May 2010

Independent Supplementary Review

North West 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 North West 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?	North West Development Agency has demonstrated strong performance against this descriptor.
How effectively is the RDA implementing improvement plans?	North West Development Agency has demonstrated good performance against this descriptor.
How effectively has the RDA implemented improvements in performance management processes and procedures to reflect the lessons of evaluation?	North West Development Agency has demonstrated good performance against this descriptor.

Part Three: Context

3.1 The North West of England is a diverse region running from Cheshire in the south to Cumbria in the north. The region has a population of 6.8 million (2009 figures) which is 12.7 per cent of England's total. The region has two major cities, Liverpool and Manchester, large urban settlements in Blackpool and Preston (which are part of a city region). Lancaster, Chester, Carlisle and Preston are also cities and alongside Warrington and Crewe they are key regional hubs and economic drivers. The North West also has a large rural hinterland in Cumbria, Lancashire and parts of Cheshire. There is around 1,400 km of coastline and about one third of the region is either National Park or an Area of Outstanding Natural Beauty.

3.2 The region is served by the largest motorway network outside of London and is the most congested after London. The region has two major international gateways through airports at Manchester and Liverpool. It has a major port at Liverpool.

3.3 The regional economy is valued at £120.7 billion with GVA per head calculated at £17,555 in 2007; 86 per cent of the UK average. GVA per head is highest in Cheshire at £21,242 and lowest in Cumbria at £14,848[1] .

3.4 The Regional Economic Strategy (RES) for the North West has 122 agreed actions and 45 transformational activities, of which the Agency has responsibility for delivering 11. The RES has identified lead partners for each of the actions and these are reported against every six months.

3.5 There are 247,000 businesses registered within the North West. Employment is concentrated in Public Sector (32 per cent of employment), Manufacturing (12.4 per cent) and Business and Professional Services (12 per cent).

3.6 The region has demonstrated resilience to the economic downturn in some of its sectors such as energy, defence and digital and creative. Employment levels have fallen by 50,000 since the start of the economic downturn, a 1.6 per cent loss, compared to 635,000 losses in the UK (2.2 per cent). Unemployment stood at 8.2 per cent in June 2009[2], a 35 per cent increase from the previous year.

3.7 There are five sub regions in the North West. Greater Manchester is the largest and accounts for 39.7 per cent of the economy. It is the UK's fastest growing city-

[1] Source: Office of National Statistics

[2] Source: Office of National Statistics

region and 65 of the UK's top 100 companies have a presence within the city. It is also home to the largest media hub outside of London. Merseyside has seen resurgence in the last few years and now accounts for 16.4 per cent of the regional economy. Liverpool was the host of the European Capital of Culture in 2008 boosting the economy by an estimated £800 million. Cheshire has the highest GVA per head in the UK and accounts for 18.3 per cent of the economy. It is home to some of the world's most successful multi-national pharmaceutical and R&D businesses. Lancashire is a global centre for aerospace and defence activity and contributes 19.3 per cent of the economy. There are 39 local authorities which are a mixture of district, local and unitary authorities. The rural economy accounts for 23 per cent of the regions GVA and 40 per cent of all firms.

3.8 A Leaders Forum (4 North West) of local authorities was established in the North West 12 months ago to help lead local authorities' work with the Agency on the development of an integrated regional strategy. This organisation has played an important wider role in helping establish regional priorities for development.

3.9 The Agency is the largest Regional Development Agency (outside London) in budgetary terms. In 2008-09, its grant in aid budget is £372.2 million but, with receipts, this increases to a single pot of around £421 million. Due to budget cuts, this is likely to fall to £292 million in 2010-11. The Agency currently employs around 481 staff in eight directorates. Around 75 per cent of the Agency's staff are employed within the Economic Development Directorate which has responsibility for activities such as Business, Skills, Innovation and Land and Property. The Agency's Chief Executive has been in post since 2003 and the current Chair was appointed in August 2009.

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

1. Rich real-time business performance data supporting a robust peer-assessed evidence base which has been used to shape priorities for and approach to interventions in the downturn.

2. Using the impetus of the downturn to lead a coordinated approach and develop effective initiatives to support response.

3. The Agency has undertaken a reprioritisation of its investments using robust Board criteria, including project by project contribution to regional growth.

4. Alignment of priorities with partners and good level of development of joint investment planning through sub regional investment plans and strong long term working with 4 North West Leaders Board in development of the new Integrated Regional Strategy.

Economic Analysis

4.2 The Agency has a Regional Intelligence Unit that combines the functions of the Economic Analysis team and the Regional Observatory. There are eight staff in the unit and the Agency also has economists distributed across its other functions. The Agency spends approximately £1.8 million per annum on research products. The core team, delivering core economic analysis for the Agency and the Observatory, consists of an Economist and a Senior Economic Analyst with annual costs of £93,960. Additional funding from the Regional Research Programme enables them to deliver economically focused projects for the Agency and the region.

4.3 A Regional Economic Forecasting Panel was established in 2003 which quality assures the Regional Intelligence Unit data and combines it with qualitative international and global scale data from its members which include Private Sector Companies. The Head of Research at the Agency is the project manager for the panel.

4.4 Prior to the downturn the RIU had in place an economic intelligence service which included quarterly briefing, specific briefings on economic data and the delivery of economic projects such as the Regional Economic Forecasting Panel. As a result of the downturn this activity was intensified and built upon and the Agency established a regional reporting mechanism feeding into various fora, such as Business Link and regional cluster organisations, and linking together all key sources of information.

4.5 The RIU produces a weekly round up of developments in the economy, which is distributed to partners via the RIU extranet. The RIU uses different datasets to assess the economy on an ongoing basis, including the use of PMI, labour market statistics, as well as risk, enquiry, survival or sectoral information from Business Link. The Agency placed greater emphasis on bringing together real-time information and using this to supplement or fill the gaps in the standard data releases such as labour market data.

4.6 The Agency produces a number of regular economic analysis outputs which include:

- Weekly round up of events (produced by the RIU).
- Fortnightly update to Regional Minister (produced in conjunction with Government Office North West).
- Monthly Economic Forum.
- Quarterly Agency national business survey and Regional Economic Forecasting Panel short term forecasting report.
- Long term – Regional Economic Forecasting Panel forecasting.

4.7 The Agency's weekly and monthly briefings were used by the Regional Economic Forum to develop the economic presentation output and this was presented to the Joint Economic Commission on a monthly basis. The economic presentation output became the key product for disseminating analysis across key organisations in the North West. In light of the intelligence provided, JEC has agreed a regional response to the changing conditions and this has determined the priorities for the region in the short, medium and longer term.

4.8 The Regional Strategy evidence base is jointly developed by the Agency and 4 North West, the new Leaders Forum. All the intelligence on the web-based database is available to everyone within the region.

