regional Assembly. The Agency set up an e-mail address for businesses to submit intelligence about the impact. This real time intelligence has been used by the Area Action Forces and the RETG to shape their responses.

4.6 The Evidence and Economics Team produce a number of outputs for a variety of audiences including:

- State of the Region (Annually);
- Economic Profile (Six Monthly);
- Economics Review (Quarterly);
- Economic Indicators (Quarterly); and
- Economics & Evidence Monitor (Monthly).

4.7 These products are timely, comprehensive, easy to read and adapted appropriately according to focus.

4.8 The Agency was already producing economic analysis before the downturn. However, in response to the downturn it introduced new products to complement its existing range. A monthly internal publication was introduced, 'Recession Watch'; in addition to external reports including 'Money Market Mayhem', September 2007; and Global Credit Crunch- Modelling the implications for the South West'; November 2007 for further information on this publication).

4.9 Stakeholders told us that the economic analysis provided by the Agency is of a high standard and the majority of stakeholders to whom we spoke make use of the economic analysis on a regular basis.

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4.10 In addition to the Agency's own website, the Evidence and Economics team's outputs are available through the South West Observatory's website where the user can also register for the economics module newsletter. The Economics Profile and Economics Review are distributed to a range of stakeholders. The Agency won a Gold Award from the Chartered Institute of Public Relations for its Economics Review publication.

4.11 The Evidence and Economics team are also responsible for producing a monthly briefing for the RETG. Based on information gathered from other Agencies and combined into a single report, this ensures that all members of the RETG receive a single set of intelligence.

4.12 The Agency has regularly commissioned and undertaken specific research to inform its, and the region's, strategy including reports focussed on the impact of the downturn. In January 2009, it published a report on the likely impact of the downturn on the South West's economy, using current national trends, historical data from previous downturns and the South West Regional Accounts¹. The report identified the sectors and places that were likely to suffer most in a downturn and concluded that the focus should be on long term structural changes to the economy in preparation for the upturn. This work was followed up in November 2009 by a publication looking at low growth scenarios. It examined the potential effects of lower growth in the next upturn and how this impacts on future growth across the region and by sector.

4.13 The Agency's economic analysis focuses on the economy at a regional level. Publications frequently contain sub-regional profiles. Sub-regional and economic data down to the sub-regional level is available from the Observatory's website. The Evidence and Economics Team provide specific analysis and advice to regional and sub-regional stakeholders upon request.

4.14 Prior to the downturn the Board received annual economic updates. From December 2008, monthly briefings were provided. The Chief Economist regularly attends the Board. The Board members we spoke to confirmed that the information they get is well presented and contains useful analysis and explanations. The Agency uses economic analysis while developing individual projects and programmes of work.

¹ The Agency has developed an input-output model, South West Accounts, as a regional economic model of the South West economy. The model provides region-wide and sub-regional multipliers for structural analysis, and allows the impact of events in one part of the economy to be understood elsewhere.

Effectiveness of reprioritisation in response to economic downturn and funding constraints

The Agency's Approach to Prioritisation

4.15 In late 2007, the Agency was aware that the downturn would impact upon the region. Its Evidence and Economics team published an article in the November 2007 issue of the Economics Review which considered the effects of the global financial crisis on the South West economy. During the course of the first half of 2008, the Agency continued to analyse the economic situation and, from July 2008, the Agency began to consider initiatives in response to the downturn.

4.16 In Autumn 2008, the Agency was made aware that its budget would be cut by £24 million for 2009-11. The Department asked all RDAs to reprioritise their activities in response to budget cuts. Added to this, early in 2009, the Agency realised the impact of the downturn on the value of its assets, reducing the capital it had to spend by a further £30 million. This is equivalent to 19 per cent of the Agency's CSR07 Settlement for 2009-11 (CSR07 allocation was £296 million²) and meant that the Agency's commitments would exceed its budget by 15 per cent in 2009-10.

4.17 The Agency managed its response to these circumstances in two distinct phases. The first was to respond to the downturn by participating in the creation of appropriate regional structures and establishing initiatives; the second was to reprioritise its activities in response to the budget reductions while maintaining support for initiatives in response to the downturn. Figure one gives an overview of the actions taken by the Agency.

Figure One: Timeline of Agency activity in response to prioritisation

| | |
|------------------|--|
| Sept 2007 | The Government steps in to help Northern Rock The Agency publishes an external paper on the effect of the downturn (<i>Money Matters Mayhem</i>) |
| Nov 2007 | Economics Review raises the economic uncertainty ahead |
| Sept 2008 | Lehman Brothers Holdings Inc file for bankruptcy Proceedings |
| Feb 2008 | Panel of Economists discuss the developing downturn |
| July 2008 | Presentation to Board on economic outlook |
| Sept 2008 | Directors asked to review projects and identify potential savings Joint Economic Response document with the Department and |

² This includes current and capital allocations.

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| | |
|--------------------|---|
| | HM Treasury published |
| Oct 2008 | Stakeholder group set up (led by Executive team member) |
| Nov 2008 | Regional Economic Task Group holds first meeting Area Action Forces set up in eight areas First Steps Conference held with business and public sector to launch First Steps document |
| | Update to Board on response to economic crisis |
| Dec 2008 | The UK economy officially enters recession Presentation to Board on economic outlook |
| Jan 2009 | Presentation to Board on economic outlook (becomes a standing agenda item) |
| Feb 2009 | Positive Steps Conference held |
| March 2009 | Confirmation of single pot allocation for 2009-10 Letter to stakeholders advising all projects would be reviewed in light of single pot allocation Launch of 'South West Bites Back' media campaign |
| April 2009 | South West Loan Fund launched Survive and Thrive Roadshows launched with the Business Link network Executive team consider budget and priority proposals |
| May 2009 | Refreshed Corporate Plan submitted to the Department |
| June 2009 | Staff and stakeholders are told how budget cuts will affect them (letter and meetings with stakeholders) |
| July 2009 | Presentation to Board on economic outlook Talent Retention Programme is launched |
| August 2009 | Refreshed Corporate Plan approved by the Department |

Source: NAO analysis of Agency documents

4.18 As background to the situation the Agency found itself in; since 2007 it had become more focussed on investing in economic development and business support and engagement. The Agency has continued to focus its activities in this way during the response to the downturn and prioritisation following budget reductions. Analysis of the Agency's budget shows a significant shift from investment in the Prosperous Places programme to investment in the Successful Businesses Programme over the period 2008-11 (see Figure Two).

Figure Two: Ratio of investment in Prosperous Places and Successful Businesses programmes

| Year | Successful Businesses | Prosperous Places |
|---------|-----------------------|-------------------|
| 2008-09 | 0.6 : | 1 |
| 2010-11 | 1.7 : | 1 |

Source: NAO Analysis of Agency documents

Responding to the Downturn

4.19 With very high levels of its investment committed³ (98 per cent in September 2008), the Agency was aware that it had limited opportunity to reprioritise spend in response to the downturn without reducing funding to committed projects. In preparing a response to the downturn, the Agency commissioned economic analysis. The Panel of Economists advised that the limited size of the Agency’s resources would restrict its ability to limit the impact of the downturn in the South West and that the Agency should therefore retain a focus on long term economic restructuring.

