

Economic Development Committee

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The National Assembly for Wales

**The Welsh Development Agency
Quinquennial Review**

7 February 2001

KPMG

This report contains 90 pages

Appendices contain 27 pages

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1 Executive Summary

1.2 Introduction

This report to the National Assembly for Wales describes the outcome of stage two of the first Quinquennial Review of the Welsh Development Agency. Its scope and the methodology we employed is described in section 2 which explains its focus on strategic effectiveness and corporate governance issues.

We acknowledge the input of those who contributed to the consultation exercise which formed the major part of the review exercise. We have sought to reflect as many of the views expressed as was practical whilst also being mindful of the inevitable subjectivity this approach can convey.

During the conduct of our review, it was evident that a number of organisational and operational changes were either in train or planned as a consequence of the recent appointment of a new Chief Executive Officer. There was also an expressed desire for a sea change in the working relationship between the Welsh Development Agency and the National Assembly for Wales. Insofar as we have been aware of these changes, we have sought to recognise them in this report although their ongoing nature has not made this possible in all cases. We acknowledge that a number of the recommendations which flowed from our work may have been overtaken by events. The review has also coincided with the development of the National Economic Strategy for Wales and the National Assembly Economic Development Committee's Review of Business Support and Development Services. We understand wide consultation on both will begin in early February. While draft versions of both documents have been in the public domain for some time, there may be some inconsistencies between this report and the final versions of those consultation papers.

In conducting this review, KPMG has endeavoured to obtain a balanced view of the WDA's achievements and those areas in which its effectiveness might be improved. The nature of this exercise dictates that the focus tends to be on identifying areas for improvement rather than on describing what has been done well. However, the review has revealed a very positive attitude towards the Agency and a widespread acknowledgement that, without its considerable efforts during the last quarter of a century, Wales would be in an even less favourable position to exploit the opportunities now available to it.

1.3 Summary

The WDA is regarded as a well-respected and effective organisation with a dedicated staff whose achievements – particularly in inward investment, land reclamation and environmental improvements – have made a significant contribution to the changing face of Wales. There is a consensus among those with expertise in the field that, in the absence of considerable efforts made by the WDA, Wales would have coped significantly less well with the fundamental economic restructuring it has experienced and continues to face. The review revealed that attention to some key areas would improve the WDA's strategic effectiveness ensuring that it continues to wield considerable influence in the economic development sphere, working in partnership to deliver the National Assembly's aspirations set out in www.betterwales.com and *Putting Wales First: A Partnership for the People of Wales*.

The key issues identified in the body of this report are:

strategic and corporate planning – in which the National Assembly for Wales needs to continue to work on clarifying its role as a means of strengthening its relationship with the WDA and where the Agency should adopt an inclusive process of consultation to inform its planning;

structure – where the WDA needs to consider the development of procedures to assist future effectiveness in operations of the Board as well as the balance of activities between the regions and the centre;

communication – within the WDA and with external organisations, both of which could be more effective.

There are specific issues in respect of individual functions within the WDA which we do not intend to revisit here but to which we attach equal importance.

2 Introduction

2.2 Background to the review

On 10 May 2000, the National Assembly for Wales' Minister for Finance, Local Government and Communities announced the forward programme of Quinquennial Reviews of fourteen executive Assembly-sponsored public bodies (ASPBs). Such reviews, conducted in line with guidelines issued in May 2000 by the National Assembly, examine whether there is a continuing need for the functions of the body under review and, if so, what improvements might be made to its strategic effectiveness and accountability. The Welsh Development Agency (WDA) was one of four such bodies scheduled for review in the 2000-2001 financial year.

Subsequently, the National Assembly decided that the review would be conducted in two stages, the first of which – concerning the functions of the Agency and the appropriate organisational structure – was completed, in September 2000, by Jonathan Price of the Assembly's Economic Advice Division. The core recommendations (ie a-d) in his Interim report (summarised at appendix 1) were endorsed by the First Minister and the Minister for Finance, Local Government and Communities. They confirmed that the key functions performed by the Agency remain necessary and that those functions should continue to be carried out by an Assembly-sponsored public body. KPMG was commissioned to undertake the remaining work necessary to complete the review and this report summarises the outcome of that work.

2.3 Terms of reference

The terms of reference which governed the review are at appendix 2. Those relating to the strategic effectiveness and corporate governance elements were drafted in light of the recommendations made in the Interim report and agreed by the National Assembly's Economic Development Committee. The review was also conducted in line with guidance issued by the National Assembly¹ which emphasises:

the performance of sponsored bodies in the context of their plans and their contribution to the Assembly's strategy, targets and values;

the quality of service, strategic intervention and partnership delivered by the sponsored body;

the views of stakeholders, customers and staff;

the delivery of a forward-looking approach which adds value to the effectiveness of the body.

¹ Quinquennial Reviews of Executive Assembly Sponsored Public Bodies (May 2000)

2.4 Methodology

The aim of the quinquennial reviews is to strengthen the National Assembly's relationship with its sponsored bodies and to deliver better, simpler government. KPMG's approach was designed to focus on those issues of accountability, effectiveness and securing continuous improvement critical to good governance and encompassed:

A desk top review of strategies, plans and other documentation – listed at appendix 3 – together with some original research benchmarking the Agency against other bodies;

A series of 98 face-to-face consultations with WDA and National Assembly staff, politicians and stakeholders – listed at appendix 4;

Invitations to submit written comments – also listed at appendix 4;

A web-based consultation on the National Assembly's site to engage as many people as possible in the exercise.

The interviews were structured around a series of questionnaires designed to ensure consistency in the approach of the consultants involved but also to gather information on the Agency's business from five perspectives – strategic, operational, functional, partnership working and corporate governance. This report is structured to cover each of these perspectives individually – although they will inevitably overlap at times – and continues in the following sections:

Section 3: the Welsh Development Agency – an overview

Section 4: strategic context

Section 5: operational analysis

Section 6: functional analysis

Section 7: partnership issues

Section 8: corporate governance

Section 9: benchmarking

Section 10: conclusions and recommendations

Appendices

2.5 Other reports

There are a number of other reports (by the Welsh Affairs Committee, the National Assembly's Audit Committee and the Auditor General for Wales) about the WDA and its operations as well as ongoing work by the National Assembly's Economic Development Committee on the Review of Business Support Services. We have not sought to duplicate the work undertaken to inform those studies but have made reference to them where appropriate to support or contrast views expressed during the Quinquennial Review.

3 The Welsh Development Agency: an overview

3.2 Statutory framework

The legal basis under which the WDA was established and operates was described in the interim report but is restated here for the sake of clarity and completeness. The Welsh Development Agency Act, 1975 as amended by the Industry Act, 1980 and the Government of Wales Act, 1998 (which effected the transfer of the functions of the Development Board for Rural Wales and the Land Authority for Wales to the Agency) established the WDA to:

- further the economic and social² development of Wales or any part of Wales and in that connection to provide, maintain or safeguard employment;
- promote efficiency in business and international competitiveness in Wales;
- further the improvement of the environment in Wales (having regard to existing amenity).

The functions which the Agency is mandated to undertake to further these aims are:

- to promote Wales as a location for businesses or assist or concert its promotion as such a location;
- to provide finance for persons carrying on or intending to carry on businesses;
- to carry on businesses and to establish and carry on new businesses;
- otherwise to promote or assist the establishment, growth, modernisation or development of businesses, or a particular business or particular businesses;
- to make land available for development;
- to provide sites, premises, services and facilities for businesses;
- to manage sites and premises for businesses;
- to bring derelict land into use or improve its appearance;
- to undertake the development and redevelopment of the environment;
- to promote the private ownership or interests in businesses by the disposal of securities and the property held by the Agency or any of its subsidiaries.

Specific legislative provisions relating to the Agency's land functions, performed previously by the Land Authority for Wales, are set out in schedule 13 to the Government of Wales Act and describe the following:

- to acquire land by agreement or compulsorily (in the case of the latter, if authorised to do so by the First Minister);
- before acquiring land to –
 - consider whether the land would or would in their opinion be made available for development if they did not act;
 - consider the fact that planning permission has or has not been granted in respect of the land or is likely or unlikely to be granted;

² The WDA's responsibility for social development was outside the scope of this Review

(in a case where no planning permission has been granted in respect of the land) consult every relevant local authority;
consider the needs of those engaged in building, agriculture and forestry and of the community in general;

shall not dispose of land for less than best value other than with the consent of the First Minister;

if requested to do so, advise public authorities about disposing of any of the Authority's lands in Wales and assist the authority in disposing of the land;

assist local authorities, joint planning boards or National Park authorities in making assessments of land in their areas which is available and suitable for development;

notify local authorities of compulsory purchase orders so that they have the opportunity to object;

any register of acquisitions, holdings and disposals of land may be open to public inspection.

Within this broad statutory framework, the WDA is expected to conduct its business in line with the expectations of the National Assembly for Wales and set out in the Agency's corporate and business plans.

3.3 Organisational change

The WDA experienced major structural changes following its merger, on 1 October 1998, with the Development Board for Rural Wales (DBRW) and the Land Authority for Wales (LAW). The statutory powers reflect that merger, the objective of which was *to enable the enlarged Agency to achieve more effective and efficient delivery of its economic development services across the whole of Wales, a major part of which has been and continues to be the Agency's support for indigenous businesses*³. Underlying this objective were four aims:

a stronger regional presence for the new Agency and stronger links with regional partnerships;

a more effective and co-ordinated way of dealing with land, sites and premises for development;

savings in running costs by stripping out duplication from the functions and associated overheads of the three merged organisations; and

to provide business as usual through a period of substantial change.