4.9 The North West Business Link have developed a business performance index which is capable of creating aggregated regional, sub-regional and sectoral information on the North West economy. The data allows users to drill down into key data segments and identify and locate businesses exhibiting specific characteristics from NUTS 2 to postcode level. The business performance index is a multi-dimensional database that is accessible via the web. The core data is refreshed every two weeks and the Agency uses this information to inform its decision making.

4.10 The Agency uses information collated from businesses and Business Links by their key account managers to provide timely updates to the regional evidence base, which are made widely available.

4.11 The Agency has drawn on a number of commissioned pieces of research during the economic downturn including a bespoke report (final version published June 2009) which examined the impact of the previous downturns for potential lessons for the current downturn. Other commissioned pieces of work include an industrial trends survey, regional trends survey, a quarterly economic survey and regional outlooks from Experian. The results of this research have helped to shape the delivery of some of the newer products that the Agency is offering, in particular, funding for business start ups, a transition loan fund and additional support to the Manufacturing Advisory Service.

4.12 The Regional Economic Forecasting Panel forecast the downturn before the collapse of the banks in 2007 but could not, at that time, predict the steepness and full depth of the economic downturn. It issued a forecast in the first quarter of 2008 which suggested there might be a slowdown in growth although there was not yet evidence of an impact on the 'real economy'. The impact on the 'real economy' began to be felt in late 2008 and the Agency established its monthly economic forums in September 2008 as the real economy impact became apparent. The Agency commissioned Experian to undertake work on 'leading indicators' to help support the Research Unit's weekly and monthly summaries.

4.13 In March 2008, the Regional Economic Forecasting Panel Chairman gave the Agency Board a presentation on the potential downturn and this was followed up with a report published in spring 2008. In April 2008, the impact of the downturn on major projects was considered as part of a presentation on Rochdale Kingsway (a large regeneration project).

4.14 In June 2008, the Board received an update on the work the Regional Development Agencies were doing with Government in response to the downturn. In July 2008, the Agency's Chairman gave an update at a Chairs' meeting on the work all the RDAs were doing. In September 2008, the Board received a full presentation on the economy by the Executive Director for Policy.

4.15 We received positive feedback from all partners interviewed on the robustness, timeliness and availability of economic data. A small number thought there was too much information being circulated as the Agency refreshes its data every two weeks and shares this widely across all partners via a number of media including, web, hard copy, email and via partners.

4.16 There was clear evidence of the Agency using its economic analysis in the development and appraisal of projects, and also in initiatives developed in direct response to the downturn.

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

4.17 The CSR settlement agreed in 2007 for the Agency represented a 4.5 per cent reduction in the overall budget from the 2007-08 baseline. Taking into account subsequent cutbacks the actual budget represented a 25.1 per cent reduction from the original settlement. The grant in aid for 2010-11 is £286.7 million, a 25.1 per cent reduction on the 2007-08 budget. Overall this equates to a reduction of £81.1 million in its planned funding spread over three financial years. To allow existing legal commitments to continue and to provide fiscal stimulus in 2009-10, the Agency brought forward £20 million of capital funding from 2010-11.

4.18 With relatively low levels of commitment (66.8 per cent in September 2008), the Agency was able to reprioritise spend to increase its response to the downturn without reducing funding to committed projects. It did, however, take the opportunity to reshape pipeline projects to ensure they met the revised investment criteria and delivered more value for money with the same level of input. Directors considered how existing commitments could be flexed to better respond to the priorities highlighted by the downturn and also to position initiatives for the up turn.

4.19 The Board agreed the revised investment criteria in June 2009 as:

- Enterprise support and growth sectors;
- Innovation and its commercial exploitation;
- Capturing the benefits of globalisation;
- Development of enterprise skills;
- Creating high value jobs and other jobs in deprived areas; and
- Creating the conditions for private investment to achieve sustainable economic growth and regeneration.

4.20 The Board also agreed that priority would be given to initiatives that have regional and sub regional impacts and achieve defined outcomes in the Corporate Plan. The Agency is developing a toolkit to calculate the long term economic, social and environmental rate of return for all potential future investments and will only invest in those which maximise this rate of return, but this was not available for use during this exercise.

4.21 The Agency took the opportunity, during the downturn to undertake a re-structuring. This allowed it greater flexibility to address priorities and the economic challenges by having staff involved in business support and business development working together under a single directorate.

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

Sept 2007	Government assistance to Northern Rock.
	Economic Forecasting Panel considers the impact of the economic downturn on the region.
Oct 2007	The Agency commits to five year auto supply chain programme.
	The Agency jointly develops ISUS project with Local Authorities – launched Oct 2008.
March 2008	Presentation to the Board on economic outlook from Economic Forecasting Panel.
Spring 2008	Publication of possible downturn report from Economic Forecasting Panel.
Sept 2008	Lehman Brothers file for bankruptcy proceedings.

	Further Board discussion on downturn and reprioritisation of spend.
	Launch of the joint BIS/HMT/NWDA response to Economic Downturn.
	The Agency responds to need – Access to Finance, working with finance and construction industries, manufacturing, and the banks.
Oct 2008	North West Regional Joint Economic Commission formed (Regional Minister and NWDA Chairman jointly chair).
Nov 2008	Business Link appoints Access to Finance team and innovation advisors.
Dec 2008	The UK economy officially enters downturn.
	Business support brochure launched.
Jan 2009	The Agency starts fortnightly monitoring on demand on products.
Feb 2009	Business Link doubles the Access to Finance team and Innovation team with ERDF funds.
	Additional £1.5 million commitment to developing skills in auto supply chain.
April 2009	Start of NWDA/Business Link Survive and Thrive events
May 2009	Second Business support brochure launched.
June 2009	Corporate Plan 2009-11 refresh approved by BIS.
July 2009	The Agency agrees extension to Manufacturing Advisory Service with increased funding.
Oct 2009	Third Business support brochure launched
	Approval of Business Start up fund.
Dec 2009	Launch of JESSICA Infrastructure Scheme.

Source: NAO Summary of Regional Documents

4.22 The Chief Executive and the Executive team led the Agency's response to the down turn. Senior Agency staff with responsibilities for business, and for skills/labour markets began developing a framework for responding to business failures in the Autumn of 2008. This included responding to redundancy situations. Operationally, the Agency and its partners (primarily, Business Link, Jobcentre Plus, and the Learning and Skills Council) began working together immediately. The Agency redirected and reprioritised resource to rapid response. Each Director was expected to find funding from within their directorates and themes to support downturn initiatives. In order to make resources available for new initiatives, directors were required to identify investments that were no longer a priority or not appropriate to the downturn in order to release resources. They also considered how contracted commitments could be managed to better respond to the downturn situation and whether new initiatives were required. Budget alignments were agreed with the Board via the Refreshed Corporate Plan which was approved by the Board in April 2009.