4.20 Discussions between the Agency and stakeholders about responding to the downturn began to take place in the summer of 2008 when it became apparent that access to finance for business would be a key issue. A more formal response was launched in September 2008 when the Agency set up an internal cross-directorate working group and a regional multi-agency group (which later became the RETG). At this time, it began engaging with partners and stakeholders, and produced the publication A joint response to changing economic circumstances with the Department and HM Treasury (published in September 2008). This was followed, in November 2008, by a stakeholder conference and the launch of the Agency’s guide First Steps: Action for Recovery. This outlined existing and newly introduced support available to businesses in the region (see Figure Three)

³ Legal commitment- where contracts signed and those where projects have approved and contract negotiation underway.

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Figure Three: Summary of First Steps: Action for Recovery

| |
|---|
| <p><u>Business Support</u></p> <ul style="list-style-type: none">• Business Link focused activity on dealing with the economic downturn.• £10 million Business Loan Fund – launched April 2009.• Established Area Action Forces to coordinate response sub-regionally.• Delivering the Future Economy.• Innovate to Grow – doubling the Grant for Research and Development funding from April 2009.• Green Recovery – focus on low-carbon economy and to establish Green Opportunities Fund.• Investing in Key Places – look to accelerate funding for projects important to the economic recovery.• People, Employment and Skills.• Increased flexibility in the Train to Gain programme.• Made £9 million available over three years for training grants and specialist advisors.• Added to the £2 million in the Graduates for Business programme.• Economic Intelligence. |
|---|

Source: First Steps Action for Recovery, November 2008

4.21 Between October 2008 and November 2009, the Agency invested £35 million in initiatives in response to the downturn. This included £9.5 million fiscal stimulus brought forward from the Agency's 2010-11 budget under instruction from the Department. A range of initiatives were created or adapted. This included work with Business Link, a Business Loan Fund, Area Action Forces, regional Infoshare, the Talent Retention programme and work with the Manufacturing Advisory Service.

4.22 The Agency worked with Business Link⁴ during the summer of 2008 to consider how to adapt its services to respond to the downturn. It focussed on two areas: access to finance and the efficiency of business, (including the development of an interactive support tool for businesses). Business Link was, therefore, already developing appropriate responses ahead of the Real Help for Business Now campaign launched by the Department for Business, Innovation and Skills in November 2008. Between October 2008 and September 2009, in addition to its normal support to 103,000 businesses, Business Link conducted 6,500 health checks on businesses and co-hosted eight Survive and Thrive Roadshows for businesses, advising on support available. The Business Link response to the downturn was enabled by re-focussing existing funding.

⁴ Business Link in the South West is run by three different organisations. The service has 186 staff based across eight offices and 74 outreach centres. The core contract is worth £11.8 million per year, plus £3.5 million for Train to Gain, and £7.3 million of European funding.

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4.23 To help address the lack of finance available for Small to Medium Enterprises (SMEs) the Agency established a £10 million Business Loan Fund. The fund was proposed in November 2008 and became operational in April 2009. The time taken between proposal and the fund becoming operational was due to the complexity of the approval process because of the use of European funding. The Agency was the first RDA to use European funding as part of the loan composition. As of September 2009, the loan fund has received applications totalling £10.6 million, of which seven loans totalling £664,000 had been approved. The Agency also introduced a financial intermediary support function to liaise between local banks and businesses.

4.24 The Agency has engaged with banks in the region as part of its response to the downturn. The Regional Business Forum, chaired by an Agency Board member met regional bank directors, in February and September 2009, to identify actions to improve coordination between the banks and Business Link.

4.25 In November 2008, the Agency led in the establishment of eight Area Action Forces (AAF) covering the whole of the region. The AAFs are multi-agency teams designed to deal with the effects of the downturn on businesses and employees. The Agency has contributed around £300,000 worth of staff resources to support the AAFs. They are based on groups that had been established in the past to deal with individual economic shocks such as flooding or major closures. Their membership varies slightly to meet the needs of the particular sub-region; core members include Jobcentre Plus, Business Link, the National Apprenticeship Service, ACAS, the Learning and Skills Council, local authorities and the Agency. The AAFs have two objectives:

- To respond to anticipated increased redundancies and company closures; and
- To develop a co-ordinated approach to identify at risk companies.

4.26 The Agencies involved in the AAFs have produced a briefing document summarising the services that each provides so that individual agencies can direct businesses to the appropriate form of support. By November 2009, the AAFs had engaged with 453 businesses in the region. AAF activities and the intelligence gathered are fed into the monthly economic briefings given to the RETG. Separate task groups are established to deal with potential closures of large firms.

4.27 A 'Regional Infoshare' was set up by the Agency in December 2008 to improve coordination of public sector communications throughout the South West. In addition, from March 2009, the Agency entered into a partnership with a newspaper group with titles throughout the region. This partnership took the form of a media campaign entitled the 'South West Bites Back'. The campaign was run every week, highlighting best practice in the private sector in mitigating the economic downturn. This campaign resulted in over 290 articles appearing, generating over £1.4 million of equivalent advertising value.

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4.28 The Agency has invested £1.7 million in its Talent Retention Programme to help businesses in aerospace, advanced engineering and creative industries retain talent. It has developed a database where businesses can record details of staff that are being made redundant; other businesses are alerted to this and can see if they can use these skills to prevent skilled professionals leaving the region or the profession.

4.29 The Agency has supported the Manufacturing Advisory Service with £3 million of funding over the past three years. Funding has increased by an additional £1.8 million to expand its strategic management and the Lean Manufacturing services in response to the downturn. In addition, the Manufacturing Advisory Service has developed a Downturn Readiness Review to help the region's manufacturers prepare for productivity and cash flow challenges.

4.30 The Agency has succeeded in paying 88 per cent of invoices within the Government's 10 day target as at October 2009.

Prioritisation in Response to Budget Reductions

4.31 The majority of the Agency's budget reduction of £56 million for the two year period 2009-11 was capital funding (£51 million). This was equivalent to 37 per cent of the Agency's capital CSR07 settlement for the period. The reduction consists of £26 million budget cuts and £30 million in reduced receipts from investments. The impact of the loss of investment receipts was to raise the commitments on capital expenditure from 88 per cent to 115 per cent for 2009-10, and from 55 per cent to 71 per cent for 2010-11.

4.32 In order to offset the reduction, the Agency embarked on a major reprioritisation exercise. This resulted in the withdrawal of previously agreed funding. The Agency began looking at where potential savings could be made within existing projects and programmes in September 2008. However, it was not until confirmation of the budget reductions in March 2009 that the Agency undertook a complete review of all projects. The Board was involved throughout the prioritisation process holding additional meetings as required. The Board papers provide evidence of the Board requesting and receiving additional information to inform decision making.