The National Assembly's Audit Committee concluded that the Agency, the DBRW and LAW substantially achieved their aims in managing the merger. The Report commended the considerable effort and commitment of the staff of the three organisations in contributing to the successful implementation of the merger. The Committee further

³ The National Assembly for Wales, Audit Committee: Report 00-06, Welsh Development Agency – the Creation of the Enlarged Agency and the Agency's Support for Indigenous Businesses in Wales (presented to the Assembly November, 2000)

concluded that the merger provided the Agency with an opportunity to consolidate its strategic relationship with the Assembly and to improve its operational relationships with its business partners. This report of the Quinquennial Review identifies several issues in respect of the Agency's strategic and operational relationships which the National Assembly and the WDA may wish to address.

3.4 Activities

The WDA's day-to-day activities have developed over time in the light of strategic guidance issued annually by the National Assembly for Wales. Those activities now comprise:

Regeneration – land reclamation rectifying physical and contamination hazards; preparing land for development by indigenous businesses and inward investors; environmental improvements, renewal programmes which enhance the economic and commercial prospects with the objective of sustaining communities;

Business infrastructure – strategic site assembly and development; provision of advance premises and supporting the upgrading of telecommunications in rural areas. The Agency also provides bespoke buildings for key established businesses, mainly in joint ventures with the private sector;

Inward investment – the attraction, retention and expansion of inward investors through marketing and lead generation;

Business development – to promote business growth, innovation and competitiveness through the provision of a series of programmes to access finance and markets; encourage the transfer of technology and innovation; promote the use of new media, modern communications and information-based activities. In 1998, the Agency was also given specific responsibility for supporting the agri-food sector;

Enterprise development – although the responsibility for enterprise support was transferred to the training and enterprise councils in 1991, the Mid Wales Division of the Agency (the former DBRW) continues to provide enterprise support in its area of operations. In addition, the Agency – at the direction of the National Assembly – has recently been involved in developing a strategy and implementation plan for Entrepreneurship;

Support for other bodies – the WDA also provides financial support to other organisations directly involved in the provision of support for indigenous businesses such as the Wales Co-operative Centre, Menter a Busnes and Business Connect.

3.5 Structure

These activities are delivered through:

four regional operations – North, Mid, South East and South West Wales;

three all-Wales teams – Business and Product development, International and Marketing Division and the Land Division;

three central support functions – the Strategic Policy Unit, Human Resources and Finance and the Legal Department.

In addition, Finance Wales PLC has recently been established as a wholly owned subsidiary of the WDA and operates its finance and management support programmes.

Appendix 5 describes the overall structure in more detail.

4 Strategic issues

4.2 Strategic planning context

The WDA's activities are informed by its corporate and business plans which define the Agency's activities against its annual budget. Historically, the corporate planning process has been informed by a strategic guidance letter issued annually by the First Minister and, previously, by the Secretary of State for Wales. Traditionally, that guidance identifies the principles under which the Government expects the Agency to operate and the expected focus of its activities. Targets which the Agency is expected to deliver for key activities are now set through a separate exercise (appendix 6). The process involved in finalising the guidance and targets includes consultation between National Assembly officials and the WDA's senior management team in addition to debate in the Assembly's Economic Development Committee.

The WDA's Strategic Policy division is dedicated to the development of the Agency's policies, plans and programmes. It analyses economic trends to ensure that account is taken of EU developments and rural needs and develops policies to tackle the range of economic and development issues facing Wales. Its functions include ensuring that the Corporate and Business Plans take account of the priorities of each region and reviewing and evaluating the WDA's programmes in the context of its strategic targets.

The advent of the National Assembly for Wales has meant that the WDA is now expected to operate within the frameworks set out in a number of policy documents notably www.betterwales.com, the Assembly's first strategic plan published in May 2000. It sets the long-term policy agenda and the main actions which underpin it in the context of the three guiding principles of sustainable development, tackling social disadvantage and equality of opportunity. The Assembly's values include commitments to act strategically and work in partnership, promoting inclusivity and good government and there is an expectation that its partners will also operate within the framework set out in *betterwales*. The Plan identifies the strengths and weaknesses in the Welsh economy and sets out benchmarks for 2003 and 2010 as measures of success. The WDA has a stake in a number of these benchmarks (appendix 7).

In addition, the Single Programming Document (SPD) for the Objective 1 area⁴ sets out the aims and strategy of the Welsh European Partnership for the economic, social and environmental regeneration of West Wales and the Valleys over the period 2000 to 2006. It is designed to complement the National Economic Development Strategy (NEDS) and encompasses three principal targets – growth in GDP per head, employment growth and increased economic activity.

The Assembly has informed us that, at the time of writing this report, it is poised to launch a major consultation on the policy framework within which the revised NEDS should be set. The exercise is expected to ask some fundamental questions about the direction of policy and the targets proposed in www.betterwales.com. In the light of this consultation, it is intended that a full strategy, with an implementation plan, detailed costings and targets, will be finalised and published by the summer to give direction to the corporate plans of bodies such as the WDA and Wales Tourist Board.

Alongside these policy documents, on 6 October, 2000, the National Assembly published *Putting Wales First: A Partnership for the People of Wales*, setting out the principles and policies which will guide the programme of the coalition government in Wales.

⁴ The Economic and Social Regeneration of West Wales and the Valleys

Committed to the creation of an enterprise economy, the Agreement recognises that the development of a strong, vibrant indigenous business sector is critical to bridging the prosperity gap between Wales and the rest of the UK. The WDA has recognised the significance of this policy statement in its corporate plan.

4.3 Consultations

4.3.1 Performance

Overall, the consultations confirmed the views expressed in the Interim Report, revealing a positive attitude towards the WDA which many believe has made an excellent contribution to economic development, particularly in the areas of inward investment, land reclamation and environmental improvements. In addition, the commitment and dedication of WDA staff in continuing to deliver through significant structural change were acknowledged. It is particularly noteworthy that the success of the establishment of the enlarged Agency in 1998 is widely acknowledged to be largely attributable to the performance of the staff. In that regard, it was felt that there should be no further radical change and that the Agency should now be left alone to “get on with the job”. It was recognised that the WDA, which has worked hard to develop a strong brand identity, has been a key player on the economic development scene both domestically and internationally.

The fact that a significant proportion of Wales has qualified for Objective 1 funding shows that the key functions performed by the Agency remain necessary. It must be acknowledged that the WDA is only one of a number of agencies responsible for influencing economic development and that it, in common with those other agencies, must work within the constraints of macro-economic policy set at Westminster.

Notwithstanding the generally very positive view about the WDA and its achievements, a number of consultees commented on a strained relationship between the Agency and the National Assembly which evolved from a report by the Public Accounts Committee (PAC) in 1992 expressing concern about the organisation’s governance arrangements. Notwithstanding that the WDA has moved on since then (and that this was reflected in a later report by the PAC), the Agency continues to be judged on the strength of those events. The significant improvements made to the WDA’s governance in the intervening eight years, and reflection within the Corporate Governance section of this report, need to be acknowledged for a more positive relationship to develop.

Whilst we discuss the relationship issue in more detail in section 7, it is mentioned here because it is seen as a significant factor in the strategic planning and target-setting processes that underpin performance. It was represented to us that there is a lack of strategic focus within the Agency and that this is related to:

a lack of clarity in respect of the respective roles and responsibilities of the National Assembly and the WDA, the favoured resolution to this issue being that the National Assembly should develop strategy with the WDA acting as its implementation arm;

the organisation having to react to short-term (often political) pressures as new policies, programmes and initiatives are rolled-out (the Objective 1 programme is a prime example of this). It is difficult, in these circumstances, to reflect changing priorities in the strategic guidance and targets and to create programmes likely to have a lasting and sustainable effect;

the strategic guidance and target setting exercise encouraging a particular behavioural approach to conducting business – characterised as “chasing numbers” – and concentrating as they do on short-term returns with no reference to quality or to how the measures address the GDP gap, the key indicator of economic performance. It is difficult to prioritise projects and the WDA struggles to marry its qualitative objectives – for example, on participation and added value – with the quantitative targets set by the Assembly. Ultimately, setting such quantitative targets year-on-year was seen by many as self-defeating and irrelevant, evidenced by the fact that a significant proportion of Wales has attracted Objective 1 status;

annual targets are inappropriate for many programmes and initiatives which deliver medium- to long-term benefits and for capital projects which are implemented over several years, affecting plans, budgets and outcome measurement. For some projects, expenditure will have been incurred in a previous year but is counted against current targets. The spatial development perspective demands the development of separate and distinct targets for different parts of Wales but there is a risk that the distribution of resources equally across the country will spread them too thinly and result in the loss of investment projects;

the philosophical basis under which the WDA must operate because of its quasi-commercial function and the supporting management framework are at odds with the strong public sector ethos of the Assembly which is nervous about allowing the Agency to operate as a semi-private organisation. This suggests that the Assembly is too involved in the operational detail of the WDA’s business while at the same time struggling to service the demands of subject committees and develop a policy agenda specific to Wales with the limited resources at its disposal. Consequently, there is a lack of trust between the two organisations.

The balance of opinion favoured a more focused strategic approach to the WDA’s core business activities within a framework set by the National Assembly in consultation with partners. In this regard, the lack of an overarching economic development strategy was cited as a major problem in long-term planning, not only for the WDA, but for all involved in economic development. As a consequence, activities intended to address poor economic performance are uncoordinated across Wales. Whilst it was acknowledged that the National Economic Development Strategy (NEDS) presents an opportunity to address the strategic hiatus, there was concern that its targets might not be sufficiently long-term and informed by evidence-based research to make a difference. In addition, there is a sense that the NEDS will need to give a clearer direction on how the cross-cutting themes can be integrated with other priorities.