4.23 The Agency reprioritised its investment portfolio in response to the economic downturn, working with partners to identify the needs of the region. This exercise identified that accessing finance was a key issue and the Agency reprioritised its funding and diverted resources to a number of products to scale up this type of support. The Agency reallocated resources to its pre-existing finance products and this enabled money to be made quickly available through existing funding mechanisms. This approach has been supported by the partners that we spoke to.

4.24 The first full consultation with stakeholders on the economic downturn occurred in September 2008 when the Agency launched the Regional Economic Document at Liverpool Arena. "The Northwest Economy", a joint response (with HM Treasury and BERR) to changing economic circumstances. This laid out a number of new actions that the Agency put in place to meet the challenges of the economic downturn.

4.25 The Agency took responsibility for leading the regions' response to the economic downturn. The Agency produced its first brochure, outlining £200 million of support available to businesses in September 2008.

4.26 In October 2008, the Joint Economic Commission (JEC) was formed, chaired jointly by the Regional Minister and NWDA Chairman and led by Government Office North West. Comprising senior staff from key partners across the region, the JEC has been a mechanism for aligning and prioritising activity as well as communicating intelligence. Feedback on the JEC has been mixed with the majority (80 per cent) of partners telling us that after a promising start it had lost its focus for a while with a change in Regional Minister, but that it is now making more strategic progress again. Partners stated that it agreed some short term measures quickly that were put into action by the Agency and it has agreed a number of longer term measures that will be taken forward by the partners.

4.27 Based on intelligence from the evidence base, JEC has focussed on five themes: - support for business labour market issues, public infrastructure and investment, the impact of the downturn on communities and preparing for the upturn. In preparation for the upturn, JEC has agreed to pursue a series of long term priorities which include Atlantic Gateway, Cumbria Energy Coast, Renewable Energy and Creative Industries. Partners interviewed agreed that these were important priorities and the Agency has developed relationships with relevant partners to develop and promote these.

4.28 Working with the regions' Members of Parliament, the Agency developed a Rapid Response Log which kept it informed of businesses that were experiencing difficulties and what action had been taken and by whom.

4.29 The Agency rapidly produced a number of documents to help provide leadership and equip the region with tools to understand the impacts of the economic downturn and the practical support that was available, particularly from a number of key partner organisations such as Business Link, Citizens Advice Bureau, Jobcentre Plus, local authorities, and the Learning and Skills Council.

4.30 The Agency took responsibility for managing Business Link in 2007. Replacing five individual business links, whose performance was considered by many partners to be poor, the Agency launched Business Link Northwest in 2007 specifically to become the primary access channel for business support. In 2008-09, with circa 250 staff, there are around 50 per cent more brokers working on the ground than in the previous year. They have provided one to one support to around 92,000 businesses during 2009. They have undertaken more than 6,000 health checks during the economic downturn and worked closely with the Agency to ensure that their communications were up to date and relevant. Feedback from partners interviewed was positive about the assistance provided by the Business Link.

4.31 The Agency undertook 28 events delivered by either the Business Link or the Manufacturing Institute, which were badged as "Survive and Thrive". Over 2,000 businesses attended these events across the region.

4.32 In response to the economic downturn, the Agency launched in January 2009, a £35 million business start-up programme. This programme, which will run for the next five years, expects to deliver 11,700 new businesses and over 22,000 new jobs. The programme will be targeted at groups and communities with lower enterprise levels. This programme has been designed with other partners, especially local authorities, as part of the plan to simplify business support in the North West.

4.33 The Agency has also delivered a £10 million "High Growth Business Support" fund (with ERDF funding) to help 1,000 high-growth new and established businesses with coaching and dedicated support.

4.34 The Agency identified before the downturn the long-term need to raise leadership and management capability within the region. Although no new funding was allocated to this within the downturn, the programme was enhanced so that the coaches employed had both past experience of business management in difficult operating conditions but also of leading a business into a recovery phase.

4.35 Like other Regional Development Agencies, the Agency developed a Transition Loan Fund, which received 138 applications to the value of £20.9 million. It has provided 49 loans to the values of £7.7 million which have created 534 jobs and safeguarded a further 884 jobs.

4.36 The Agency has continued to fund businesses through its existing mechanisms such as Rising Stars Growth Fund, North West Seed Fund and the North West Business Investment scheme. These schemes will be closed once the Venture Capital Loan Fund is opened during 2010.

4.37 The Agency has developed a Venture Capital Loan Fund (JEREMIE) of £200 million which utilises European funding (£83.5 million) to give businesses access to up to £3 million for investment opportunities which were not otherwise open to them. The fund was given approval in November 2009.

4.38 The Agency has increased its spend on business finance products from £30 million in 2008-09 to £53 million in 2009-10. In addition, increased resources were allocated to the automotive industry via the high-level skills programme to reduce the impact on this badly affected sector.

4.39 Like other Regional Development Agencies, the Agency is assisting businesses to access high level skills assistance through Train to Gain. In addition, in 2009, the Agency has prepared a £40 million package of support to stimulate investment in priority skills development.

4.40 The North West has a strong manufacturing sector and the Agency has supported the Manufacturing Advisory Service with £10 million of funding over the past three years. In the light of evidence in the Experian report that manufacturing was the hardest hit sector, the Agency has extending its support for these services over the next four years and has recently approved (July 2009) an additional £20 million of grant funding.

4.41 In order to help other manufacturing companies during the downturn, the Manufacturing Advisory Service has been brokering lean training and assistance to help smaller manufacturing companies become more efficient using specialists from Jaguar Landrover and Astrazeneca.

4.42 The Agency approved in October 2009 a £100 million investment fund to help support urban development projects in England’s North West. The fund is a Joint

European Support for Sustainable Investment in City Areas (JESSICA) initiative. This is a new financial instrument created by the European Commission in conjunction with the European Investment Bank. The Northwest Urban Investment Fund will provide debt, equity and guarantee investment to support projects that will unlock sustainable development projects in the North West's urban areas. Project investments will include the development of employment sites, creation of new commercial floor space, reclamation of derelict or contaminated land, and provision of site servicing and infrastructure.

4.43 The feedback from external partners and stakeholders interviewed has been overwhelmingly positive on the Agency's response to the economic downturn. Many told us that the Agency had been proactive and fleet of foot.

4.44 The Agency has been working closely with 4 North West to develop the Integrated Regional Strategy which will have a 20 year horizon. This new partnership has driven forward the long term planning for the region and a draft Integrated Regional Strategy will be consulted upon for the first time in January 2010. The Regional Leaders Forum has also been used to agree the priorities for the short and medium term to ensure the region is well placed to move forward after the economic downturn.

4.45 The Agency's Board has also approved a move towards Joint Investment Plans with partners across the region, commissioning future activity in line with the Corporate Plan and Business Plan.

Stakeholder engagement in prioritisation

4.46 The Agency has a number of established partners which it uses for consultation and to receive feedback. Sub Regional Partnerships have been established for a number of years and these are used as a sounding board for developing policy and agreeing the priorities for the sub regions.