4.33 The Agency established clear criteria to guide how it would prioritise its projects. These criteria used an updated economic evidence base and were supplemented by lessons learnt from recent evaluations and the PriceWaterhouseCoopers (PWC) Impact report. The process was mindful of the ongoing need for efficiency. The priorities for delivery were:

- Delivery of the ERDF and RDPE programmes, consistent with national aims and aligned to priorities for the region;
- Delivery of the Solutions for Business products and services, consistent with national and regional priorities;

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- Re-focusing of programmes and projects in line with the Agency's revised objectives;
- A range of work which must be done for legal reasons;
- Development of an efficient and effective RDA;
- Clearly defined investment criteria;
- Strategic importance and impact;
- Added value and additionality;
- Deliverability;
- Risk and contractual assessment; and
- Option appraisal.

4.34 In March 2009, stakeholders were made aware that the Agency was undertaking a full review of all projects due to budget reductions. Area Directors met with partners and asked them to submit supporting information for each project. While stakeholders we spoke to were not aware of the detailed criteria being used by the Agency, they did support the focus on the identified priorities.

4.35 Using the criteria, projects were grouped into three categories; 'Do' consisting of 39 projects worth £155 million for 2009-11; 'Possible' consisting of 92 projects worth £41 million; and 'Don't' consisting of 34 projects worth £25 million. The lists were then given to the Board to reach a final decision on which projects to fund and from which to withdraw support.

4.36 Spending envelopes were created as a way of engaging sub-regional partners in the prioritisation decisions. Ten envelopes were established covering strategic themes, strategic places, other places where the RDA had a high level of commitment and orderly exits. The envelopes cover £57 million in 2009-10 and £41 million in 2010-11. The Agency determined the size of each envelope based on planned and current commitments. The Agency then approached an area covered by an envelope telling them the size of the envelope compared to the existing and planned commitments, and decided with the area which projects on the 'Possible' list they would continue to support and which would have funding withdrawn. This allowed partners in the areas to look for alternative sources of funding. For areas not covered by an envelope, the Agency decided which projects would continue to receive funding and which would lose funding.

Looking to the Upturn

4.37 The reduction of the Agency's available resources limited the scale of its response to the downturn. The Agency was able to engage with partners to create a regional structure that provided a coordinated response to the downturn, and has put

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in place a series of initiatives to help the region through the downturn. The Agency told us that its response to the downturn and the process of prioritisation has given it a sharper focus on its priorities to lead the region through the upturn. Throughout the downturn and the prioritisation, the Agency has maintained a focus on its long term priorities which are known and supported by the stakeholders we spoke to.

Stakeholder engagement in prioritisation

4.38 The Agency had already established a range of mechanisms to engage with its stakeholders. Its Area Directors played a key role in disseminating messages and collecting feedback. Its primary communication methods included regular meetings, seeking views through consultation events, Board dinners and the use of social media forums including U-Tube and Twitter. The Agency is currently working with the Strategic Leaders Board to develop an Integrated Regional Strategy for the region.

4.39 In December 2008, the Agency introduced a new stakeholder strategy to ensure a consistent approach amongst staff. The strategy aims to develop relationships, gather intelligence, aid economic development, have a positive influence and enhance the Agency's reputation.

4.40 The strategy has identified nine key groups; (local authorities, employment and skills, business, non-government organisations, government and political, project partners and strategic national organisations, internal staff and media) and has developed and is implementing an individual approach to engaging these groups. This is led by a member of the Executive team, with a lead role identified for each group and a central steering committee to facilitate sharing within the Agency.

4.41 Success of the strategy is measured through the stakeholder survey and activities such as focus groups, audit groups and anecdotal feedback. Progress will be reported to the Leadership and Advocacy Board to ensure consistency with the Corporate Plan. The first tests of the strategy have been the Agency's engagement in responding to the downturn and then in stakeholder engagement in prioritisation following budget reductions.

Stakeholder Engagement in Responding to the Downturn

4.42 The Agency has engaged stakeholders through a variety of means. A Stakeholder conference in November 2008 launched the Agency's response to the downturn. A Public Sector conference was held in February 2009 to discuss a joint response. This was followed by eight Roadshows across the region, hosted by the Agency and Business Link, showcasing the support available to businesses during the downturn.

4.43 In October 2008, the Agency established a multi-agency regional task group to co-ordinate the region's response to the downturn. This group helped to establish the

AAF network across the region. In November 2008, this group became the RETG chaired by the Regional Minister. The Agency has three places on the RETG and is the lead agency on three of the five Action Groups; People, Employment and Skills, Support for Business and Green Economic Recovery. The AAFs provide sub-regional response groups and report to the regional groups, creating a clear regional structure for managing the response to the downturn.

4.44 The Agency created the Regional Business Forum in November 2008 as part of an ongoing programme to improve engagement with business. The Forum consists of members from the CBI, Institute of Directors, Federation of Small Businesses and the South West Chambers of Commerce. . Previously the Agency had engaged with each of these groups separately. The Forum acts as the Support for Business Action Group, reporting to the RETG.

4.45 The Agency has engaged with the financial sector during the downturn. Representatives of the banks attended the Roadshows which took place across the region to advise businesses of the support available. It also attended a session of the Regional Business Fora to discuss the downturn and how it could contribute to the response. Individual response groups were set up to deal with particular difficulties in the financial sector.

Stakeholder Engagement in Prioritisation in Response to Budget Reductions

4.46 The Agency developed a robust process for communicating funding decisions to stakeholders as a result of the prioritisation exercise. Stakeholders were made aware of the exercise in a letter from the Agency's Chief Executive in March 2009 following confirmation of the budget reduction from the Department. This was followed by a letter from the Chief Executive in May 2009, stating that announcements would be made on 8 June 2009 following the European and Local elections.

4.47 During the prioritisation exercise (March to June) the Agency's Area Directors, and other senior staff, were tasked with speaking to all stakeholders to make them aware of the exercise and to give them an opportunity to discuss the projects. The Area Directors completed a feedback form for each project which was used as part of the evidence base in prioritising projects. Spending envelopes were created in priority areas to involve partners in the investment decisions.

4.48 In the run up to the announcements in June 2009, the Agency prepared a detailed brief for all staff to ensure that a consistent message was given. On the day of the announcements the Agency held three simultaneous press conferences to announce the decisions, while at the same time around 30 Agency staff, from Board Members to Project Officers, met stakeholders in person to discuss the decisions. This was planned in the weeks leading up to the announcement by the Agency's Marketing and Communications team.

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4.49 The majority of the stakeholders we contacted told us they had a favourable view of the Agency's engagement in response to both the downturn and the prioritisation exercise. In general, they told us that the Agency's communications and engagement had noticeably improved over recent years. In response to engagement around the prioritisation exercise, the majority of stakeholders who had funding withdrawn from their area or project, although not happy about funding being withdrawn, said the Agency had made the reasons for the decision clear. The Agency won two gold awards from the Chartered Institute of Public Relations for its communications on the prioritisation exercise.

Corporate Planning and Delivery

4.50 Following instruction from the Secretary of State for Business Enterprise and Regulatory Reform on 31 March 2009, the Agency, along with the other Regional Development Agencies, was asked to review its Corporate Plan in light of the economic downturn and budget cuts. It produced a revised Corporate Plan 2009-11, which was agreed by the Board in June 2009 and approved by the Department in August 2009.

4.51 The Agency undertook a six week consultation on the revised Corporate Plan, even though it was not required by the Department. Feedback from the consultation, along with the Agency's response to individual comments, was published in a report on the Agency's website and fed into and informed the revised version.