Whilst it was felt that NEDS would be a useful tool in underpinning performance measurement, the need to improve the relationship between the WDA and the National Assembly was also thought to be critical to improving clarity of purpose, strategic direction and the focus of activities. If the Agency is to operate as a quasi-commercial organisation – the rationale for its status as a sponsored body – it must have realistic goals and targets which reflect genuine returns and which acknowledge the need for the organisation to be innovative and take risks. It must also be able to cascade those targets down to operational level so that, for example, it translates its contribution to improving GDP into a set of smaller objectives and outputs that contribute to the overall aim but which individual WDA staff members can work towards and promote.

Notwithstanding the perceived difficulties in the strategic relationship between the National Assembly and the WDA, there was widespread acknowledgement of the effort expended on *Promoting Prosperity*, the 2000-2003 Corporate Plan and the extensive consultation into which the WDA entered before finalising it. The formation of an independent Economics Panel to inform the plan was welcomed although the lead role here was seen as one for the National Assembly given its overall responsibility for economic policy. It was clear that those within the Agency closely involved in the Corporate Plan believed it to be a significant step forward in identifying the problems and actions needed but that they had encountered significant difficulties in attracting “buy-in”.

Some of the reasons for these difficulties were revealed by WDA staff who felt disenfranchised from the planning process - discussed in section 4 of this report – and other consultees outside the Agency who felt not only that it had ventured outside its remit but also that the Plan:

- fails to recognise regional variations;
- does not acknowledge local priorities;
- responds only to the needs of South East Wales;
- does not set out the relationship between the analysis and the proposed activities which do not relate clearly to objectives and targets.

The wisdom of an annual re-draft of the plan was questioned.

4.3.2 Structure

There was a consensus that, to be effective, the WDA should retain its executive ASPB status, operating commercially at arm’s length from the National Assembly. It was believed that this should allow the Agency to respond more quickly and effectively to business needs, to take risks and to test innovative solutions to problems. The Board is an integral part of this commercial ethos, providing a useful forum to bring together individuals with a range of interests and experience who can help to set the Agency’s strategic direction, decide on priorities within the framework set by the Assembly and ensure that the WDA is meeting its objectives. The Board was also seen to have a relationship role – building links with partners, including the business community and, crucially, with the Council for Education and Training in Wales.

Against this ideal, it was widely acknowledged – within as well as outside the Agency – that the Board does not function as effectively as it could:

- the Board’s relationship with the National Assembly – particularly the Economic Development Committee – needs to be clarified;
- the Board is too concerned with operational issues partly because of the inadequacy of delegated authorities from the National Assembly and of internal delegations. This must get in the way of the ability to have a strategic focus and contribute to the prioritisation of the Agency’s activities;

the very recent appointment of seven new non-executive directors brings the board complement to its delegated maximum (14). It is acknowledged that to

contribute most effectively to the achievement of the Agency's objectives criteria for board membership should reflect experience and skills in the most relevant sectors and areas. Our consultations have echoed this requirement, and the need for "heavyweight" representation is widely accepted as an imperative. It is this emphasis which should determine the need for, and the number of, board members.

ethnic minority representation needs to be encouraged more proactively, particularly given the lack of a voice for ethnic minority communities in the National Assembly and their contribution to economic development;

one of the key functions of the Chairman is providing effective leadership in representing the views of the Agency, and its responsibilities to business and industry, to a diverse group of outside interests and the wider general public. The effectiveness of the Chairman's representative role is also widely acknowledged as being imperative to the Agency's activities in raising the profile of Wales as a successful business location, both nationally and internationally.

We understand how it is important for this role to be within the Chairman's terms of reference and that it should complement, but not duplicate, aspects of the Chief Executive's role. In the past, there may have been some misperception externally over the respective roles and responsibilities of the Chairman and Chief Executive in the area of public relations. However, we are aware of their current confidence in the soundness of their working relationship and that this should continue to develop in such a way as to avoid the potential for any such situation arising in the future ;

it has been represented to us that staff would appreciate a closer engagement with Board members and the Chief Executive is considering how this might best be addressed.

4.3.3 Research, monitoring and evaluation

The WDA conducts research and economic analyses intended to inform its support activities, identify business needs and market opportunities. Its approach to the 2000-2003 corporate plan mentioned in section 4.2.1 provides some evidence of this. However, as already intimated, the consultations suggested that the planning process is not founded on evidence-based research specifying the actions needed to address economic problems, linking short-, medium- and long-term targets with the budget and incorporating robust monitoring and evaluation arrangements. Furthermore, the Agency's approach to evaluation was widely criticised as being a "tick box" exercise rather than an integral part of good management (although it does have a rolling programme of studies conducted by independent consultants and overseen by the Strategic Policy Unit). A number of comments were made about the importance of linking the research and evaluation function with marketing as well as with an effective management information system such that there is an information cycle to inform strategy and focus activities. The Economic Development Committee's report on business support services recommends that early action is taken to address this research gap, with the Assembly taking the lead in developing a multi-agency programme aimed at improving the evidence-base for policy development and further progress with NEDS.

4.3.4 Communication

There are two main aspects to the communication issues which arose during the consultation process. We discuss here the human resource perspective; operational aspects are covered at section 5.2.3.

From the human resource perspective, we understand that the WDA utilises a range of mechanisms – including team briefing sessions, an intranet and staff magazine – to engage and inform staff. Relationships at an individual level can be very good. Nevertheless, the perception is widespread that communication is not as effective as it should be although this can be difficult in an organisation with multiple offices. An internal communications’ strategy setting out how staff are to be consulted on, and informed of, decisions affecting the organisation and them as individuals could be helpful, improving relations between senior managers and staff as well as securing “buy-in” to the implementation of decisions.

5 Operational analysis

5.2 Background

This section concentrates on the views of operational staff (ie those below the senior management team) on a range of strategic and operational issues. It also explores the tensions between the regional approach to service delivery and the more centralised functional approach.

5.3 Consultations

5.3.1 Strategic planning

We have already indicated that staff at operational level did not demonstrate ownership of the corporate plan which is widely viewed as a document imposed from the top having little relevance to many of the Agency's activities. As a consequence, it takes no account of regional economic variations and priorities. It is difficult to align functions and regional operations with the four strategic priorities – internationalisation, increasing added value, increasing participation and developing enterprise – such that a significant proportion of staff do not see where they fit in with the overall strategy. There was widespread agreement that too much emphasis is placed on quantitative targets which do not properly measure the WDA's contribution to improving the Welsh economy and that more sophisticated, qualitative output measures which assess the long-term benefits need to be agreed. It is only through such a mechanism that the Agency can be sure that initiatives respond to real needs, certainly over the longer term.

These problems are compounded by the fact that the strategic plan does not link into implementation. There is a gap between the big picture of the strategy and the detail in the budgets. There is a lack of confidence in the business planning process which encompasses a list of projects with no cross-divisional challenging of what is proposed to establish the effectiveness of programmes and schemes. People felt that the plan evolved reactively to projects, rather than being driven proactively by programmes.

The draft 2001 Corporate Plan includes a section showing how the WDA's activities link to the objectives of www.betterwales.com (and acknowledges the importance of the coalition government's partnership agreement)⁵. A similar section showing the WDA's objectives and which programmes contribute to each of them would enable:

individuals to see where they fit into the big picture;

the WDA to identify gaps in the services it currently delivers, and which programmes no longer fit with its long term goals.

Some Agency staff are concerned that their activities and programmes are not afforded sufficient recognition in the corporate plan and, consequently, are concerned about their position within the organisation. This includes programmes like urban regeneration and land reclamation, whose activities provide the right environment for development but which may have no directly measurable economic impact. The senior management team has expressed its desire to implement a more inclusive process to achieve buy-in to the corporate plan throughout the organisation.

⁵ Putting Wales First: A Partnership for the People of Wales (6 October, 2000)

5.3.2 Structure

Section 3 of this report described briefly the WDA's operational structure which is based upon a number of central functions and four regional divisions covering North, Mid, South West and South East Wales. It was clear from the consultations that, as with other organisations, there are some tensions between a functional and regional division of responsibilities (summarised in figure 1). It was equally clear from the consultations that views within the WDA on the balance of responsibilities between the regions and the central divisions vary – some believe that the regions have too much autonomy and that this risks losing the all-Wales perspective whilst others argue that the management of too many programmes is centralised leading to confusion about responsibilities and a lack of understanding about regional imperatives. There was a view that, whilst the WDA needs a core of professional functional staff at the centre to drive quality, value for money and consistency, the regional operations have more effective partnership arrangements to support local delivery close to the customer.

Figure 1: comparative analysis of functional and regional divisions of responsibilities

	Advantages	Disadvantages
Functional split	<ul style="list-style-type: none"> Facilitates specialisation Programmes are easier to manage Easier to develop and work to best practice Facilitates consistency of procedures and policies Supports coherent all-Wales action plans Supports quality control 	<ul style="list-style-type: none"> Risk of ignoring local needs and priorities Limits cross-functional evaluation and analysis May stifle debate and consultation between functions Reduces co-operation between teams
Regional split	<ul style="list-style-type: none"> Supports local solutions to local problems Facilitates partnership working Local delivery close to the customer – more focused on needs Holistic approach 	<ul style="list-style-type: none"> Risks the development of local procedures which may not be best practice Loss of all-Wales perspective Customer confusion if different services are offered in different areas Major projects – with potentially the most impact - are more difficult to implement. Fragmentation of budgets has led to a reduction in flexibility Loss of expertise and experience Potentially compromises quality control

There is some confusion about the rationale underlying operational decisions on the development and location of new programmes and initiatives which is most evident in the business development function. The senior management team has recognised the

implications for the WDA pending the recommendations of the National Assembly's Business Support Review, the transfer of the enterprise function from the Training and Enterprise Councils on 1 April 2001 and the Agency's current activities in support of Business Connect and the Entrepreneurship Implementation Group.

