

Enterprise, Innovation and Network Committee

EIN(2) 03-06(p6)

Date: 7 June 2006

Venue: Committee Room 2, Senedd, Cardiff Bay

Title: EDT Health Check – update, recommendations and next steps

Purpose

1. To provide an update to the Committee on the health check of performance reporting systems.

Background

2. Internal Audit Service (IAS) were asked to undertake a review of the way in which economic development performance measures are compiled and used to influence decisions, in order that the new EIN Department could draw on best practice from across the three organisations and beyond.

3. The terms of reference for this review were provided to the Committee in September 2005 (as part of paper EDT(2) 11- 05(p.1)). An undertaking was given to provide an update to the Committee once the findings of the review were known.

4. The objective of the health check was to review the relevant systems and processes within EDT, WDA and WTB to ensure that the identification of costs and outputs of activities were appropriate and, as far as practicable, comparable so as best to inform decision taking and assessment of performance.

5. Within the scope of the review IAS gave consideration to the following aspects:

- i. the framework used to produce the criteria upon which Performance Indicators (PI) are based;
- ii. the methodology used in the collection of information to prepare PIs
- iii. the accuracy of the PIs produced
- iv. the reporting framework of PIs
- v. management evaluation of PIs and appropriate corrective action undertaken.

6. The health check did not cover current EDT transport functions, or in full the activities of WEFO, since these activities were seen as being relatively unaffected by the mergers process, and the activities of WEFO are subject to significant additional European audit requirements, independent of the merger.

Summary of IAS Findings

7. The Executive Summary of the IAS report is attached at Appendix A

8. In summary, IAS concluded that the reporting framework for performance indicators used in each organisation is robust and enables management to monitor performance and to take appropriate corrective action. Each organisation has a clear process to set targets, monitor them and report on achievements and is generally consistent year on year in its presentation of figures.

Specific Issues Raised by IAS and Proposed Actions

9. Terminology – IAS concluded that there are different "strata" of performance measures, from strategic to transactional, and each organisation uses differing terminology. For the future these will need to be harmonised so that everyone "talks the same language".

Response – Work is already underway to harmonise the terminology used across the new Department from key performance indicators, strategic targets, outcome indicators, outputs and so on.

Regulatory Environments

10. IAS concluded that there are different regulatory requirements operating in different parts of the organisations and it is possible that the new Department for Enterprise, Innovation and Networks will have to develop a capability to report on more than one basis.

Response – Several parts of the Department already report on more than one basis e.g. UK Trade and Invest basis as well as actual delivered basis. Reporting arrangements in other parts of the organisation are currently being reviewed, however, the ability to meet such reporting requirements will need to be retained.

Independent Verification

11. IAS concluded that the use of independent verification varies from organisation to organisation. WDA has initiated an annual external review and this seems to be a good feature. Such a practice could be an overhead if used indiscriminately but will add value if used sensitively. Some indicators are derived from independent economic sources and require no such verification.

Response – Independent verification will be continued and rolled out where appropriate.

Support Structures

12. IAS concluded that each organisation has developed support structures to suit its own needs. WDA seems to have developed the most all-embracing approach and that needs careful consideration as a model for wider use. Even if the model as a whole is not used we note the dedicated IT system, the clear definitions and central guidance and the universal application as strong features that should be valued.

Response – The dedicated IT system will be extended to other appropriate parts of DEIN, and the practice of clear definitions and comprehensive control guidance will be continued and built upon.

External Reporting

13. IAS concluded that there are different approaches to external reporting. WDA and WTB use interim and annual reports in a more aggressive way than EDT. EDT tends to adopt a more low key approach to its own output performance and instead has allowed "A Winning Wales" to take the higher focus.

Response – As previously stated, there will be no reduction in openness due to the merger. EIN half year and Annual Reports will now be produced for the new Department as part of the Committee cycle.

Bases of Measurement

14. IAS concluded that there are some detailed areas where the basis of measurement varies from organisation to organisation. These are sustainable when the three organisations are separate but will need to be addressed in looking forward to a single merged organisation.

- some use up to date actual figures and some use the forecast of figures at the time a project is given the go-ahead. This applies to both jobs and expenditure;
- where a project is assisted by two of our organisations each may validly record some element of job creation or private sector capital leverage. Because of differing methods of calculation in the organisations, crudely adding together the outputs would overstate the actual economic result;
- WDA and WTB apply different methods to pro rata job creation where they jointly fund with another public body. RSA and WEFO do not pro-rata since they adopt conventions from their different legislative sources;
- The organisations each use different methods to calculate private sector investment leverage; and
- a minority of areas use proxy measures for job creation and the basis for such proxies requires challenge.

Response – The conclusions of IAS on the different bases are fair but the solutions are far from straightforward. The different approaches reflect the different regulatory environments and operational needs, as well as inherent difficulties in measuring the outcomes sought.

15. In the short term, the different bases will be clearly disclosed in forecasts and results and where harmonisation can be quickly achieved this will be addressed. On the specific reference to proxy measures, this is limited to a single programme which has an immaterial impact at the corporate level. For PSI, although differences are recognised these have very limited impact.

16. In addition, work is being undertaken to develop key performance indicators for business-facing services for the new Department, assisted through close consultation with business representative

groups. A framework for performance tracking is being developed with four primary areas;

<p style="text-align: center;">Macroeconomic Indicators</p> <p style="text-align: center;">An understanding of the broad direction of the Welsh economy</p>	<p style="text-align: center;">Outputs Indicators</p> <p style="text-align: center;">An understanding of the success of interventions by the Enterprise Innovation and Networks Department.</p>
<p style="text-align: center;">Customer Service</p> <p style="text-align: center;">An understanding of customer perception of the services delivered by the Enterprise Innovation and Networks Department</p>	<p style="text-align: center;">Internal Business Indicators</p> <p style="text-align: center;">An understanding of the profile of human resources to deliver our business</p>

17. This is work in progress until it has been possible to determine baseline indicators and test the framework validity.