4.52 The revised Corporate Plan has strong alignment with the Corporate Plan 2008-11, reflecting the Agency's belief that it had the correct long term priorities. This view is supported by the stakeholders we spoke to. The revised Corporate Plan takes into account the findings of the PwC Impact Report and the outcome of its own evaluation work.

4.53 The revised Corporate Plan clearly lays out the reasons for the revisions; a change in economic circumstances; a changing policy context; lessons from evaluation and a reduced budget. The document is well presented and accessible. It clearly defines the Agency's priorities and how they map from the Corporate Plan 2008-11. It shows how the Agency is realigning its budget and identifies its priorities for investment by places, sectors and projects. The Agency's priorities for 2009-11 are:

- Providing vision, direction and leadership on the region's economy;
- Supporting businesses and encouraging enterprise;
- Enabling the development of a low carbon resource efficient economy;
- Encouraging science and innovation;
- Helping people acquire the skills the economy needs;

South West Regional Development Agency **Part Four: How effectively has the RDA prioritised programmes and projects that offer high value added benefits for the region in the economic downturn and in preparation for the upturn?** 21

- Planning for growth and creating successful places; and
- Enabling development of the region’s communications infrastructure.

4.54 The change in emphasis from place to business can be seen in the Agency’s business planning for 2008-11. Investment in place will reduce by more than 50 per cent by 2011; whilst investment in low carbon, successful businesses and leadership and advocacy will increase.

4.55 All the stakeholders we spoke to agreed that the short term priorities brought forward by the Agency were the right ones for the region and that the longer term vision was to achieve sustainable growth. Not all the partners interviewed as part of this assessment knew the Corporate Plan in detail but all knew the Regional Economic Strategy. Amongst the stakeholders to whom we spoke there was a clear joint understanding of the forward priorities.

| Areas of good practice | Areas for improvement |
|--|--|
| <ul style="list-style-type: none"> • The Agency uses academic economic expertise in a structured way to ensure rigour in analysis. • Area Action Forces used by the Agency to coordinate its response to the downturn on a sub regional basis. • Well coordinated media campaign “South West Bites Back”. • Active involvement of stakeholders in investment decisions using spending envelopes following budget reductions. | <ul style="list-style-type: none"> • The Agency needs to develop a more structured approach to engage with business across the region. • The Agency needs to continue to develop its approach to involving partners in its investment decision making. |

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 West Regional Development Agency as having demonstrated good performance. The key factors that lie behind this assessment are:

- The Agency has developed a comprehensive organisational development programme which has evolved to address changing needs and which is well led and managed.
- The programme is well aligned with corporate objectives and integrated with business planning.
- Effective mechanisms are in place to collect feedback from staff and stakeholders and there is evidence of improvement as a result of action on that feedback.
- The Agency does not yet have a framework for its continuous improvement activity which allows quantification of overall improvement over time or provide for external validation

Robustness of IPA Action Plan

5.2 As part of the Independent Performance Assessment (IPA) carried out in 2006, the Agency scored 18 out of 24 points, equivalent to performing well overall.

5.3 The Improvement Plan was produced in January 2007 and incorporated into the Change Programme (the Programme). It was approved by the Board, to bring about agency-wide continuous improvement. The Programme responded to issues identified in the Independent Performance Assessment and the results of the 2006 staff survey.

5.4 The Programme focused on six key strands:

- Strategic positioning: to develop a vision and set of values for the Agency and to revise the Corporate Plan, and ensure its structures were fit for purpose;
- Development of people and skills: to develop leadership and management programmes, an individual appraisal process and a competency framework for staff;
- Process and delivery simplification: to review appraisal and evaluation processes, business planning and arms length bodies;
- Sharpening of business offer: to review the Agency's strategic offer to business and international operations;
- Communication and relationship management: to review internal and external communication practices and corporate branding; and
- Business technology infrastructure: to review office accommodation and ICT strategy delivery.

5.5 Each strand was supported by workstreams (26 in total) to be delivered within a three year timeframe, with 13 workstreams due for completion within the first 12 months⁵. The Agency allocated £707,000 to support the delivery of the Programme.

5.6 The Agency prioritised its activities by taking into account:

- Areas of strategic importance to the agency, both current and in the future;
- How important the activity is to stakeholders;
- The findings of the Independent Performance Assessment; and
- The resources that could be directed towards delivering the activity.

5.7 Within the six key strands, the Agency sequenced workstreams based on their dependency on other workstreams, where these needed to be completed first. This prioritisation was agreed by the Executive team.

5.8 The Board was involved in the shaping and approval of the IPA Improvement Plan. The Board established a sub-group to oversee work which contributed to shaping the Improvement Plan. Board members told us that they considered that delivery of this and the Programme was the responsibility of the Executive team. The Agency put in place a number of groups within the organisation to lead and manage

⁵ The resource allocation includes funding for a re-branding exercise which did not take place and includes funding for other already planned improvement activities.

the Programme with each group having specific and separate roles. A governance structure was formalised to clearly identify roles and responsibilities. The Executive Board⁶ was responsible for establishing the values and behaviours needed to bring about change and providing overall strategic direction for the Programme. The Steering Group⁷ provided leadership to ensure activities were carried out and risks were identified and mitigated. The Programme Office acted as a central point for monitoring progress against milestones, ensuring quality assurance and providing updates to the Steering Group and Executive Board.

5.9 Monitoring progress against the Improvement Plan took place within the groups set up to lead and manage the Programme. The Board reviewed overall progress one year after implementation in January 2008. It also reviewed individual workstreams such as the results of the staff survey. The Executive Board was updated through Highlight reports on a monthly basis. Highlight reports to the Executive Board provided an overview of the activities undertaken throughout the month, including milestones achieved or overdue, future activities and issues to be considered by the Executive Board such as a change in scope or resourcing concerns. Where a milestone was missed an explanation was provided and a new milestone put in place. The Agency received an endorsement of the governance arrangements for the Programme and the Improvement Plan through their internal audit programme.

5.10 The Agency, unlike some other RDAs, took the decision not to publish its Improvement Plan, although this was a requirement of the Independent Performance Assessment. The Agency took this decision as the plan focused on internal processes and therefore would be of limited interest to partners. The Agency did, however, publish indicators of its success such as stakeholder survey results.

5.11 The Agency met the majority of its milestones for the first year within agreed timeframes and has provided explanations for those milestones not fully achieved. In January 2008, the Agency rated 23 of its 26 actions as green and three as amber. The actions given an amber rating were Business and Delivery Planning, Corporate Branding and Internal Business Simplification. The Agency took the decision not to pursue some of these activities in the first year due to changing external circumstances. Following a review of the process, Business and Delivery Planning became a priority for year two of the Programme. The Agency reviewed the decision to re-brand and de-prioritised Corporate Branding and Internal Business Simplification was delayed to take account of future changes at the Agency, including the revision of the Corporate Plan.

⁶ The Executive Board consists of theme sponsors and the Programme Director who are at Director grade or above. The Executive Board is chaired by the Chief Executive.

⁷ The Steering Group consists of theme leads and is chaired by the Programme Director.