5.3.3 Communication

The development of effective communication within the organisation has, at least in part, been left to the commitment, goodwill and personalities of individual staff. There are examples of problems caused by poor communication between different sections of the Agency.

At the operational level, whilst staff are seen as committed to their jobs, there is a lack of understanding (and even knowledge) about what others in the organisation are doing which might support their role through, for example, best practice. It is clear that individuals within the Agency are enthusiastic about what they are doing, especially the programmes upon which they work. This can lead to "silo thinking" where that function or programme becomes the most important thing, with the risk of losing goal congruence.

Accepting the difficulties which many organisations operating across multiple sites experience, the current structure does not aid effective communication and there seem to be particular problems in the relationships between International Division and the regions as well as between the regional Area Development Teams and the Land Division. These are explored in the functional analysis at section 6. We understand that the Chief Executive is reviewing the co-ordination of, and balance between, regional and central activities and the organisational structure supporting them.

6 Functional analysis

6.2.1 Introduction

The Interim Report raised several issues about the functional boundaries of the Agency and the consultations sought to explore views and opinions on the full range of WDA services; it was, however, inevitable that some functions attracted more extensive comment than others.

6.2.2 Area Development

The availability of quality sites and premises continues to be an important factor in support of the growth of indigenous businesses and Wales's ability to attract new inward investment projects. The Agency continues to encourage the private sector to invest in the Welsh property market through joint ventures with developers and financial institutions and by the planned disposal of holdings in its property portfolio to the private sector. The resources released by the sale of the Agency's portfolio of mature property was re-invested in the Welsh economy through the Agency's various programmes. Through reinforced regional structures, the WDA works in close partnership with other local players to ensure strategies for economic development and address regional needs.

The regionalised area development teams are responsible for managing the Agency's land reclamation and environmental improvements programme in addition to its residual property portfolio. The consultations suggested that staff involved in this function sense that physical regeneration activities have become unfashionable although the development of suitable infrastructure is critical to economic success.

6.2.3 Business development and support

6.2.3.1 General

Whilst this review sought to avoid duplication of the work commissioned by the National Assembly's Economic Development Committee (EDC)⁶, whose recommendations are reported at appendix 8 for ease of reference, the consultations revealed a number of concerns about the business support network of relevance to that work.

There is concern that the network as a whole is supply-driven rather than demand-led with an emphasis on spending money in the budget and that public sector agencies develop and implement new initiatives without sufficient evidence that they address a particular business need. The public sector tends to market its own products without considering whether private sector provision would be more appropriate or effective. Companies are not sufficiently engaged in the business support debate and, accepting that public funds are limited, the priorities for business development have not been identified and justified for investment purposes. There was concern that organisations – including the National Assembly – are continuing to roll-out new business support initiatives without proper consultation and at a time when the infrastructure is subject to review. This approach inevitably leads to duplication and affects adversely the co-operative arrangements supposedly established through Business Connect. A further concern was that some products are designed simply to draw down matched funding from Europe and elsewhere.

⁶ Reported in *Review of Business Support and Development Services*, published December 2000

That said, several consultees believed that, throughout much of Wales (particularly in Mid Wales), Business Connect was beginning to work more effectively and that the EDC's Business Support Review was a response to the particular problems in South East Wales which suffers from a significantly higher number of organisations competing in the market place with limited resources.

We understand that the WDA has now commissioned a definitive survey of the characteristics, constraints and needs of SMEs in Wales as a basis for developing policy and appropriate business support mechanisms for the sector as well as for targeting the Agency's resources.

6.2.3.2 WDA services

The objective of the WDA's business support function is to develop and build a consensus on a strategy to increase the business growth, innovation and competitiveness of the Welsh economy. Its programmes focus on: access to finance and markets; technology transfer and innovation; promoting the use of new media, modern communications and information-based activities; supporting enterprise development; and supporting the agri-food sector.

The Agency's support for indigenous businesses in Wales encompasses more than just its business development functions and ranges from securing and preparing land for development to providing premises and other infrastructure⁷. Consequently, whilst the Business Development Division focuses on a range of support programmes for Welsh businesses, the activities of the Agency as a whole can be deemed to offer support to those businesses.

In respect of the WDA's business development activities, there was a view that, initially, the Agency had not been engaged in Business Connect and that giving it overall responsibility would not only secure its closer involvement but would also give the network the strategic management (encompassing quality control, performance monitoring, evaluation and the dissemination of best practice) it needs. The Agency currently provides the Executive Support to the Business Connect Management Board (on which it is represented by one of its own Board members) and is involved with the four Business Connect Consortia, providing financial support.

The transfer of the TECs' enterprise functions in April 2001, has raised concerns that the Agency is not a credible operator in the SME sector and that it does not have the right skills to deal with business support. The TECs have left a strong legacy in the marketplace by putting in place the right team to deliver in line with customers' needs and expectations. The TECs were successful in developing effective client management mechanisms which responded to business needs and which recognised the importance of customised solutions.

The Agency sees this perception of its work with SMEs as a lack of understanding of its role in business development in the last nine years during which it has provided specialist advice and services to a limited number of SMEs with growth potential. The WDA believes that, in assuming responsibility for the TECs' enterprise initiatives, it has the expertise and experience of providing business support not only through the role its Mid Wales Division undertakes but also through its experience of existing delivery mechanisms involving contracting to experienced third parties. It accepts that it will need

⁷ Source: *Welsh Development Agency: Support for Indigenous Businesses in Wales* – report by the Auditor General for Wales, presented to the National Assembly on 9 May 2000

to maintain customer focus and secure the dissemination of best practice throughout the organisation.

Specific issues emerged in the context of the National Assembly's business support portfolio – notably Wales Trade International – and Finance Wales.

6.2.3.3 National Assembly services

The balance of views was that responsibility for support services delivered currently by the National Assembly – including those managed by the Agriculture Department – should transfer to the WDA with the possible exception of Regional Selective Assistance which some consultees accepted would provoke a conflict of interest.

At the same time, any transfer should be considered in the light of the benefits to clients – ensuring that there is no loss of focus on their needs and requirements – and the likely costs (given the Agency's commercial salary rates when compared with the public sector). To effect a wholesale transfer of functions purely on grounds of "tidiness" would not be appropriate. This view is supported by the National Assembly's Audit Committee which recommended that *when the Assembly sets financial savings targets relating to the reorganisation of public bodies in Wales in future, such targets should be determined with reference to an objectively based template or model, informed by relevant public and private sector comparisons*⁸

The decision to establish Wales Trade International within the National Assembly rather than the Agency was finely balanced and, from our interviews, there is clearly some concern about the rationale behind it. It is accepted that the interests of staff are important and that some stability is needed following the transfer which is still fairly recent. The balance of opinion which emerged from the consultations was that responsibility for International Trade should reside with the WDA. Assembly officials acknowledge that the decision was a finely balanced one and that the key had been to secure a single organisation focused on customer needs. They contend that WTI now needs time to establish itself, picking up the best practice within the British Trade International network and other players, including the WDA and developing a corporate identity which is recognised world-wide. Due to the Agency's strong brand overseas, and its knowledge base and networks, we consider there could be benefit from tapping into such resource to obtain maximum effect, though we recognise that it would be important not to create confusion in the marketplace given the considerable effort being made worldwide to promote the British Trade International brand, from which WTI gains significant benefit.

6.2.3.4 Finance Wales PLC

The availability and accessibility of appropriate forms of finance for SMEs has long been an issue which exercises the minds of those involved in the provision of public sector business support given the commercial lenders' reluctance to support what they see as the unacceptable risks associated with many new start-up or technology based firms. In October, 1999 the National Assembly resolved to establish *an independently-managed development bank or similar fund.....to provide small and medium enterprises with flexible and sustained finance for development*⁹. Finance Wales was established to operate the WDA's finance and management support programmes for growth oriented and potentially viable SMEs unable to raise appropriate finance from commercial sources.

⁸ Report 00-06 – Welsh Development Agency: the Creation of the Enlarged Agency and the Agency's Support for Indigenous Businesses in Wales

⁹ National Assembly for Wales paper EDC 08-00(p.4), 12 April 2000

In addition, for marketing purposes, Finance Wales assumed responsibility for the Technology and Enterprise Fund owned and operated by UK Steel Enterprise. Overall, strategic direction is the responsibility of a non-political Board of Directors appointed on the basis of professional experience and expertise in SME finance and development and economic regeneration.

Whilst comments on Finance Wales were few, it was clear that the rationale for establishing the financial support functions as a separate organisation was not well understood within the Agency and that the decision to locate the company in Cardiff – perpetuating the concern about the dominance of South East Wales in economic policy – may have been a lost opportunity to demonstrate the commitment to spreading prosperity throughout Wales. There is continuing concern that micro-businesses will not benefit from the service because of the WDA's focus on medium-sized and large companies.

6.2.4 European Affairs

The issues here are dominated by the Objective 1 programme and the WDA's role in it. The public concern about the programme's direction and its implementation are well-documented. Expectations of the opportunity to transform the Welsh economy through the economic and social regeneration of the more deprived communities were high (perhaps unreasonably so) and the National Assembly struggled to deliver the leadership and direction to meet those expectations. It should be acknowledged that this was due largely to:

- a lack of resource in advance of the programme leading to significant delays in establishing the strategic and administrative framework through the Single Programming Document, the Programme Complement and the supporting guidance;

- the extensive political debate about the availability of matched funding;

- the innovative approach to implementation through local and regional plans supported by partnerships built around the "thirds" principle. Whilst laudable in its aim of encouraging inclusivity, there is little doubt that the approach has had its problems.