4.47 The Agency uses a partnership of 50 different organisations to prepare and monitor the Regional Economic Strategy. This group has helped to identify and shape the priorities for the next 15-20 years and is a mixture of public, private, third sector and businesses. This partnership has also been used as a sounding board for refreshing the priorities in the region and in preparation for the new Integrated Regional Strategy.

4.48 Feedback from partners and stakeholders to whom we spoke was positive about the Agency's approach to the reprioritisation exercise and also in agreeing the longer term priorities for the region. We were told that the Agency works in a collegiate and consultative manner to highlight the economic challenges and works collectively to reach agreement on individual actions.

4.49 In June 2009, the North West Regional Select Committee met to discuss the impact of the current economic situation on the North West. The report of the Committee shows a high level of support for the Agency from partners for its response to the economic downturn. The Agency's work with Business Link was highlighted by the Committee Report as positive and acknowledged a significant improvement in service over the past two years.

4.50 The Agency has a communication strategy which is regularly updated and ownership lies with the Executive Director for Marketing and Communications. The Agency uses a number of methods to communicate with its partners and stakeholders about the activities it is undertaken in response to the downturn. Partners commented positively about email and news updates which come out on a regular basis.

4.51 The Agency has an action plan for its Marketing and Communications Strategy which measures the awareness and understanding of the Agency amongst key organisations on a half-yearly basis. Measures included media coverage, traffic levels to the Agency's website and number of people attending events. Reports for 2009-10 show that the Agency has met or exceeded all of its targets within the Action Plan.

4.52 The Agency undertakes stakeholder satisfaction surveys on an annual basis. In 2008 the survey supported the view that the Agency had improved across its operations, was well led and had improved its prioritisation. The survey also demonstrated the Agency was more approachable and contactable, an issue that had been raised in the IPA report.

4.53 The survey for 2009 demonstrated;

- 80 per cent of respondents said the Agency had a high level of understanding of the regional economy.
- 85 per cent said the Agency had understood the impact of the downturn early and had put support measures in place which were welcomed by business.
- 80 per cent of respondents said responding to the economic down turn was a key strength of the Agency.
- 92 per cent of respondents considered the Agency was easy to contact.

4.54 The Agency has been proactive in bringing together a number of partners who do not normally work together to address the issues of the economic downturn. These have included much closer working with both Jobcentre Plus and the Learning and Skills Council, closer alignment of the local authorities across the whole of the North West and between business support providers and the private sector.

4.55 The Agency has engaged more closely with the banking industry on the need to support SME needs during the economic downturn. This has seen engagement at the highest level between Chief Executives and Chairs and also at the working level. We were told by private sector partners that this intervention and the signposting from banks to the business support agencies has helped to improve relations with businesses and to improve access to finance.

4.56 The Agency has a proactive Marketing and Communications team who undertake a number of initiatives to market and publicise the work of the Agency. During the economic downturn, the team has produced a number of brochures and marketing media to inform businesses and other partners of what activities are being undertaken and where they can get help. It has also run a number of PR campaigns through the local media and worked jointly with Business Link North West to publicise its work. The Marketing and Communications team works closely with the Economic Development team to ensure communications are targeted and current. Stakeholders interviewed as part of this assessment told us that the marketing and communications from the Agency were clear and accessible.

Corporate Planning

4.57 Like all other Regional Development Agencies, the Agency was asked to review its Corporate Plan in the light of the economic downturn and the budget reductions for 2009-10. The Department issued guidance in January 2009 and gave a timetable for approval by July 2009.

4.58 The Agency undertook a consultation on the corporate plan which lasted about six weeks although this was not required by the Department. Comments were sought from key stakeholders and partners on the refreshed Corporate Plan in April 2009. Feedback was incorporated into the revised version that was agreed by the Board in June 2009.

4.59 Not all the partners interviewed as part of this assessment knew the corporate plan in detail but all knew the RES and the priorities contained within it. All partners interviewed agreed that the short term priorities brought forward by the Agency were the right ones for the region as was the longer term vision.

4.60 The Agency reviewed its corporate plan in light of its updated evidence base and the results of the impact evaluation reports which highlighted the areas of activity which would give the greatest return on its investment. The plan sets out how the Agency will deliver its responsibilities under the Regional Economic Strategy to meet the 11 objectives. These objectives have been refocused in the light of the economic climate. The Agency investment will focus on support with a direct or one step removed impact on business. The agreed priorities for the next two years are:

- Enterprise support and growth sectors (including tourism).
- Innovation and its commercial exploitation.

- Capturing the benefits of globalisation.
- Development of enterprise skills and aptitudes – attracting talent and releasing potential.
- Creating high value jobs (or any jobs in deprived areas).
- Creating the conditions for private investment to achieve sustainable economic growth and regeneration.

4.61 The change in emphasis to the business growth agenda was first mentioned in the 2005 to 2008 Corporate Plan. This is supported by a real term rise in the relevant budget of 4 per cent over the period until 2011.

4.62 The Corporate Plan is jointly coordinated by the Policy and Planning and Resource Directorates. The Strategy team sets the direction and priorities for the Agency. This is fully supported by the Finance team that develops the Strategic Investment Plan (SIP). The SIP details all the legal commitments of the Agency and also those potential projects which are either in appraisal or being developed (pipeline). This approach enables the Agency to have a complete understanding of its commitments for the next four to five years under each of the objectives of the Corporate Plan. The Finance team has also built a number of scenarios into its SIP as its grant in aid budget is not approved past 2011. This will allow the team to look at potential projects and bring forward those that will deliver the greatest return for the headroom available.

Areas of good practice	Areas for improvement
• A Regional Economic Forecasting Panel peer assesses the research and analysis of the Regional Intelligence Unit.	
• The Agency has clear shared regional priorities for future investment agreed through JEC and 4 North West.	
• The Agency uses timely data from Business Link and Individual companies through key account managers to update evidence base.	

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

1. Integration of continuous improvement into corporate and business planning cascaded down with clear identification of responsibilities for delivery.

2. Systematic mechanisms for regularly gathering and responding to stakeholder and staff feedback, with strong engagement of partners in the systems and process improvement element of the programme.

3. Good Board and senior management drive and engagement in continuous improvement.

4. The Agency could do more to demonstrate how feedback from stakeholders has been used to identify and drive improvements.

5. 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 The Agency IPA Improvement Plan (IP) of June 2006 included nine areas for improvement which were:

- Improve the Agency's Corporate and Business Planning processes;
- Ensure a widespread understanding of the Agency's Change Management Agenda;

- Improve Learning and Development of staff;
- Define the roles and responsibilities of Executives and Non Executives within the Agency;
- Show strong leadership in the development of Sub Regional Partnerships;
- Integrate, where appropriate, the Agency and partners' project processes and increase transparency of decision making processes regarding projects;
- Ensure the Market Towns Initiative and the Rural Renaissance Programme gather momentum to achieve priorities in the RES;
- Integrate and share Agency Risk Management with partner organisations, particularly around delivery of the RES; and
- Fully implement all aspects of the Evaluation Framework and apply evaluation lessons, sharing best practice internally and externally.