5.12 Progress against all actions has been evidenced using results from staff and stakeholder surveys, with staff survey results demonstrating an improvement in performance on 50 per cent of questions, and performance being maintained in a further 41 per cent of questions.

5.13 The Programme succeeded in delivering a range of improvements in its first year including:

- Developing a vision statement and set of values for the Agency;
- A revised Essential Management programme attended by over 350 staff, which increased management skills. This improvement was reflected in staff survey results;
- Initial work to introduce a Competency Framework for staff;
- A review of engagement with arms lengths bodies leading to the introduction of criteria for supporting these bodies;
- A review of internal communications resulting in a widening of the communication tools used;
- A review of international operations leading to the appointment of a Director of International Business; and
- A restructuring exercise leading to the creation of four area teams focusing on delivery and place.

Updating Improvement plans

5.14 The Change Programme has developed each year. In 2009, it evolved into an Organisational Development. The six strands identified for the Programme in 2007 were reviewed in 2008 with workstreams from the Communication and Relationship and the Business strands used to develop an Investing in Business strand. At the same time work on local area agreements, multi area agreements and the Sub-National Review was identified as a new strand for the Programme. By 2009, the number of strands reduced from five to three. Work on restructuring was complete and externally driven agendas such as the Sub-National Review were removed as the Agency took the decision to focus the Organisational Development strategy on internally controlled activities to ensure milestones could be met. The Agency addresses externally driven agendas primarily through other strategies and mechanisms.

5.15 The Agency put in place five Programme Boards in 2009-10 to ensure its activities were aligned to its corporate objectives. The five Programme Boards put in place are: Better Service, Better Value; Regional Advocacy; Prosperous Places; Low Carbon; and Success for Business. These Boards are intended to improve decision making processes and performance management. The Change Programme is

aligned to the Better Service Better Value corporate objective. The Better Service, Better Value Programme Board is chaired by the Chief Executive and has Board representation on it to ensure the Board is involved with the Agency's continuous improvement activities.

5.16 The Agency has taken a proactive approach to gathering feedback to inform and update the Programme. The Agency ensures the Programme stays relevant by gathering regular staff and stakeholder feedback by means of surveys, conferences, Roadshows 'Just Jane'⁸ sessions and by using risk registers to identify where improvements can be made. It can demonstrate how this feedback has led to improved practices. The Agency introduced a staff survey in 2006 and repeated it in 2009. The Agency measured progress in 110 out of 122 questions between 2006 and 2009. Topics covered include staff knowledge and skills, organisational culture, systems and processes and stakeholder engagement. An 88 per cent response rate was achieved in 2009. The Agency saw improvements of 15 to 19 per cent on the individual appraisal process, management behaviours and gaining feedback from stakeholders between 2006 and 2009, but dissatisfaction increased by up to 22 per cent on issues such as job security and skills development over the same period.

5.17 The Agency completed a stakeholder survey in 2008 with 401 stakeholders and partners. Feedback from this survey has led to the introduction of a two stage investment appraisal process and informed the communication strategy. Stakeholders to whom we have spoken told us the Agency has improved its practices since 2006.

5.18 The Agency reviews the results of staff and stakeholder surveys against external benchmarks to assess performance across a range of public and private sector organisations, including the RDA network. The Agency is also working toward gaining Investors in People accreditation⁹.

Delivering Improvement Plans

5.19 Board involvement in shaping and providing leadership to the Programme, prior to the establishment of the Better Service, Better Value Programme Board, has been limited, with the Executive Board having responsibility for driving forward the vision and behavioural change required for the Programme. The Board was involved in developing the vision and values for the Agency as part of continuous improvement, but it viewed activity after this point an operational activity which falls under the remit of the Chief Executive. The Board is informed of progress on the overall Programme annually and receives reports on individual activities which fall under the remit of the Programme throughout the year, for example, staff survey results. The Board can request information on any theme in the Programme from the Executive Board.

⁸ Just Jane sessions are staff meetings held with the Chief Executive.

⁹ Investor in People is an external assessment of businesses against a framework of standard criteria.

5.20 The Agency has developed an action plan for the Programme outlining key dates for activities to be completed by. Each theme leader also produces a more detailed project plan showing the activities to take place and the expected timescales. Each action has terms of reference which outline the scope of its objectives, management controls, milestones, required outputs and any dependencies and resources needed.

5.21 The reporting mechanisms have remained largely unchanged when compared to year one of the Programme. The Executive Board continues to receive quarterly updates on progress from the Programme Office. Progress was originally reported to the Programme Office through written Highlight reports. These provided a record of all activities undertaken, the milestones achieved or overdue and risks and issues for the Executive Board to consider. In 2008, the Agency changed to verbal updates to reduce the level of paperwork required with the Programme Office then producing a written update for each action. No minutes are recorded for the verbal updates creating a risk to accurate reporting.

5.22 The Agency considers a wide range of options when deciding on how best to deliver continuous improvement activities. Methods identified include:

- Looking at the practices used by private sector organisations;
- Establishing a critical friend group when developing its original Improvement Plan. This is no longer in operation however;
- Establishing an Agency wide group of staff to act as a sounding board and test group for ideas and new initiatives;
- Sharing experiences with the wider RDA network;
- Creating regional groups such as “Infoshare”; and
- Use of occupational psychologists.

5.23 These activities have ensured the Agency has identified a robust method for delivering an improvement. The Agency aims to be a “positive and caring employer at least equal to the best in the sector”, as set out in the Improvement Plan. The Agency has been assessed in 2009, through an independent accreditation process, as the twelfth best place to work in the public sector, by the Sunday Times newspaper.

5.24 The Agency has introduced a number of measures to inform staff and stakeholders of actions taken as a result of their feedback and progress with the Programme. Methods have included holding a staff conference to launch the Programme, regular updates provided through “Agency News” and the intranet (ERIC). Following the staff survey an action plan was developed and Roadshows with the Executive team held to discuss findings; a ‘You said, we did’ article on ERIC provided updates on these actions. The Agency has introduced video podcasts to update staff on a range of issues and the Chief Executive holds regular meetings with

staff in formal and informal settings. The Agency informed stakeholder respondents of the survey results and its follow up actions and posted the results on its website.

5.25 The Agency reviews all implemented improvement actions to identify good practice and lessons learnt. The reviews assess the performance of the Agency against planned outputs, milestones and quality standards. The reviews examine how the improvement action has been covered within the risk register and whether it has been subject to a review by external auditors.

| Areas of good practice | Areas for improvement |
|---|--|
| <ul style="list-style-type: none"> • The Agency uses systematic mechanisms for regularly gathering and responding to stakeholder and staff feedback. • The Agency has a robust and structured approach to benchmarking across a range of activities | <ul style="list-style-type: none"> • The Agency needs to continue to enhance Board engagement in continuous improvement • The Agency should ensure it provides feedback on the actions it has taken to improve stakeholder engagement in continuous improvement. |

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

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

We have assessed the south west regional development Agency as having demonstrated good performance. The key factors that lie behind this assessment are:

- A robust evaluation strategy supported by comprehensive guidance and training for staff, and an effective system for capturing and disseminating evaluation knowledge evidenced by high awareness within the Agency of evaluation lessons.
- Strong commissioning of external independent evaluation, the success of which is demonstrated in high quality and useful reports.
- The development and use of an innovative approach to measuring zero carbon equivalent savings for investment decisions.
- Whilst the Agency was able to demonstrate it uses regional growth data from evaluation work to inform future investment decisions, it has not yet developed a tool to enable systematic benchmarking or to test assumptions on additionality and optimism bias. Neither has it set targets for increasing the regional growth delivered by different types of investment.