Against this background, the WDA was asked, by the National Assembly, to take the lead in forming a number of the regional partnerships.. It, and its partners, have functioned in something of a vacuum because of delays in developing the framework and the guidance to support it. There is continuing debate about the WDA's role in the programme and this needs to be addressed quickly to avoid conflicts between its status as an applicant, a matched funder of competing projects and a potential accountable body. Once this issue is addressed, the WDA will be in a position to ensure that it has in place appropriate procedures to support its role and obligations.

6.2.5 International and Marketing Divisions

The WDA assumed responsibility for inward investment in 1983 and its International team promotes Wales in key global markets, identifying inward investment opportunities through a network of overseas representatives. Alongside International Division, the Marketing and Communications team is engaged in the development of a world-wide brand for Wales, raising international awareness as well as promoting the Agency's services within Wales.

6.2.5.1 International Division

The WDA's success in attracting inward investment to replace the loss of employment in traditional heavy industries was cited by many consultees as its outstanding achievement in the 25 years since its establishment. With more than £12 billion of investment secured, the Agency has long been seen as a model for others to follow. Much of this success can be attributed to the International Division which, through a central presence in Cardiff and a network of offices across Europe, North America and the Asia-Pacific region, has marketed Wales aggressively in the face of stiff competition from Scotland, Ireland and some English regions as well as mainland Europe. Criticism that the Agency concentrated on inward investment at the expense of the indigenous company base often failed to recognise the supply chain and other opportunities which such investment brought.

However, the change in the political environment and fluctuations in the global economy have moved the emphasis towards developing indigenous SMEs and supporting entrepreneurship, increasing the Welsh economy's resilience to global change in increasingly competitive markets. Alongside this, the trend for a number of years has been towards reinvestment by established foreign-owned companies rather than greenfield developments.

Against this background, the consultations suggested that International Division has lost its focus and that this is partly due to the fact that there is no long-term strategy for targeting its activities which would help the Agency to anticipate industry changes as companies adjust to changing global economic conditions. Indeed, the Welsh Affairs Committee in its report on Investment in Industry in Wales recommended that *the WDA must adopt a more strategic approach to attracting inward investment and dedicate sufficient resources to identifying potential international growth markets, perhaps ten years ahead. Targeting key sectors must be part of that approach.* In its response, the Government highlighted the risks attendant upon a purely sectoral approach and concluded that policy should focus on correcting or removing market failures which prevent industries from achieving their full potential.

The WDA employs one Strategic Accounts Director managing the relationship with nine major companies headquartered in the US, Japan, Germany and the UK and operating in the aerospace and automotive sectors. The remit is to identify added value opportunities in terms of, for example, new investment or the supply chain (including attracting new overseas suppliers to Wales). This sectoral approach is more in line with that adopted by other development agencies who have questionably devoted a greater degree of resource to this area and overtaken the WDA in the FDI market.

There is also the question of approach to the account management of those organisations which have located in Wales. We are aware of successful relationships already established; however, if opportunities are to be maximised from extending this aspect of operation, regard should be had to accessing the appropriate skills and knowledge within the Agency in handling any particular company (in a given sector). To obtain the best use of resources going forward, a style of management could be adopted where the lead is taken by a relationship manager supported by specialists in a form of "customer service team".

A significant issue revolves around the WDA's ability to measure, objectively and accurately, International Division's contribution to the organisation's objectives and targets because reinvestment projects by established foreign companies are counted towards its performance targets (and those of its overseas offices) notwithstanding that

any lead generation work may have been undertaken through the Strategic Accounts or regional route.

Some consultees questioned the value of the WDA's overseas offices, reflecting the Welsh Affairs Committee's view that the National Assembly should look carefully at these operations. The US team came in for particular criticism as failing to fulfil its potential for adding value. This has been recognised internally (including by the US team itself) and has been attributed to inadequate resources (in comparison with other development agencies). In addition, communication between the Division and the regional offices is not as effective as it should be, which has particular implications for:

ensuring a team approach to new inward investment projects which secures good value for public investment as well as a package of support which is the best available;

the co-ordination of activities within the WDA given that property development grant is administered through the regions.

The Agency has its work cut out to maintain Wales's position as a leading region for inward investment. It is facing increasingly sophisticated competition from continental European agencies, the Irish IDA and from the resource-enhanced regional development agencies in England.

Many of the English agencies have struggled to integrate themselves following the merger of their constituent departments but they are motivated by a historically strong resentment of the WDA and its perceived approach to the bidding process and are boosted by the DETR's desire to deliver empowered local decision-making solutions at a regional level at the instigation of its Ministers.

France and Ireland both have much to offer and represent formidable competition. Whilst Ireland may be overheating and France may continue to be a higher cost location, they are both aggressively attacking what they perceive as the UK's weakness on the euro.

6.2.5.2 Marketing

The WDA has made a significant contribution to raising the profile of Wales in international markets leading to considerable success in attracting inward investment projects. Yet there is a perception that the Agency has tended to concentrate its efforts on promoting its own brand and that its emphasis should now be moving towards presenting Wales as a knowledge economy rather than a low cost manufacturing base. This message is not strong enough and must be part of an overall marketing effort which removes the duplication of activities between the WDA, the Assembly and the Wales Tourist Board (WTB). There are also mixed messages – the WTB's "2 hours and a million miles away" versus the WDA's environment for business and Wales as a bright, modern economy while needing Objective One support.

There were conflicting views about the balance of marketing effort within and outside Wales with some consultees believing that the Agency does not do enough marketing to customers within Wales (resulting in the confusion about its services) whilst others suggested that too much of the marketing budget is spent within Wales (for example, in sponsoring events or organisations where the link to the Agency's strategic objectives and statutory purposes is unclear).

6.2.6 Land Division

The Land Division supports and encourages the creation of development opportunities in situations of market failure throughout Wales. It seeks to overcome barriers to investment caused by site acquisition and assembly problems by encouraging development opportunities which might not otherwise occur. The team is entirely self-funding, generating income from the disposal of sites for development.

The Land Division is widely viewed as a professional, well-run organisation with considerable experience and expertise which is well-respected. It believes it operates in areas of market failure where property development is unlikely to be profitable or attractive to the private sector and where CPO powers are required to complete complicated land assembly projects. However, the Division operates independently within the Agency and there is some uncertainty about its roles and responsibilities in the context of the WDA's aims and objectives, but also against the background of local government's role in planning and regeneration. To clarify the issues which emerged from the consultations:

the Division is largely located in Cardiff which does not facilitate communication with the WDA regions; whilst there is some evidence of the Land Division working with its regional colleagues to bring projects forward (and acknowledgement within the regions that Land is a useful source of additional funding), there is a risk of conflicts with regional projects and priorities, notably those managed by the area development teams. Furthermore, the Land Division is motivated differently and may impact upon the partnership working arrangements which the WDA is continuing to build through its regional network;

the same may be said of the Division's relationship with the local authorities and there are examples of concern about its activities, largely because of inadequate communication about those activities and their fit with local priorities. There is a view that the Division's operations are not sufficiently transparent. The WDA argues that any concerns expressed by local authorities arise from isolated cases. Local government advocates some measure of regionalisation in an effort to ensure that priorities are reflected in the Land Division's programme. Conversely, both the National Assembly and the WDA argue that to break the division up would result in a loss of critical mass and, therefore, of expertise which would be to the detriment of Wales;

the issue of integration is a sensitive one. There seems to be a lack of understanding within the Agency of the Land Division's functions and a widely held view that it has not been fully integrated since the 1998 merger of the WDA and the Land Authority. The self-funding requirement – which imposes different disciplines on the Division than does the grant-in-aid mechanism on the rest of the Agency – is seen as partly responsible for this. The Division does not need to bid for National Assembly funds, and so is segregated in the WDA's annual budget. One consequence is that its activities are not afforded sufficient status in the corporate plan;

the self-funding requirement implies that the Land Division needs to make a profit (almost invariably in North East and South East Wales) if it is to invest in less commercial projects elsewhere. It was argued that the Division is driven by this profit motive rather than by the Agency's overall aims and objectives. Some

consultees advocated an in-depth review of the self-funding status whilst others supported a switch to grant-in-aid;

much of the nervousness in the WDA about the Land Division may arise from the past problems with the Agency's negotiated land deals. The Land Division's procedures for selling property include national advertising and sealed tenders, which should help generate the best price while removing the risk of judgement;

because much of the Division's profit is secured through transactions in South East Wales, where the private sector is strong, it inevitably comes into conflict with developers. It has been reported that developers are not happy when the WDA has been bidding against them for sites;

to some of the consultees, the Land Division seems to be preoccupied by the need to develop housing and retail provision as an integral part of business/science parks, largely for funding purposes and taking no account of whether it fits within the objectives of the park. Land argues that it is important to develop new housing and retail sites to demonstrate quality of life to businesses considering investment in an area. The question is whether each particular site is being planned in the most appropriate way;

the Interim Report highlighted some dissatisfaction with the WDA's role in the conduct of housing availability studies undertaken under planning policy guidance issued by the National Assembly. The studies provide unbiased information in the form of an agreed statement on the supply of housing land assessed against the requirements of local authorities' statutory development plans. The studies are co-ordinated by the Land Division in partnership with local planning authorities, the House Builders Federation and others. The Agency chairs the meetings and collates/publishes the final report but local planning authorities compile the basic information on available sites; representatives from the authority, house builders, housing associations and statutory undertakers discuss each site and agree a categorisation of availability. The Land Division has been co-ordinating these studies since 1984, assuming a role which, in England, is performed by the local authorities. It has, thus, built up considerable experience which is not replicated elsewhere. The Division bears much of the cost of the studies and acts as an honest broker, providing an all-Wales picture of land availability. Since the studies began, the Welsh Office/National Assembly have received no correspondence suggesting that the Land Division has not acted impartially. The Land Use Planning Forum¹⁰ reported a consensus that *the Joint Housing Land Availability Studies are a useful and valued exercise in Wales. These Studies and the requirement for a 5 year supply of housing land should remain.* National Assembly officials believe that the studies are conducted in an open manner and the Agency's role is supported by, both, the House Builders Federation and the Royal Town Planning Institute;

the Land Division sees opportunities to support the overall economic development of Wales by helping other public sector bodies without property expertise (eg NHS Trusts) manage the disposal or acquisition of property. They believe there are opportunities to maximise the value to the public sector, but that current tendering arrangements prevent the WDA fulfilling this role.