5.3 Each identified area for improvement had desired outcomes and impacts. Underneath each area for improvement were a number of specific actions each with a set of milestones. The action plan identified the Key Line of Enquiry within the IPA to which it related, the timeline in which it should be undertaken, a number of key milestones and also the responsible officer and identified staff resources. Many of the actions were cross-cutting necessitating a significant degree of sustained cross-directorate working.

5.4 The IPA Improvement Plan identified 27 individual actions in total and from the reports of the Executive and the Board the Agency has demonstrated that it has carried out all of the actions in the 2006 Improvement Plan and met all of its milestones.

5.5 The IPA Improvement Plan was championed and led by the Board. There was regular monitoring, reporting and challenge, with the Board receiving regular reports on the Improvement Plan. The Executive Management Board was able to trigger a review of the actions contained within the plan in response to revised policies or priorities. The reporting of the IPA Improvement Plan was integrated into the quarterly Performance Monitoring process of the Agency.

5.6 The overall responsibility for the IPA Improvement Plan rested with the Head of Strategy and Performance and they were responsible for compiling the progress reports and ensuring that milestones that fell within the remit of other senior members of staff were delivered.

5.7 The Agency's Internal Audit and Audit Committee reviewed individual items within the IPA Improvement Plan on a regular basis. Baker Tilly undertook an internal audit IPA follow up review in 2006-07 which concluded that the Agency had sufficient controls in place to ensure the Improvement Plan could be implemented.

5.8 The most strategic recommendation in the improvement plan was to improve the Agency's Corporate and Business Planning processes, so as to ensure that the Agency fully resourced its planned commitments and developed the transformational effect that was described in the Regional Economic Strategy. The process began with production of individual Directorate Business Plans, which were later developed into Investment Frameworks. The Agency also developed its Strategic Investment Plan (SIP) so it is now fully integrated into its corporate and business planning processes. The SIP clearly links projects and staff activities to the Corporate Plan objectives, which in turn are focused on the delivery of RES priorities.

5.9 The 'Change Management Guidelines to Transition' document addressed the requirement of the Improvement Plan to finalise and articulate the change agenda for internal communications. The Guidelines have supported managers in keeping staff informed of developments. The Agency's regional partners also appreciate and support the rationale for change.

5.10 As a result of reviewing learning and development opportunities for its staff, the Agency has drawn up a Skills Needs Analysis. A Learning and Development Framework and the development of a Personal Development Curriculum have been well received by staff.

5.11 In light of a recommendation in the IPA report, Baker Tilly carried out a corporate governance review in late Autumn 2006 and the results of this review were disseminated by an away day in September of that year, at which Board members discussed the role of sub committees, the respective roles of the Chairman and Chief Executive and the necessary level of transparency with Partners and Stakeholders. The Audit Committee had responsibility for monitoring these issues.

5.12 In order to achieve better integration of the Agency and partners' project processes, the Systems and Process Improvement Programme (SAPIP) was rolled out to external partners in 2007-08, including Urban Regeneration Companies, all local authorities and all Tourist Boards. Stakeholders have responded positively. The 2006 Improvement Plan also required the Agency to increase the transparency of its decision making which has been achieved with some clearly favourable feedback. There are still some stakeholders concerns relating to timing of appraisal decisions.

5.13 The 2006 Improvement Plan required the Agency to mainstream the delivery of the Market Towns Initiative (MTI) and Rural Renaissance Programme. The Agency used the Rural Proofing Toolkit to help address this requirement and has mainstreamed rural policy within the Agency's strategic framework.

5.14 Since 2006, the Agency has shared its risk management framework with its key partners (notably Sub Regional Partnerships and Urban Regeneration Companies) as required. For example, the Head of Risk visited all SRPs and URCs to lead risk workshops and share guidance from the Agency's Risk Management Framework.

The Agency also used a variety of other methods to achieve the necessary engagement and there is an ongoing programme of joint risk management.

5.15 Evaluation was highlighted in the improvement plan as a key area of development. The Agency has taken the Impact Evaluation Framework as the benchmark and developed its use in its appraisal processes. The Agency has also begun to share best practice in evaluation within the organisation through cross-group events and the Office of Project & Programme Advice & Training (OffPAT) e-library.

Updating Improvement plans

5.16 The Agency has upgraded its original IPA Improvement Plan into a continuous improvement plan which is incorporated into its internal business and corporate plan. This sets it in a wider context. The Agency decided to create a single corporate improvement plan for the organisation instead of reacting separately to various external recommendations coming from the IPA, Investors in People, and staff or stakeholder suggestions.

5.17 The revised Improvement Plan identifies activities under six areas;

- Staff issues – including improving HR services, managing the Agency's learning and development requirement, reviewing the Agency's organisational structure and developing the Senior Management team.
- System issues – including enhancing the provision of management information, amending the contracting framework, developing capacity with local authorities on economic development and assessment.
- Relationship issues – including developing long term mechanisms to ensure private sector engagement, developing appropriate working relationships with the new Regional Leadership Forum and further enhancing relationship management with all key stakeholders.
- Products and Services issues – including implementing a single equality scheme within the Agency and implement a corporate social responsibility statement of priorities.
- Evaluation and Impact issues – including developing the evaluation plan, and develop the evaluation of progress on the Agency's 11 corporate objectives and the mapping between interventions, outputs, outcomes and GVA.
- Audit and Risk issues – including developing a compliance framework and improving the processes to follow up on Internal Audit recommendations.

5.18 The revised Improvement Plan again identifies senior responsible officers and staff resources. Each individual action (30) has milestones and targets identified and all were due to be delivered by March 2010. The Executive Management Board has responsibility for adding, changing or removing items.

5.19 The Agency uses its Staff Consultative Committee to identify areas for improvement which are fed through to the Board. The Agency uses a number of consultative fora to gather intelligence on areas where improvements could be made; these include lunchtime seminars.

5.20 The Agency conducts bi-annual staff surveys which are undertaken by an independent organisation and are benchmarked against other public sector organisations. The surveys demonstrate a year upon year improvement against a number of indicators.

5.21 Partners are invited to feedback on the Agency's performance through its annual stakeholder surveys and partners also told us that the Agency is receptive to feedback during meetings and other consultative events. The Agency's surveys are carried out by external consultants. However, we found little evidence to demonstrate where the Agency has made improvements as a direct result of stakeholder feedback.

Delivering Improvement Plans

5.22 The Internal Business Plan, incorporating the Improvement Plan, links to corporate objectives, RES Actions and Strategic Investment Priority Themes. The plan identifies the key activities to be delivered or put in place in 2009-10 in order to move towards achievement of outcomes.