Effective evaluation

6.2 In February 2006, Government published a Regional Development Agency Impact Evaluation Framework (IEF)¹⁰. Following publication of the IEF, PwC were

¹⁰ DTI Occasional Paper No. 2, Evaluating the Impact of England's Regional Development Agencies: Developing a methodology and Evaluation Framework, February 2006.

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appointed in December 2007 by the Department to provide “an independent assessment of the impact of the spending by each of the nine (RDA) and the RDA network as whole” and to assess RDAs achievements against the objectives in the RES and Corporate Plans. The PwC Impact Report was published in March 2009¹¹.

6.3 The NAO’s 2006-07 Independent Performance Assessments identified weaknesses in the quality and robustness of evaluation across most RDAs. Improving evaluation has been a key focus for RDAs with the adoption of the IEF and the PwC Impact Report.

6.4 The PwC Impact Report assessed 30 evaluations covering 75 per cent (£452.6 million) of the Agency’s project spend between 2002-03 and 2006-07. It found that the highest achieved return on investments was for people interventions, with an average annual return of 2.3 to 1, and the lowest was for place interventions with a return of 0.8 to 1¹². The report also identified two areas where the Agency could improve its evaluation approach; providing estimates of cumulative and potential Gross Value Added (GVA) on all evaluations and a more consistent assessment of performance against objectives.

6.5 The Agency is committed to carrying out effective evaluation and embedding this across the organisation. It has a corporate objective to develop a “greater understanding of the impact of our investment decisions and what works”.

6.6 In 2007, it implemented an evaluation strategy, which had been revised in response to the findings from the 2006 Independent Performance Assessment. The Agency continues to review the effectiveness of its approach to evaluation. In 2009, following an 18 month programme of evaluation activity, it updated its strategy to seek to address areas for improvement identified in the PwC Impact Report and incorporate the latest IEF requirements. Regardless of the funding source, all evaluations carried out aim to reach IEF standards.

6.7 The evaluation strategy states that evaluation will inform future corporate strategy and policy, and has set targets for improving evaluation approaches, such as better triangulation of beneficiary surveys, and achieving 95 per cent confidence intervals in all surveys. A comprehensive review of the evaluation strategy is planned for every two years.

¹¹ Department of Business, Enterprise and Regulatory Reform, Impact of RDA Spending - National Report, Vol 1, Main report, March 2009

¹² An average return was not provided in the South West RDA section of Impact of RDA Spending - National Report, Vol 2, Main report, March 2009

6.8 The Agency has a schedule of evaluations in place to support implementation of the strategy up to 2015 (to comply with Convergence and Competitiveness funding requirements). It has a target to evaluate a minimum of 60 per cent of funding invested.

6.9 From interviews with staff and Board members, it was evident that the status and profile of evaluation has increased over the last two years. Improvements include:

- Clear objectives for evaluation priorities; what to evaluate, type of evaluation, and when to complete the review;
- The use of longitudinal studies;
- A set of criteria for assessing Strategic Added Value; and
- The introduction of new methodologies to assess environmental impacts, for example calculating zero carbon equivalent savings (which the Agency is leading on).

6.10 The evaluation strategy outlines the evaluation priorities for the Agency and how to select the appropriate type of evaluation for a project or programme. At the appraisal stage the method of evaluation is considered. An initiative introduced by the Agency in June 2009; "Monitoring for Evaluation", requires outputs from the project to be continually assessed throughout its delivery. Whilst not all projects are formally evaluated, they are all subject to a project closure report, which ensures that all aspects of the project have been completed. Better use could be made of the project closure report to review the process and identify lessons to be shared.

6.11 The Agency has an Evaluation team of four to programme and oversee all evaluation work, commission consultants and manage the consistency and quality of evaluations undertaken. It also takes a lead in capturing and disseminating lessons learnt and outputs. This team acts as a centre of excellence and provides advice and support to teams preparing project appraisals. It also liaises with OffPAT.

6.12 There is comprehensive guidance for staff on assessing impacts on ERIC, which provides metrics, case studies and links to benchmarking data (from the PwC Impact Report and other guides). From May to September 2009, there was an intensive programme of training on evaluation and appraisal for all staff members. In addition, induction training for new staff includes the importance of evaluation and the evaluation process.

6.13 The findings from the PwC Impact Report and IEF requirements were shared with staff through seminars. These identified the lessons learnt and how lessons from evaluation need to feed into the appraisal process, for example, establishing market failure rationale, setting smart objectives and the use of baselines in value for money assessments. These elements are included within the appraisal process.

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6.14 All evaluations are carried out by consultants. These are commissioned by the Evaluation team and an Evaluation Steering Group is set up to project manage the work. The Agency's commissioning process and work with consultants is effective and the quality of reports we reviewed was good. In February 2009, the Agency carried out a post implementation review of its approach to evaluation and the learning from this was shared with its consultants.

6.15 Our review of a sample of evaluations found them to be well presented and comprehensive. They looked at both process and impact and presented a clear overview of lessons learnt. Each contained a comprehensive assessment of GVA and other impacts, which was clearly presented and benchmarked against the PwC Impact Report and against other relevant projects. The Agency uses the PwC Impact Report as a basis for benchmarking future expectations of projects and guiding investment decisions. Benchmarking is regularly carried out on the evaluation process to compare impacts to other similar types of programmes/projects.

6.16 The Agency is committed to using and sharing lessons from evaluation. It has introduced a dissemination check list for every evaluation. This acts as a check to ensure that results are captured and consideration given to who these should be shared with. The Agency uses ERIC to disseminate and capture learning from evaluation internally. This includes a library; a lessons learnt database, one page summaries and case studies of projects where there has been particularly demonstrable Strategic Added Value.

6.17 It has shared lessons outside the Agency, for example, through articles in its Economics Review. The Agency's external website is easy to navigate and has a section on evaluation which gives access to all its evaluation reports, the PwC Impact report and includes Strategic Added Value case studies. Within the region it has attended several cross agency groups to share best practice on evaluation, but as the IEF standards do not apply to all partner organisations, some of the lessons learnt cannot be directly applied within the Agency. This includes the South West Councils Evaluation Group and the South West Evaluation Network (attended by the police and research councils). It is now working with the Regional Intelligence Group¹³ as a medium for sharing evaluation learning.

6.18 Evaluation has a high organisational profile. The Audit Committee receives regular evaluation updates which explain the Agency's progress in improving its evaluation processes and includes lessons learnt from evaluation. The Board has received presentations on the findings of the PwC Impact Report and, in our discussions with Board members, it was aware of the relative returns of different types of investments. This was used in the reprioritisation exercise. The Board also receives lessons learnt from evaluation summaries. "Learning from evaluation report"

¹³ A group within the Observatory which collects and shares information across the region

updates are also presented to each Investment Group meeting, so that this can inform future investments.