¹⁰ An Assembly sponsored organisation established in January 2000 to consider the need for revised planning guidance.

6.2.7 Rural development

In order to promote an effective rural policy, it is vital that rural policy is integrated with a clear relationship between the Common Agricultural Policy payments, expanded agri-environmental schemes and the structural funds covering rural areas. There will also need to be a recognition that programmes will have to address equally environmental, economic and social problems. It will also need to be innovative, providing the right sort of framework and financial support for the development and sharing of new ideas between differing sectors and communities¹¹.

Alongside the Objective 1 SPD, the Rural Development Plan for Wales, 2000-2006 sets out a vision for the development of rural Wales, acknowledging that the overall framework is being set by the NEDS. It also notes the need to promote the rural economy through the development of coherent policies and programmes.

The merger of the WDA and the DBRW on 1 October 1998 gave rise to some concerns in mid Wales that rural issues would be marginalised and resources lost because of the demise of a dedicated rural development agency. The DBRW was well-respected as a body which understood the needs of rural Wales and was prepared to work in partnership with others to deliver focused packages of support. A prime example of this approach is the Market Towns Initiative which, between 1996 and 2000, offered a support package of advice and funding for community led projects to ten small towns in rural Mid Wales. It reflected the view that local involvement, capacity building and partnership can be key to socio-economic development. An evaluation¹² confirmed the usefulness and value of the initiative and, in particular, the value of local partnerships, community led activities, modest revenue funding and the employment of dedicated development officers. It also confirmed that the key elements for rural town regeneration are the emergence of a community capacity for self organisation, the development of facilities and infrastructure and the physical refurbishment of the built environment.

We note that the WDA's 2000-2003 Corporate Plan acknowledged the contribution which rural Wales can make to GDP and its particular needs in respect of economic development. It is important to maintain this emphasis and equally critical that delivering solutions is integral to the Agency's work at all levels with rural development seen very much as a cross-cutting theme but with tangible and measurable outputs for programmes.

Several consultees expressed the view that rural development risks being marginalised whilst others pointed to evidence of an exchange of best practice amongst the WDA's regional offices; this is to be encouraged for the Agency to demonstrate its commitment to rural policy. The re-establishment of a rural policy function within the National Assembly for Wales should give added impetus to work in this area.

6.2.8 Skills development

The WDA's activities in the skills development arena encompass:

Graduate Wales through which companies are supported in using the skills of graduates and the higher education sector –
graduates and students can undertake work placements giving companies an opportunity to assess their performance and its potential impact on the business;

¹¹ Objective 1 SPD

¹² The Tavistock Institute: Evaluation of the WDA's Market Towns Initiative (Draft Final Report, November 2000)

businesses can access the expertise and facilities of the higher and further education sectors to resolve a range of issues, whether of an operational or strategic nature;

graduate workshops to promote understanding of SMEs and what they can offer as employers;

The SME Equality project which helps SMEs to develop good practice in equal opportunities through, for example, supporting the establishment or updating of equal opportunities policies and providing guidance on existing policies and legislation. The project is co-funded with Chwarae Teg and the European Social Fund;

Funding of **Chwarae Teg** which encourages greater participation of women in the Welsh labour market, including those setting up new businesses;

Support for the **Welsh Semiconductor Training Centre** and the **Waterton Technology Centre** established to provide dedicated training for semiconductor workers and manufacturing processes. Both centres are examples of partnership working, notably (though not exclusively) with the TECs;

Information services through which it collects a range of labour market information across Wales in conjunction with the National Assembly and the TECs.

The Interim Report expressed the view that the provision of portable skills training would reside more comfortably within the responsibilities of the new Council for Education and Training for Wales and this was largely supported by the consultations undertaken for stage II of the Quinquennial Review. It is, however, difficult to establish the extent to which this view is the result of a misunderstanding of the Agency's work in this area. Both the Equal Opportunities Commission and the Disability Rights Commission support the retention by the WDA of responsibility for the SME Equality Project which they believe is a business development measure that has been well managed by the Agency and which fits in with its economic development function. The same could be said of Graduate Wales which encourages SMEs to access graduate skills in order to enhance their competitiveness. The main focus of both programmes is the SME, rather than the portable skills of individuals.

National Assembly officials engaged in the establishment of CETW argue that there are a number of threads to the Graduate Wales programme which generate a human resource development benefit and, consequently, would more appropriately fit the portfolio of CETW rather than the WDA. These include:

continuous professional development whose purpose is to increase the retention rate of graduate employees in SMEs by providing professional development and opportunities for progression (to the employees);

graduate support groups which provide help to pursue employment opportunities;

employment bureaux supporting permanent and contract graduate job opportunities.

We understand that these strands are delivered as an integral part of Graduate Wales largely through higher education institutions under contract to the WDA (thereby supporting industry-education links). When taken in isolation, we concur with the view

that these individual initiatives are the province of CETW. Our concern is that the transfer of discrete elements of the Graduate Wales programme may lead to fragmentation and a loss of overall effectiveness. The contractual arrangements and associated funding would also need to be disentangled.

We would be more confident of supporting such a transfer if there was an established relationship between two organisations whose working arrangements were sufficiently robust to secure synergy and programme effectiveness. We suggest that the implications of any transfer need to be explored more fully by the National Assembly, CETW and the WDA.

With regard to support for Chwarae Teg, the Welsh Semiconductor Training Centre and the Waterton Technology Centre, these are partnership arrangements which encourage training and development in portable skills but with a view to enhancing the competitiveness of Welsh companies.

6.2.9 Information and Communications Technology

6.2.9.1 Introduction

There are two aspects to this – the WDA's role in supporting Welsh businesses to embrace new technologies and its commitment to exploit the potential of ICT in conducting its own business.

6.2.9.2 External applications

ICT is critical to business operations in that, for industry to be successful in the future, it needs to embrace information and communication technology, particularly for b2b trading and establishing a range of routes to market. The WDA recognises that all business support staff will need to talk coherently on ICT with access to specialist advice as appropriate.

In terms of Welsh businesses, the WDA sees its role as being to:

- increase the demand for ICT in partnership with other stakeholders through upskilling and improving business competitiveness;

- stimulate the development of ICT supply;

- improve access to telecommunications throughout Wales – particularly advanced broad-band services – by encouraging investment;

- develop institutional ability to deliver and sustain large scale programme interventions.

Programmes fall within the strategic framework of the Wales Information Society (WIS) initiative which is jointly funded by the WDA and the European Commission. The initiative ranges more widely than Welsh businesses with action plans to transform Wales as a whole, the education and training system and public services generally.

In January 2001, the National Assembly for Wales launched (for consultation) *Cymru Ar-lein – Online for a Better Wales*, the ICT Strategic Framework. It recognises that, despite significant effort and activity to ensure that the UK becomes the world's best environment for electronic commerce, there is evidence to suggest that Wales is lagging behind other UK regions in its exploitation of ICTs because of:

- a general lack of awareness of the benefits;
- a lack of adequately skilled staff to make effective use of the technology;
- the need to improve the ICT infrastructure, ensuring that it is affordable and appropriate.

The Framework, which links into the Objective 1 SPD and the associated Regional Action Plan, is based on the premise that the Assembly should provide leadership and political direction with public service deliverers having a role in four strands:

- raising awareness;
- ensuring the delivery of existing plans particularly in the education and training and SME fields;
- maximising connectivity;
- e-commerce/e-procurement in public services.

The emphasis on encouraging SME take-up places the WDA at the centre of raising awareness of the benefits of ICTs and in ensuring that its existing programmes continue to deliver. In addition, we would expect the WDA to contribute to:

- identifying the skills gaps within the SME sector which prevent take-up of ICTs;
- disseminating best practice from existing programmes;
- supporting appropriate infrastructure developments.

There were conflicting comments about the Agency's contribution to ICT. Many WDA staff clearly feel that it is in this field of expertise that the organisation is taking risks, that it is at the cutting edge of change in the conduct of business. Conversely, others question whether the WDA has identified future investment trends or if it is, rather, chasing standard projects and there is an issue about whether it understands fully what SMEs see as the barriers to their engagement in ICT/e-commerce. The Agency points to the fact that it has only recently become involved in large scale initiatives with SMEs and the barriers to engagement are being identified.

6.2.9.3 Internal applications

At a senior level, the Agency has recognised the crucial part which ICT has to play in conducting its business although it is not generally at the forefront of people's minds. A recent report by Deloitte & Touche¹³ confirmed that the Agency has made significant progress in its IS/IT environment in recent years, illustrated by:

¹³ Welsh Development Agency: WDA IS/IT Strategy (Final Version) 2000

the adoption of a recognised best practice decision making framework (ISSC and ITEC);

greater centralised control through appropriate policies, corporate standards and business case based investments;

its preference to use packaged solutions, unless an appropriate level of functionality is provided;

its migration to Windows 95 and standard office applications;

the rollout of a common e-mail solution (and latterly desktop internet access).