5.23 Business Plan monitoring occurs quarterly as part of the Corporate Risk Register. It outlines quarterly milestones for achievement for each item, identifies progress within the reporting quarter along with risks (both rated as green, amber or red) and these are followed by an agreed remedial action. All milestones identified as amber are transferred to the following year's first quarter for monitoring. There are regular reports to the Board and discussions at Board meetings.

5.24 The 2008 Stakeholder Survey included interview data from 100 stakeholders and focused on measuring progress on achievement of the 2006 Improvement Plan. There was an 80 per cent response rate. Stakeholders in general considered the Agency had significantly improved across its operations, had improved prioritisation and had become more contactable. The stakeholders were especially positive about the quality of senior leadership at the Agency. From the survey, 92 per cent of those surveyed gave a positive response on the accessibility of the Agency.

Areas of good practice	Areas for improvement
• There is a clear “golden thread” that runs from Corporate Plan into staff objectives. • The Systems and Process Improvement Programme (SAPIP) has been rolled out to all partners. • The Agency has established systematic mechanisms for regularly gathering and responding to stakeholder and staff feedback.	• The Agency could do more to demonstrate how feedback from stakeholders has been used to identify and drive improvements.

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

1. A strong project office which supports high quality evaluation and high engagement with the Agency's partners.

2. A clearly articulated and well understood minimum threshold measure for regional growth expected to be achieved by projects to be evidenced in appraisals.

3. The Agency has not yet developed a value for money tool to 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.

4. Whilst the Agency has benchmarked a number of its procedures it needs to develop a more structured and integrated programme of activity to ensure coverage of all relevant processes and procedures.

Effective evaluation

6.2 In February 2006, Government published an RDA Impact Evaluation Framework (IEF)[3]. Following publication of the IEF, PricewaterhouseCoopers were appointed in December 2007 by the Department of Business, Enterprise and Regulatory Reform (BERR) to provide "an independent assessment of the impact of the spending by each

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

of the nine RDAs and the RDA network as a whole" and to assess RDAs achievements against the objectives against their Regional Economic Strategies and the Corporate Plans. The impact of RDA spending report was published in March 2009.[4]

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 the RDAs with the adoption of the Impact Evaluation Framework (IEF) and Independent Performance Assessments in 2006.

6.4 As part of its work, PwC reviewed evaluations for 65 projects and programmes worth over £930 million, representing 63.5 per cent of the Agency's £1.5 billion spend during the review period 1999 to 2007. The evaluations demonstrate that over 97,000 jobs have been created or safeguarded, of which 42 per cent are additional at the regional level; over 14,000 businesses have been assisted, of which 46 per cent are additional; 1,900 hectares of land have been remediated of which 45 per cent is additional and nearly 97,000 skills assists have been delivered, of which 50 per cent are additional.

6.5 The report also highlighted:

- Value for Money – the highest achieved return was from business interventions, with an achieved average return of £3.5-£5.2 to £1 and the lowest return was from place with an achieved average return of £1.6 to £1.
- Value for Money – there does not appear to be a clear relationship between value for money and either the scale of the intervention, its additionality or its performance against objectives – this is the same in all the Regional Development Agencies.
- Performance against objectives – the interim nature of many of the evaluations means that many have assessed performance against objectives. Of those which have made such an assessment, 15 per cent (by volume) have met or exceeded their objectives.

6.6 The GVA average return figure (£5.20 to £1) from the PwC report has been used as a minimum threshold measure for projects to attain in their development and appraisal. Where this cannot be achieved the project must be able to clearly demonstrate why the measures are not appropriate and where it adds value and achieves impacts in other ways. The benchmarks currently available are being developed to apply to a wider range of projects and provide additional social and environmental thresholds for future interventions.

[4] Department of Business, Enterprise and Regulatory Reform, Impact of RDA spending – National Report, Vol 1, Main Report, March 2009

6.7 All staff we interviewed demonstrated a good understanding of the baseline that the PwC report provides for evaluating projects and the Agency is working to develop wider benchmarks to address social and environmental measures. The staff involved in project appraisal or development told us they now expect projects to demonstrate their ability to at least meet the baseline measures set or give a robust understanding as to why the project cannot meet these measures.

6.8 The Corporate Plan 2008-11 describes the Agency's approach to evaluation and performance management. The Agency has developed an evaluation and performance management framework which enables it to identify whether it is achieving its objectives and priorities, and to identify areas for improving delivery. It links RES objectives with corporate objectives which in turn are linked to directorate, and personal objectives.

6.9 Underpinning the Corporate Plan, the Agency has developed a corporate evaluation policy document, first published in January 2008, that operates throughout the organisation with the aim of ensuring that evaluation is now considered in all processes and at all stages of a project's lifecycle. This policy has been reviewed in the light of the PwC report and developed into the Evaluation and Corporate Performance Policy to reflect a movement from project management to performance management and to ensure projects, programmes and policies are developed, monitored and evaluated in a transparent manner. The implementation of the Evaluation and Corporate Performance Policy is overseen by the Agency' s Performance Management Group, which comprises of Executive Directors, Head of Risk and Director of Programme. This group reports formally to Executive Management Board and the Board.

6.10 The Agency has developed a forward programme of evaluations. The Agency plans to evaluate 100 per cent of Single Programme investment over the lifetime of the project/programme, but also plans to ensure that at least 60 per cent of their total spend over a three year period (IEF benchmark) receives a formal evaluation. The Agency undertakes both full and interim evaluations of larger projects and programmes if required to meet its evaluation targets or to contribute to the successful implementation of the project.

6.11 The Agency has identified three levels of evaluation; project level, programme level and combined evaluations of projects with similar objectives brought together for efficiency. The monitoring and evaluation plan has identified that projects must have a clear set of objectives, detailing what the project is trying to achieve; a list of planned outputs and outcomes; monitoring requirements, including beneficiary data; and an evaluation strategy which sets whether the evaluation will be undertaken internally or externally, allocation of resources and any methodology.

6.12 Each project identified in the evaluation programme has an identified IEF category, estimated spend and key delivery date. The evaluation programme is monitored by the Executive Management Board on a monthly basis. Contract managers are responsible for ensuring that individual project evaluations are commissioned and delivered on time and are fully IEF compliant. The Agency also has a risk assessment framework that is applied to the Evaluation programme on a monthly basis.

6.13 Evaluation has been developed and supported across the Agency, by a working group including the Executive Director for Planning and Policy, the Director of Programme, the Evaluation and Performance Management Lead and the Head of Research for the Economic Strategy team. An Evaluation Panel was originally set up to review all evaluation work undertaken with the relevant team, to use experience from other projects to drive up performance and ensure that the use of evaluation became routine in the Agency's work.