Effective appraisal process

6.19 Projects arise in a variety of ways: direct from local areas, where partners develop the initial ideas and options for a potential project and then approach the Agency; through commissioning; and from national and sectoral initiatives. The Agency considers how well these proposals fit with its Corporate Plan themes and updates the business planning process every six months to take account of new proposals. There is an approval process for projects that needs to be approved between business plan cycles. The region is engaged in the Single Conversation with the Homes and Communities Agency and is involved in the development of Local Investment Plans. These are at different stages, for example, there is progress in Bournemouth, Dorset and Poole, but limited activity in Somerset.

6.20 The Agency carries out commissioning to be more proactive in how it identifies projects to deliver its programme strategies. This approach also introduces an element of competition in deciding on options for delivery of the ERDF programme. Specific arrangements are in place for ERDF projects. Competitiveness and Convergence funding have separate Programme Boards that approve projects.

6.21 The Agency has a fully documented and comprehensive appraisal system. When the ERDF programme transferred to the Agency, its Internal Processes Review Group reviewed its appraisal process and created a Technical Support Unit to oversee the quality of the Agency's appraisals. It also streamlined its approach to carrying out appraisals by bringing together all its funding streams into a two stage approach, both of which must be approved by the Investment Group¹⁴. The first Strategic Assessment considers if the project is deliverable, whether it meets the Agency's corporate objectives (and fits with the RES) and confirms that it could not go ahead without Agency support. Eight key questions must be answered, including strategic fit, other options, value for money and impact. It refers to outcomes but does not directly reference the Agency's criteria for assessing Strategic Added Value, as contained within the Evaluation Strategy. After the Strategic Assessment is approved, a full Technical Assessment is carried out. This provides more detail and includes a fuller assessment of market failure.

6.22 Some stakeholders expressed concern at the length of time taken by the Agency to reach a decision on a project proposal. A tension exists between carrying out an appropriate and rigorous assessment of projects and the need to invest in the project quickly. The Agency reported that, during 2009, the appraisal and investment proposals seeking ERDF support took an average of two to three months. For Single

¹⁴ The investment group comprises the CEO, Executive Directors as listed, Director of Finance, Head of Corporate Programmes, Chief Economist, Head of Evaluation and Risk, and relevant appraisal managers.

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Pot investments the time between the Strategic and Technical Appraisals depends on the nature and complexity of the projects, but averages approximately six to eight weeks. For RDPE and GRD projects we were told service standard targets are set (completion of appraisal process within 90 working days).

6.23 Individual project officers are responsible for preparing the project appraisal assessments and are supported by the Technical Support Unit. The Technical Support Unit quality assures all project submissions and can be contacted by project officers at any stage to provide support and guidance. The Evaluation team advises on strategic appraisals, providing a critical friend role and identifying any issues which need to be addressed at the technical stage. It is able to share lessons learnt through this process. For example, during the Strategic Assessment of the South West Advanced Numerical Simulation Laboratory (SWANS) project, the team raised the need to consider how to involve third parties effectively, which had been an issue raised in the evaluation of a previous composites project.

6.24 The appraisals are subject to scrutiny by the Evidence and Economics team. Most projects are sent to the Evidence and Economics team to test the rationale of the investment. There is a section on the template to record its involvement. It does not have capacity to see all projects, so involvement is proportionate to the project. Where it has been decided no direct input is required, the Chief Economist still considers the project when it is presented to the Investment Group. The Agency's Chief Economist is a member of the Investment Group and has the opportunity to comment on all investment decisions the Agency takes.

6.25 The approach is designed to comply with Green Book and GRADE requirements. Comprehensive guidance for staff, technical notes and templates are provided to help ensure consistency. Following an 18 month pilot and ensuring all European Commission provisions were adequately covered. All staff in the organisation are now receiving training on the appraisal process.

6.26 Lessons from evaluation feed into the appraisal process. The templates require consideration of available evaluation evidence to support the project.

6.27 Investment decisions are based on which interventions have offered optimal value for money (based on regional and national benchmarks) and offer maximum benefits. The Investment Group, which meets monthly, makes all decisions on appraisals. A standing agenda item at these meetings is lessons from evaluation.

6.28 In March 2009, the Department and PwC economists visited the Agency to review a sample of five project appraisals from 2008 as part of the 2009 Central Projects Review Group appraisal back check. They considered that arrangements for delivering projects are sufficiently detailed at the appraisal stage. However, they found insufficient evidence and explanation of market failure to justify the Agency's interventions that options appraisal is not carried out in enough detail and expected to

see more detailed monitoring and evaluation plans. The Agency has taken steps to address these areas for improvement.

6.29 The files we reviewed followed the Agency's guidance and templates. We saw examples of well completed forms, but there were also areas of inconsistency in the quality of information recorded.

6.30 Value for money is generally well explained and the rationale for the investment is clearly stated. We are aware that the Evidence and Economics team has provided training on the assessment of market failure and staff told us they follow GRADE guidance. Where market failure was a consideration this was covered on the appraisal forms.

6.31 The Agency evaluates Strategic Added Value at a programme level, and has identified key tests to consider if an investment has added value. These include:

- Creates confidence in the prospects for regional growth;
- Provides strategic leadership;
- Exerts a strategic influence;
- Levers in investment from other sources;
- Develops synergy in activity of Agency partners, stakeholders and target audiences;
- Stimulates a scaling up of beneficial activity; and
- Enhances the quality of a desirable regional economy.

6.32 Both appraisal assessment forms prompt staff to provide detail on what outcomes can be expected, but do not directly refer to the tests above. Some appraisals we looked at gave a good overview of the likely Strategic Added Value, whereas others gave less detail.

6.33 Appraisals presented to the Investment Group on 1 December 2009 varied in the level of detail on the evaluation plan. All presented an outline of ongoing monitoring of impacts but, where the Agency's evaluation plan is sent out with the offer letter, it is not subject to the scrutiny of the Investment Group. The Agency has advised that the integrated Evaluation Programme covers the Agency's approach to evaluation and that the appraisal forms do not reflect the new programmed approach to evaluations.

6.34 The Technical Assessment appraisal documentation includes consideration of a range of options, including do nothing, do minimum, and alternative methods of delivering the objective. The consideration of options on how to most effectively deliver its objectives begins when the ideas for projects are being developed and

continues through the Strategic Assessment stage. The Agency should ensure that options discussed at all stages of the projects development are summarised and recorded in the final Technical Assessment.

Benchmarking and sharing best practice

6.35 As part of the “Better Service, Better Value” programme of work, the Agency has identified benchmarking as a methodology to examine existing practice and identify opportunities to improve. It has scheduled a range of benchmarking activities to support its improvement work.

6.36 The Agency has carried out several benchmarking activities and can show how it has used these to improve its own performance. Improving its internal communications was supported by benchmarking the approaches of the Met Office, Devon County Council, the Environment Agency, Fenland District Council, East of England Development Agency and Intercontinental Hotels Group. This work resulted in the Agency setting up an Internal Communications Networking Group including a range of organisations in Exeter (chaired by the Agency), and presenting a paper to the Executive team with an action plan and systems to monitor progress against the targets set.