18. Finally, preliminary research is being carried out to explore client-centred performance monitoring, with particular consideration to GVA and return on investment tracking. Such a development would be a departure from traditional project-based monitoring and would have implications for business processes and would involve research, consultation and system development over the medium term.

International Reporting

19. As part of its scope, IAS reviewed the WDA International Division’s reporting, as this had been a catalyst for this wider review. The full extract of the IAS report on this issue is contained at Annex B. In summary, IAS concluded that the performance measures with the scope of the IAS review were not distorted by the findings of the International Division Review. The International Review findings related to internal costings within WDA rather than the publicity quoted output performance.

Action for Enterprise, Innovation and Networks

20. The Committee is invited to note this update.

Andrew Davies
Minister for Enterprise, Innovation and Networks

Contact Point: Tracey Burke, Strategy and Review, Ext. 8297

Annex A

Executive Summary EDT Performance Reporting Health Check

1. This exercise has been carried out as a high level review and has not tested the underlying systems in detail. However, we have carried out a good survey of the territory and discussed our findings with management and they have largely validated them.

2. The objective was to assess the robustness of the key indicators within the WDA, WTB and parts of EDT in respect of:

- job creation and safeguarding
- grant expenditure and private capital leverage

and in WTB Return on Investment from marketing campaigns. We need to bear in mind that this review is only looking at part of the whole. These PIs cover only a part of each organisation's objectives.

3. We are satisfied that, overall, the reporting framework for PIs used in each organisation is robust and enables management to monitor performance and to take appropriate corrective action.

4. Each has developed a style and approach in accordance with its organisational culture and its legislative environment.

5. Each organisation has a clear process to set targets, monitor them and report on achievements.

6. Each organisation has taken a close lead from "A Winning Wales" and is generally consistent year on year in its presentation of figures.

7. There are different "strata" of performance measures, from strategic to transactional, and each organisation uses differing terminologies. For the future these will need to be harmonised so that everyone "talks the same language".

8. There are different regulatory requirements operating on different parts of the organisations and it is possible that the new Department for Enterprise, Innovation and Networks will have to develop a capability to report on more than one basis.

9. The use of independent verification varies from organisation to organisation. WDA has initiated an annual external review and this seems to us to be a good feature. Such a practice could be an overhead if used indiscriminately but will add value if used sensitively. Some indicators are derived from independent economic sources and require no such verification.

10. Each organisation has developed support structures to suit its own needs. WDA seems to have developed the most all-embracing approach and that needs careful consideration as a model for wider use. Even if the model as a whole is not used we note the dedicated IT system, the clear definitions and central guidance and the universal application as strong features that should be valued.

11. There are some detailed areas where the basis of measurement varies from organisation to organisation. These are sustainable when the three organisations are separate but will need to be

addressed in looking forward to a single merged organisation.

- some use up to date actual figures and some use the forecast of figures at the time a project is given the go-ahead. This applies to both jobs and expenditure;
- where a project is assisted by two of our organisations each may validly record some element of job creation or private sector capital leverage. Because of differing methods of calculation in the organisations, crudely adding together the outputs would overstate the actual economic result;
- WDA and WTB apply different methods to pro rata job creation where they jointly fund with another public body. RSA and WEFO do not pro-rata since they adopt conventions from their different legislative sources;
- The organisations each use different methods to calculate private sector investment leverage; and
- a minority of areas use proxy measures for job creation and the basis for such proxies requires challenge.

12. There are different approaches to external reporting. WDA and WTB use interim and annual reports in a more aggressive way than does EDT. EDT tends to adopt a more low key approach to its own output performance and instead has allowed "A Winning Wales" to take the higher focus.

13. The EDT Merger Programme has identified performance measurement as a critical issue and preliminary work has been undertaken on the issues and priorities. Whilst it will be for the EDT Director to determine precisely how the recommendations in this report on areas for improvement will be taken forward, it is envisaged that this will require project working across the Department, in particular the Policy and Strategy Team and Corporate Services.

Annex B

Extract from IAS Review Regarding International Reporting

1. It is worth considering here the review by WDA of its International Division between February and May 2005, reported to the Minister on May 25th 2005. This review initially identified that output performance was not necessarily being matched to the true underlying areas of activity that was driving the achievement of outputs. It also noted a discrepancy in the apparent "cost/effectiveness" of the parts of the WDA that were affected. In our view this is evidence of an active management approach that has challenged the status quo and has thought through the consequences in respect of how to report the achievements. It also indicates a willingness to get to grips with the real cost base and the results generated.

2. Generally, in all the performance measures within this exercise the cost measures are stated in terms of programme expenditure rather than the "delivery" cost within the organisation (for staff, premises, IT etc). This is so because there is no universally accepted mechanism to attribute such costs to output activity with accuracy and this is the case generally within the UK. Accordingly the overall administrative cost of an organisation is set as a quite separate target that is measured in the annual accounts and verified in the statutory audit process.

3. The nature of the International Division Review is a normal part of the remit of organisational management and happens in all organisations from time to time. We are able to state, however, that the performance measures within the scope of this exercise were not distorted by the findings of the International Division Review. Its findings related to internal costings within WDA rather than the publicly quoted output performance.