The WDA recognises that its business environment is changing but has been told that it needs to address a number of issues, viz:

“e” enable WDA and move it to “e-WDA” by embracing the use of internet technologies and adopting e-business service delivery models;

improve the quality of management information available to the Board, Directors and senior managers;

build on, and continually develop, core systems within the Agency’s application portfolio (for example, ICIS);

improve key internal business processes, through simplification and the adoption of enabling technologies, to increase process efficiency;

consolidate and focus the IT infrastructure;

supplement current ISD service provision in order to successfully deliver this strategy;

manage the transformation to e-WDA and the associated cultural changes.

Pathways to Learning – the WDA’s training and development programme – prioritises ICT training which is now supported by a dedicated IT training manager with a new training suite in Newtown. This structure supports the WDA’s drive towards becoming an e-business and can be expected to improve its credibility in helping to drive ICT solutions into Welsh businesses.

6.2.10 Human resources

The WDA’s Human Resources Department was reorganised in April 2000 and is now managed by two new senior managers whose duties are split broadly between employee relations (including terms and conditions of service) and HR development including training and development and recruitment. Around 50% of staff have been with the department for less than eight months.

As has been acknowledged elsewhere in this Report, the WDA is heavily dependent upon the quality and commitment of its staff to deliver its services. It has had to cope with the assumption of additional responsibilities, not always accompanied by increased resources, and has dealt with these as effectively as possible within the constraints imposed upon it. The Agency is now attaching greater importance to HR issues and has developed a

Strategy which will support its commitment to achieving the Investors in People (IiP) standard.

The WDA has implemented a training and development programme – *Pathways to Learning* – which comprises a distillation of needs and requirements from the annual appraisal reports of staff and the organisation’s business objectives as set out in the corporate plan. The WDA recognises the importance of using IiP as a tool for measuring its progress on the training and development ladder rather than being driven by the achievement of the Standard itself. IiP should provide the framework through which the achievement of individual and corporate aims and objectives is supported through appropriate staff development and effective recruitment.

The merger of the WDA, the DBRW, the Land Authority and Welsh Food Promotions has resulted in a varied and evolving culture. The development of corporate values on which staff are consulted and to which they become committed is seen as a constructive way to ease the process of integration.

7 Partnership issues

7.2 Background

The economic development arena is peopled by a broad range of organisations with varying perspectives on their respective roles and responsibilities. For a significant period, however, the WDA has been the pre-eminent organisation in the field with a significant budget to fund a variety of activities at local as well as national level. It does not have a strong culture of partnership working and has needed to adjust to a new environment dominated by partnerships at national, regional and local level. The National Assembly's commitment to inclusivity has heightened the emphasis on partnership working to maximise the effect of limited resources, to avoid duplication of services and effort and to secure the exchange of best practice as well as to ensure that the views of interested parties are taken into account.

In June 2000, the Communication Group reported the outcome of an Opinion Formers Audit commissioned by the WDA. It summarised the views of 67 politicians (including local councillors, Assembly Members, MPs, MEPs and Peers), journalists, business leaders and academics and identified the need for:

relationship building with key politicians;

the provision of briefings on key events to all AMs and MPs;

an innovative media relations programme to raise the profile of the WDA and Wales;

specifically highlighting the work of the WDA in rural constituencies, seeking third party endorsements where possible.

The consultants recommended the development of a matrix with defined frequency of contact in order to keep relationships up to date. It was clear from the consultations that the WDA needs to work harder to manage its relationships although there are examples of effective partnership working, for example with local authorities, which tend to be overlooked in favour of a general perception that the Agency is poor in this area.

7.3 Consultations

7.3.1 General

The consultations revealed a widespread perception, of which many Agency staff are aware, that the WDA's relationships with many of its partners are poor because it is arrogant and because it insists on leading programmes and initiatives rather than working with others. Within this general perception, however, there was a view that relationships between external organisations and the regional offices were more open and constructive and that it is the centralised services which are viewed as remote, inaccessible and surrounded by an aura of secrecy. Further, it was clear that some relationships are working well:

in respect of the WDA and the National Assembly, relationships between the Industrial Development and International Divisions, and between the Competitiveness and Infrastructure and Environment Divisions were thought to be good. The WDA also relates well to the sponsor division – Economic Policy – which is well-disposed towards it and generally supportive of its work;

the WDA has worked hard to develop its relationship with the higher education sector. This is acknowledged in the responses received to the consultation exercise and within the National Assembly;

the Environment Agency is working closely with the Agency on specific initiatives such as the Greening of the Valleys partnership and valley landscape strategies in addition to contributing to several Objective 1 action plans on which the WDA is leading. Other opportunities are being explored;

WDA staff were pleased with the way they had managed partnerships with private organisations, for example some capital projects, the Automotive Forum and the Optoelectronics and Electronics sectors.

7.3.2 The National Assembly for Wales

The establishment of the National Assembly signalled the start of a new form of government centred around a corporate body in which politicians and civil servants work alongside each other to deliver a consensus in approach. The speed with which the change was implemented – alongside the other new policies and programmes which emerged as an inevitable result of the election of a new government in 1997 – meant that there was little time to adjust to the new ways of working so fundamental to devolution. Senior officials at the Assembly acknowledge that their preoccupation with the processes of devolution and their implications for staff may have been partly responsible for a deterioration in the strategic relationship between the Assembly and the WDA, albeit contacts at divisional level remained positive. At the same time, they point out that former Welsh Office staff were also having to adjust to a new operating environment in the same way as the WDA.

However, National Assembly officials suggested that the environment is changing; there is now greater certainty since the creation of Partnership Government although the pace of change continues to be high. The need to strengthen the relationship between the National Assembly and the WDA has been recognised and there is agreement to meet regularly at Chief Executive/Director level to discuss issues of mutual interest openly and honestly. There is a joint commitment to a ‘fresh start’.

Following the 1997 election, the Agency was concerned that the negative attitudes of some politicians would jeopardise its status and affect morale amongst its staff. The senior management team believes that those attitudes have changed – the regions are doing much to apprise local Assembly Members of their work whilst the new Minister for Economic Development has been fully briefed on the WDA’s portfolio of services – such that Assembly politicians now seem to be more favourably disposed towards the organisation.

That said, greater clarity is needed on the precise relationship between the WDA and the Economic Development Committee. The Agency’s lines of accountability are into the Executive and it is uncertain about the EDC’s function in terms of scrutiny and policy development.

7.3.3 Local Government

The Welsh Unitary Authorities recognise the WDA's past achievements and that there has been extensive co-operation through joint initiatives and projects. In 1998, the Welsh Local Government Association (WLGA) and the Agency agreed a Memorandum of Understanding (MoU) which registered their commitment to work in partnership for the furtherance of economic development, community regeneration and the improvement of the environment across Wales in a sustainable manner¹⁴. There are also local agreements between the WDA and individual authorities.

The MoU, replicated at appendix 9, sets out the working arrangements to which the WDA and local authorities will endeavour to conform, including in business support services, inward investment, publicity, consultation arrangements and information sharing. It was intended that the Memorandum should be subject to periodic review.

Notwithstanding these arrangements, and despite evidence of some very effective partnership working on, for example, regeneration projects, local government still perceives there to be a lack of openness and accountability at the local level. The WLGA points out that the Local Government Act, 2000 empowers authorities to prepare community plans setting out the aspirations of their area and the contribution which all agencies have to make to achieving them.

7.3.4 Employment Service (ES)

The Employment Service continues to be funded by, and is accountable to, the Department for Education and Employment. It is well placed to advise on recruitment and redundancy issues and its involvement in skills issues (through occupational training and the New Deal) means that it is an important contributor to the economic development debate.

The relationship between the WDA and the ES needs to evolve at a corporate level as the structural changes incumbent upon, for example, the demise of the TECs and the ES's enhanced role, take effect. There needs to be some sort of formal arrangement through which the two bodies exchange information.

7.3.5 Council for Education and Training in Wales (CETW)

The establishment of CETW, effective from 1 April 2001, and its responsibility for much of the post-16 education and training provision in Wales is seen as the most significant change in the economic development infrastructure and one to which the WDA must adjust quickly. Skills development is widely seen as central to improving the competitiveness of the Welsh economy. The WDA and CETW are clearly in the lead in the drive to: identify what businesses need (now and in the future) in terms of generic and specialist skills; establish the gaps in provision; and facilitate an increase in provision to fill those gaps. It is, therefore, seen as critical that the two bodies establish an effective working arrangement from the outset, agreeing the terms of their respective engagements in the market and ensuring that their partners understand and endorse those arrangements.

¹⁴ Welsh Local Government Association: *Building Prosperous Communities – a local government economic agenda for Wales*, October 1998

8 Corporate Governance

8.2 General issues

In the early 1990's the Agency developed a comprehensive Code of Practice and other guidance which set out the rules for the conduct of activities in the WDA. The Code sets out the internal delegation of the authorities extended to it by the Assembly and is the main foundation of the Agency's compliance with legislation and the expectations of a public sector body. At the time, and still currently, the development of such a Code and guidance to staff is considered as an exemplar to other Public Sector bodies in this area.

The Code of Practice is kept under review and amended periodically to reflect changes in delegations and good practice. Management accept the need for further revision as new programmes and activities evolve.

As a result of staff following the comprehensive procedures set out in the Code of Practice, there is a strong culture of compliance within the Agency.

The Agency has yet to develop the strategic risk management framework required to meet the emerging best practice recommended by HM Treasury for Government Departments, NDPBs and Agencies. Such a framework would include:

- reviewing all operations and activities in relation to the WDA's objectives and targets;

- identifying and assessing associated risks to their achievement;

- establishing the WDA's risk appetite, and

- assessing the risk management processes in place to ensure objectives are met.