6.37 During September 2009, the Agency carried out a review of risk management approaches across RDAs. The approaches compared included the London Development Agency, Advantage West Midlands and One North East. The Agency also sought advice from BT and the NAO. Recommendations arising from this work have been acted upon, for example, moving from six monthly to three monthly reviews of corporate risks by the Audit Committee and the inclusion of risk assessments on all projects.

6.38 In response to the downturn, the Agency examined the systems used by Rolls Royce to help deploy staff in the post 9/11 downturn. It shared this approach with stakeholders to achieve greater buy in and commitment to activities such as the Talent Retention Scheme, which is used to redeploy staff in the engineering sector in the economic downturn.

6.39 The Agency was able to identify how it had changed its practices as a result of working in cross RDA groups. This includes the following examples:

- The Evaluation team reviewed practices with One North East, Advantage West Midlands and London Development Agency and now use a similar summary sheet to that used at London Development Agency;
- Advantage West Midlands use a balanced scorecard approach to measuring performance; the Agency took this format and now requires consultants to group the lessons learnt from evaluation under themed headings;

- With London Development Agency, the North West Development Agency and East of England Development Agency it is working on a more robust methodology to assess the impact of tourism;
- The Business Technology Centre came from initiatives the Agency saw at Yorkshire Forward and the Welsh Development Agency; and
- The Agency is developing relationships with the Scottish Executive, and has drawn on its approach to Programme Boards and the evaluation of Business Link.

6.40 The Evaluation team use the OffPAT library to identify good practice or when it needs guidance. The Agency also chairs the national OffPAT Practitioners Group and sits on the OffPAT Steering Group.

6.41 The Agency uses seminars to cascade information to staff and has put in place intra-agency working groups which identify ways to disseminate information to staff on particular topics, for example, the Knowledge Management Board and the Low Carbon Economy Programme Board.

Efficiency and effectiveness in administration and programmes

6.42 The Agency is committed to more efficient and effective working practices. Within its revised Corporate Plan for 2009-11, the “Better Service, Better Value” objective is to spend less, spend well and spend wisely through continuous service review and improvement.

6.43 The CSR07 required value for money savings of £45 million over three years from the Agency (see Figure Seven). These savings comprise a £21 million reduction in the Grant in Aid received from Government, and £24 million in recyclable efficiency savings.

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Figure Seven: Required Value for Money savings

| £'000 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 3 years |
|--|---------|--------------|---------------|---------------|---------------|
| CSR07 baseline | 160,793 | | | | |
| (a) Grant in Aid reduction | | 3,794 | 5,721 | 11,141 | 20,656 |
| (b) Recyclable Savings | | 4,011 | 8,168 | 12,252 | 24,431 |
| Savings required each year from 07/08 Baseline | | 7,805 | 13,889 | 23,393 | 45,087 |

Source: NAO Analysis of South West RDA data

6.44 Each year the budget is constructed using a zero-based approach, with the Board having final approval on the budget.

6.45 HM Treasury expects all RDAs to ensure that by 2010 no more than 10 per cent of their budget is spent on administration functions. Therefore the Agency has to make savings of at least £3.2 million from administration costs. This is equivalent to 13 per cent of the Agency's administration budget in 2007-08. The remainder of the Grant in Aid reduction will be found from savings within the Agency's programme budgets.

6.46 The Agency plans to make administration savings through staff reductions and a review of office accommodation. The Agency has undertaken a full review of its staffing structure and expects to realise £2 million in savings from redundancies and £700,000 in unfilled posts by 2010-11. The Agency expects to deliver a further £284,000 from reviewing its office accommodation.

6.47 As part of the review of office accommodation the Agency has tried to make better use of ICT to enable remote working and allow the introduction of hot-desking. The use of remote working is appropriate for the geography of the region which results in staff spending long periods travelling. In order to reduce the amount of time staff spend travelling, the Agency is making more use of technology such as video conferencing. The Agency has achieved ISO27001 accreditation which relates to its data security processes. The ICT developments contribute to the Agency's green policy as it attempts to lower its carbon footprint. These efforts have been recognised in the achievement of ISO 14001.

6.48 The Agency continues to look for further efficiencies in administration. The review of back office functions required by Central Government identified that the Agency has slightly higher ICT costs than other RDAs, which it is starting to analyse. The Agency has put in place a cost reduction plan for ICT. The Agency is also working with the South East of England Development Agency and East of England

Development Agency to compare administrative costs not covered by the review of back office functions to gain an understanding of areas where they differed in costs. This work is still in the early stages and has yet to identify clear areas for future savings.

6.49 There are other instances of joint working leading to efficiency savings, for example, joint procurement of insurance with other RDAs and the Homes and Communities Agency, and processes are being developed for joint procurement of internal audit services with East of England Development Agency and South East England Development Agency.

6.50 The Agency identified four areas to help achieve the recyclable efficiency saving targets (see Figure Nine). The Agency reports quarterly on progress against these targets to the Department. The Agency forecasts that it will achieve its overall savings targets, but not the targets for the individual areas due to the downturn. The Priority Places target was based on achieving additional investment from stakeholders, but this has not been realised. The downturn has led to more pressure on Business Support delivering the planned efficiencies in that area.

Figure Nine: Value for Money CSR delivery plan for recyclable savings

| Value For Money CSR Delivery Plan | Total Planned 3 Year VFM Savings £'000 | Cumulative Achieved Savings to Q1 Year 2 (2009/10) £'000 | Forecast 3 Year Savings £'000 |
|---|---|---|----------------------------------|
| recyclable savings | | | |
| Administration Efficiency | 911 | 232 | 987 |
| Partnership Administration | 1,850 | 1,535 | 4,086 |
| Business Support Simplification | 11,896 | 4,194 | 15,921 |
| Priority Places – Refocusing of Agency priorities | 9,774 | 251 | 3,460 |
| Total | 24,431 | 6,212 | 24,454 |

Source: NAO Analysis of South West RDA data

6.51 The required value for money savings have impacted on the Agency. The Agency considers that the value for money saving exercise has brought some good practices into the organisation, but it has also impacted on staff morale. It considers the exercise has been a source of creativity and helped focus on the Green agenda.

40 Part Six: How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation? South West Regional Development Agency

6.52 The Agency is aware that more savings will be required in the future and has undertaken scenario planning to test how it might be able to respond to budget reductions in its administration budget.

| Areas of good practice | Areas for improvement |
|---|--|
| <ul style="list-style-type: none">• The Agency has effective knowledge management processes to capture and disseminate lessons from evaluation work undertaken.• The Agency has developed a new CO2 evaluation methodology | <ul style="list-style-type: none">• The Agency has opportunity to use project closure forms to capture more information on lessons learnt.• The Agency should consider the use of evaluation tools to enhance consistency in its evidence base used to inform the appraisal of future projects. |

Part Seven: Technical Appendix

Independent Supplementary Review Methodology

Background

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

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

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

Approach

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

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

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

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

7 The range of assessment scores against each question is:

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

Evidence

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

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

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

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

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

Consistency

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

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

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

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