6.14 All evaluation work is overseen and developed by a single responsible owner who views the tender requests, the draft and final reports and prepares summaries of the reports for distribution. The Evaluation and Performance Management Lead has responsibility for quality assurance of the evaluation process and dissemination of the lessons learnt and maintains development of the evaluation policy at the corporate level. The Director of Programme leads the implementation at a practitioner level.

6.15 Project and programme staff may act as a project champion on one initiative and a project appraiser on another. With this multi-skilled approach, all staff understand the need to embed evaluation in all aspects of the appraisal process. This was evidenced in our focus group. Attendees were clear about the benchmark set for appraisal criteria and how to apply the lessons learnt from evaluation into project development.

6.16 Our review of evaluation files found them to be well structured and well developed, in compliance with the IEF. They examine projects and programmes from rationale through to completion and delivery of future impacts. There are clear sections on recommendations for developing the future work of the project where appropriate. Some areas of the analysis could be developed to show greater challenge and focus on key outputs/outcomes such as job creation and GVA enhancement. Recommendations and lessons learned are highlighted to inform the future design and delivery of similar projects or programmes.

6.17 The Agency has developed comprehensive evaluation training that stresses the need for clear articulation of project objectives at the earliest stages and for evaluation planning to take place throughout the project lifecycle. The training includes logic chains, holistic planning, additionality, strategic added value, data gathering and analysis and is designed to be consistent with project appraisal training. The Agency has developed a number of training modules for its staff involved in project appraisal, evaluation and 524 have been undertaken so far.

6.18 We discussed evaluation with a wide range of the Agency's partners and all had a clear understanding from the Agency of the importance of evaluation. They informed us of the role of evaluation both in terms of demonstrating the successes of projects and also the ability to use experiences in one project to provide better information to develop other projects. Partners told us that they want to improve the performance of their projects and be able to demonstrate greater impacts against the regional priorities by using the lessons shared from the Agency's results but some highlighted the constraints imposed by their own limited capacity to develop this learning.

Effective appraisal process

6.19 The majority of projects and programmes in which the Agency has invested in the past have been initially conceived by partners and then developed jointly with potential funding bodies until decisions can be taken as to whether invest or not. As the Agency has developed its corporate planning priorities the range of projects that meet its criteria has narrowed and partners have a clear understanding of this process and its rationale.

6.20 It is common for the lead partners to develop the initial ideas and options for a potential project prior to approaching the Agency with a more substantiated proposal. This can mean that the options appraisal required by the GRADE guidance can appear formulaic due to the limited engagement of the Agency staff in this process. The Agency is aware of this limitation and has taken steps to strengthen the process through identifying options at the concept stage of project development and more active engagement with partners through the formulation of the proposals.

6.21 The Agency is developing a process of jointly planning investment. The intention is to focus on identifying the core, or transformational, priorities for sub-region or locale. Where revised priorities are unlikely to attract the Agency funding other key partners or investment routes are identified. Pennine Lancashire is advanced in the process and has seen the number of priorities reduced from 17 to four.

6.22 The speed of appraisal and approval process remains a concern for some partners and Board members as both are keen to see it shorter and more streamlined. There is a potential tension between rigour and speed. The Agency believes its processes strike an appropriate balance, with projects taking an average of 16 weeks to progress from Concept Approval to Investment Decision during the period from January 2008 to November 2009.

6.23 The Agency has undergone an internal restructuring and project experience is now spread more evenly, rather than clustered under a single directorate. The highest risk projects in terms of value and/or complexity have been retained by a Special Projects team, which reports directly to the Director of Programme. This team also helps to disseminate and develop best practice. Project and contract managers are supported by a central Programme Management team that provides specialist support and additional resources.

6.24 Guidance on appraisal is available to all staff through the Agency's intranet based toolkit, the Process Management Framework, which is clear and easy to navigate. The processes are regularly reviewed and frequently updated. The processes have been strengthened in the areas of appraisal of market failure and demonstration of value for money and strategic added value. Additional training has also been provided in these areas. At the time of our site visit, the Agency had not developed a toolkit to aid the consistency of value for money assessments. However, this has been subsequently implemented.

6.25 The Programme Office undertakes internal and external compliance checks to provide process quality assurance at the concept and investment stages of project development. The Regional Intelligence Unit staff provide a quality assurance role for staff developing evaluation plans and by providing training on economic analysis. The Regional Intelligence Unit staff also provide economic expertise in larger projects (over £500,000) and quality assurance evaluation reports. NWDA programme office staff also initiate two-day health checks of projects at different stages of development using external assessors and feedback reports are provided to the respective senior responsible officer and programme manager.

6.26 Project partners all use the Agency's project and programme management 'SAPIP' system and have been trained in its use and functions since 2006. Over 340 partner based individuals have attended sessions including process, evaluation, appraisal and market failure. The Agency also sources training through the OffPAT e-learning suites to strengthen its own delivery. A flowchart to demonstrate the end to end processes would provide a more visual and easily accessible method of defining the complex procedures and how they fit together and complement each other as there are over 40 procedures that may contribute to a project's development.

6.27 Staff at all levels to whom we spoke were clearly focused on developing projects that have high value returns, closely aligned with corporate priorities. Training for project appraisers is integrated with project development, and staff with responsibilities throughout the project lifecycle have a clear understanding of the roles and responsibilities of staff engaged at other stages. Appraisal staff demonstrated an understanding of the benefits of collaborating with other teams to strengthen their own roles. There is a high level of awareness of the potential for results of evaluation reports to be utilised in developing higher rates of return or greater impacts, but limited evidence of this actually occurring exists in the relatively new development of systems. Using the PwC report, the Senior Management team have already agreed a revised set of investment priorities and all projects are considered against these at concept stage and approval stage to ensure their capability to deliver value for money and meet objectives.

6.28 During 2009, the Department and PwC economists visited the Regional Development Agencies to review a sample of project appraisals as part of the 2009 Central Projects Review Group (CPRG) appraisal back check. The report for the Agency highlights the strength of the revised Project Development and Appraisal Form that now requests a project logic chain, although identifying that greater experience in its use will provide further refinement. CPRG also identifies the need for stronger evidence to establish the need for the Agency to intervene, although links to the higher level strategies were noted as good, with objectives for projects being well specified and SMART.

6.29 Our review of appraisal files found that the Agency's processes and forms are clear and logical and are compliant with the GRADE standards. There is a single form which details both the proposal and the appraisal which in some cases leads to an over representation of the potential project and a limited level of response from the appraiser. Some of the files reviewed were unable to demonstrate objective challenge by the appraisers.

6.30 The form requires consideration of strategic fit, objectives and rationale, management, options appraisal, sustainability and Health and Social inclusion. All files reviewed clearly demonstrated strategic fit and had clear and measurable objectives. The rationale for projects is well explained and explored and projects are guided through a thorough demonstration of expected outputs and impacts.

6.31 The rationale does explore elements such as market failure, strategic added value and value for money. However, this tends to be presented at quite a high level and there was a lack of depth of analysis in the files reviewed.

6.32 Options raised by the projects receive limited testing and exploration by the appraisers. We were told by the Agency this is because option appraisal takes place during the concept stage so options have already been explored when the project is submitted for full appraisal. This has also been identified by both CPRG back check and the Agency as an area for further development.

Benchmarking and sharing best practice

6.33 The Agency does not have a benchmarking strategy but it uses the PwC benchmarking on rates of return of investment. It commissioned an independent review of Best practice activity "Project and Programme Management Best Practice – Past and Future" and a project management development model with the purpose of informing future activity. It intends to develop and broaden project management training provision and replace the project management surgeries with a help desk.

6.34 Staff interviewed demonstrated an understanding of the processes for internal sharing of good practice. In 2007, the Agency developed Communities of Practice to look at evaluation, planning and risk drawing on experience from across the teams to investigate and share best practice. These communities comprise volunteer staff from across the sub regional teams who meet on a regular basis to share best practice from within their teams and learn lessons from others. The Special Projects team leads in the delivery of best practice updates to Agency staff and partners and their relevance and importance to developing better projects and meeting overarching objectives.

6.35 The Agency has benchmarked its project processes against the OGC PRINCE2 standards and has demonstrated them to be compliant and broadly comparable. The Agency led contributions on behalf of the Regional Development Agencies on the recent PRINCE2 update.

6.36 The Agency is a regular contributor to OffPAT developments and cross RDA working groups such as the Project Appraisers Group. The Agency has the second highest number of registered users of the OffPAT e-library and makes regular use of their training programmes in developing the performance of project and programme focused staff. The Agency has also worked with OffPAT to incorporate its work on market failure into the OffPAT training.

6.37 The Agency achieved Investor in People (IIP) status in 2005 and this was renewed in 2008, with further reassessment invited in 2011. In 2008, apart from achieving the required standard for IIP, it also exceeded the standard for the areas of strategic planning, stakeholder involvement and people management. The Agency's approach to using IIP champions received commendation from the external assessor.

6.38 The Agency uses the Alexa web information company to benchmark its website against other UK and global websites. This provides measures of UK and global traffic rankings, numbers of linked sites and time for the site to upload. The Agency (at 16 Dec 2009) ranks 19,371st in the UK and 388,658th globally; the next closest Development Agency was the London Development Agency at 35,408th and 597,094th.

6.39 The Project Management Development Model draws on best practice from external organisations to define job profiles for all staff working on projects. It then utilises a training needs analysis to identify gaps and develop personal training and development plans to ensure staff have a clear set of goals and objectives in developing their approach to their roles that are integrated with the wider aims and objectives of the Agency as a whole.

6.40 The Agency Board is regularly updated (quarterly) on the Agency's approach to benchmarking and best practice, including the results and response to the PwC report. The Board told us that the Executive has a well developed and integrated approach to developing and sharing Best Practice. For example, a Board paper reviewed demonstrated the Board examines critical issues in relation to the progress made against actions and milestones as well as financial implications and risks.

6.41 The Agency's Regional Intelligence Unit has recently undertaken a peer review of its regional evidence base through the Centre for Local Economic Strategies, Manchester. The primary purpose of this review is to identify any existing gaps.

6.42 The Agency undertook a review of the impact of each of the International Financial Reporting Standards on its accounting practices. This review was then circulated to all other RDAs to assist and direct their own reviews. This open and collaborative dissemination and efforts to build consistent good practice across the RDA network was highlighted by the NAO Financial Team during its audit of the Agency.

Efficiency and effectiveness in administration and programmes

6.43 The CSR 2007 required value for money savings of £116 million over three years from the Agency. These savings comprise a £56 million reduction in the Grant in Aid received from Government and £60 million in recyclable efficiency savings. The Agency's cash savings will be managed through existing budget monitoring processes and has been reflected in budgets published in its Corporate Plan 2009-11. The Agency undertakes zero based budgeting for its Corporate Planning process. The Agency has developed a VFM delivery plan to deliver the recyclable savings which are planned to be delivered through cash efficiency savings in activity across the Agency or partners or realignment of funding from areas of lower impact to areas of higher impact.

Figure 2: Comprehensive Spending Review 2007: Total Value for Money savings

£'000	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**Total**
CSR07 baseline	£401,140				
Grant in Aid reduction		£(9,756)	£(18,785)	£(27,857)	£(56,398)
Further Grant in Aid Reduction		£(7,006)	£12,435	£(78,790)	£(73,361)
Recyclable savings – VFM programme		£(10,051)	£(20,469)	£(30,073)	£(60,593)
Recyclable savings – admin savings		£(766)	£(1,532)	£(2,298)	£(4,596)
Savings required each year from 2007/08 Baseline		**£(27,579**	**£(28,351**	**£(139,018)**	**£(194,948)**

Source: NWDA

6.44 The Agency is on target to achieve the required efficiency targets set by HM Treasury, despite these having been revised in the light of reductions in its budget since the targets were set.

6.45 The Agency benchmarks its administration costs against the HM Treasury 10 per cent ceiling on administration and this will require a £3.3 million reduction in staffing budgets over the next three years. The Agency has imposed a recruitment freeze and is actively rationalising staffing structures to reduce headcount wherever possible. The Agency will reduce its expenditure by £81.6 million between 2008 and 2011, with a reduction of £8 million in its administration budget.

6.46 Although it remains willing to explore the use of shared services with other RDAs, at the time of this review, the Agency was not currently engaged in pursuing this but plans to in the future. The Agency has brought some services back in-house as a result of its reviews in order to make them more efficient and effective, for example payroll and legal services.

6.47 As part of its assistance to businesses, the Agency has agreed to pay all supplier invoices which are correctly presented within 10 days. The Agency has achieved eight day payment of invoices to all suppliers and this has been highlighted by HM Treasury as exemplary practice.

6.48 The Agency modelled a number of financial scenarios up to 2015 as its grant in aid budgets are not currently known past 2011. These consider a number of projects and potential commitments and the impact of budget reductions of up to 10 per cent, 20 per cent and 30 per cent on the Agency's ability to deliver against the longer term priorities.

Areas of good practice	**Areas for improvement**
• The Agency uses the average rate of return as the de-minimus for project development. • The Agency has developed a strong project office which supports both staff and external partners in project appraisal.	• The Agency should ensure that all appraisal files present an appropriately detailed analysis of the project information to ensure a consistently robust level of challenge. • The Agency needs to fully document all project options which are discussed at an early stage with applicants and draw this through appraisal documentation. • The Agency should consider bringing its benchmarking activities together into a single programme of activity.

Part Seven: Technical Appendix

Independent Supplementary Review Methodology

Background

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

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

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

Approach

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

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

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

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

7.7 The range of assessment scores against each question is:

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

Evidence

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

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

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

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

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

Consistency

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

- The assessments are of performance as at 23 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 four RDA reports and grades.

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