It would also involve a continuous cycle of review and reporting.

Currently, the WDA's risk management process is primarily focused at the programme/project level. It appears that the Agency has some way to go in developing such process in line with evolving HM Treasury guidance¹⁵ and best practice and which will support the Agency's Accounting Officer's Statements on Internal Control to be incorporated in future annual reports and accounts.

While there were differing views expressed within the Agency on whether internal controls were too restrictive, we believe there is scope to streamline project review and approval procedures to reduce the amount of exposure to management review. To some extent the processes in place may reflect the Assembly's approach to projects and proposals which require their approval. Any proposed changes should be linked to a reassessment of the Agency's risk management framework.

¹⁵ Refer: "Management of Risk: A Strategic Overview": HM Treasury: January 2001.

8.2.1 Financial and managerial control arrangements between the Agency and National Assembly

The relationship between the Agency and Assembly has, at times, been recognised by some as not conducive to achieving openness and in defining clear and common aims. The perception has been one of stand-off rather than working together to achieve solutions.

The arrangements between the Agency and its sponsor division appear to be working generally satisfactorily, with regular contact and a growing understanding of each others needs. However, the number of contact points at this level may be too numerous, the position should be reviewed to see if more co-ordinated approach could be achieved.

Information supplied to the Assembly has met formal requirements but has not always been sufficient to immediately enable the latter to fully monitor the financial impact of the activities and achievements of the Agency. The format and content of financial and other information supplied to the Assembly needs to be reviewed and agreed by both bodies to ensure it evolves to meet the requirements of the Assembly, especially as the performance measures and targets set for the Agency are refocused and revised. This process is already under development.

One area which appears to need review is that of delegated authorities. For instance, the Agency has no delegated authority for setting the terms and conditions of its staff. Consequently minor amendments to such terms have to be referred to the Assembly, incurring both the valuable time of Assembly officials and senior Agency personnel and significantly delaying often fairly routine decisions (eg changes to mileage reimbursement rates for staff expenses and holiday arrangements). There is a perception that the Assembly itself needs to streamline its procedures for dealing with such requests, with greater delegation internally. The current level of delegation to the WDA is seen by the Agency as reflecting the problems of the early 1990's and gives the impression of continuing mistrust at the Assembly. Increasing definitions would have the added advantage of demonstrating a sea change in relationships with a consequent knock-on boost to morale.

The issue of the Agency's authority to make equity investments, is another example of difficulty. The Agency has no delegated authority to make such investments and all such proposals have to be referred to the Assembly. This is particularly relevant to the credibility of the newly formed Finance Wales Plc. The Agency considers that a delegation should be granted to enable such investments to be made where appropriate and in line with its objectives. Having raised the issue with the Assembly, we understand it is under active consideration at the time of drafting this report.

8.3 Confidence provided by internal and external audit reports and the operation of its Audit Committee that the Agency is managing its finances in line with the Assembly's expectations.

Consultations we have undertaken as part of this review, including with both sets of auditors, indicate that there are no particular issues with regard to the way the Agency manages its finances. The Agency's management respond positively to issues raised and act promptly to address them. Generally, a strong culture of compliance is acknowledged. This is also borne out by recent internal audit reports and the NAO's latest Management letter and Additional Assurance Report, which have raised few high priority issues. Those raised indicate that compliance with the Agency's Code of Practice and other guidance may be less rigorous in the more remote divisions. Previous serious concerns identified have been dealt with by management and do not appear to recur.

There is regular and appropriate contact between both sets of auditors and Agency management and between the National Audit Office and Internal Auditors, and relationships are considered good by all sides.

The scope and coverage of internal audit plans and work carried out is reviewed by the Audit, Compliance and Legal Committee. The Agency's current Strategic Internal Audit Plan, dated September 1999 and covering the 5 years from April 2000 is derived from a full risk based Audit Needs Assessment. This was carried out during 1999 and was designed to identify and assess all systems in accordance with the Government Internal Audit Manual. The resulting audit plan appears to appropriately cover financial and operational systems. We are aware that the recently appointed internal audit subcontractors are reviewing the Agency's internal audit needs to ensure they meet current and anticipated requirements. In addition, the NAO carry out a programme of value for money reviews, the results of which are also considered by the Audit Committee.

The operation of the Audit Committee is seen both internally and externally as effective and appropriately challenging. The Committee is composed of members of the Agency Board and includes a majority of non-executive members. Its composition and terms of reference are in line with public sector best practice.

8.4 Management of finances in line with Assembly's expectations of public bodies. Effective management of finances and assets, rigorous pursuit of value for money issues (including appraisal and evaluation).

The Agency agrees its annual budget and targets with the Assembly and provides its monitoring division with monthly financial reports. In common with other ASPBs, these reports are currently on a cash basis. Internally, the Agency produces monthly management accounts on an accruals basis making comparison with budgets and profile, together with divisional reports on activities. The operation of two separate accounting bases is a burden and also produces different financial monitoring. The adoption of Resource Accounting and Budgeting by the Assembly should eliminate this issue.

Budgetary control is considered strong. However, there were concerns about the budget planning process in respect of the communication of the rationale behind any final allocation and subsequent amendments across divisions.

The range of management information generally was questioned. The flexibility of the financial accounting systems as currently operated to provide easily accessible information on the progress of projects was seen as a potential issue by some.

Currently, regular management reporting does not include effective performance reporting on programmes. We noted, however, that the whole area of management information is being addressed through the Agency's current IT strategy.

The Agency's process of programme and operational appraisal and evaluation should be reviewed and brought within the corporate planning process to maximise focus and direction. Although evaluations are carried out, they are not necessarily informed by an Agency-wide customer/business needs and priority strategy or carried out to common standards and methodology. Neither is there a consistent process for monitoring in-house evaluations carried out in divisions.

We noted that, additionally, there is no recognised formal process for following up on the issues and recommendations arising from programme evaluations in either the Code of Practice adopted by the WDA or in the Management Statement and Financial Memorandum issued by the Assembly.

With the proposed revision of targets, the criteria for evaluation will need to be reviewed to give greater focus.

In order to measure impact particularly in terms of "client" performance new information systems will be necessary to enable appropriate data to be collected and collated. This has been recognised in the current IT strategy. However, the extent to which, the strategy can be fully funded has yet to be established.

8.5 Meeting standards of practice expected of public bodies in relation to procurement, openness and the handling of complaints.

8.5.1 Procurement

The Agency has a well established Code of Practice which clearly sets out the approach to procurement and the relevant delegated authorities. It also refers staff to the current CUP guidance notes on procurement (issued by HM Treasury's central Unit on Purchasing and Procurement) although compliance with these notes is not mandatory.

There are appropriate limits set out for procurement covering low value purchases to major expenditure requiring full tendering procedures and meeting EU competition directives which compare with practices elsewhere in the Public Sector. It was noted that no reference was made in the Code to the aspect of supplier appraisal, although this is covered in CUP guidance.

Recent reports from both internal audit and external audit do not highlight any major issues of non-compliance with the Agency's procurement procedures in practice.

8.5.2 Openness

The Agency has a policy of publishing non-confidential Board Papers and Minutes on its website following the relevant Board Meeting.

Issues considered commercially, or personally sensitive are discussed in "closed" session of the Board and are considered inappropriate to be put in the public domain.

The Agency publishes an increasing amount of information on its Web site and holds meetings open to the public.

8.5.3 Complaints

The Agency's Code of Practice sets out guidelines on dealing with complaints from clients and the public in addition to which it has developed a Complaint Procedure published internally and externally. The Code emphasises the importance of dealing with complaints in a timely, courteous and efficient manner. The Agency has an appointed Client Service Manager to whom staff can refer in cases of difficulty. The Agency has established a reporting procedure to deal with complaints received and the incidence of such complaints is reported quarterly to the Chief Executive and onward to the Board. Recent reports indicate the overall level to be relatively small.

8.6 Control and scrutiny of running costs and staffing levels. Potential comparison with the operating costs of similar bodies.

As noted above, the Agency has a tight budgetary control culture and maximum management running costs (MRC) are set each year by the Assembly. Any increase in these running costs, for example to fund a new programme/initiative requested by the Assembly, has to be approved by the Assembly which monitors costs on the basis of monthly cash figures provided by the Agency.

Staffing levels are set by the Agency within the staff terms and conditions approved by the Assembly. The Agency has the authority to amend the staffing levels to meet the needs of its activities provided the cost can be contained within the overall MRC budget, but has no delegated authority to amend terms and conditions of service. Any such changes proposed must be referred to the Assembly. Consequently the parameters for the annual staff pay review are set by the Assembly.

The overall Agency budget is allocated to divisions and the central functions and is the subject of a monthly report to the Board by the Chief Executive. The report includes the financial results by division, on an accruals basis, with comparisons to budgeted expenditure on a year to date basis and full year. The financial reports also indicate the forecast full year outturn.

Variances are highlighted in the monthly reporting, though the written commentary on variances from budget is brief.

The results for the year to date for the Agency as a whole are also reported, including a summary of expenditure by programme. Again commentary on variations from budget are limited. Currently no balance sheet is produced in this report

Although the Agency regularly reports and reviews its running costs and other financial results (ie against budgets/originally anticipated costs) it does not seek to make comparison of its running costs with other similar organisations. There is a feeling within the Agency that such comparisons may not be meaningful due to the differences between the WDA and for instance other development agencies, but we understand systems for making meaningful comparisons are to be explored further.

However, as demonstrated by the NAO's report on the merger of the Agency with DBRW and LAW,¹⁶ which was reviewed by the Assembly's Audit Committee in November 2000, comparison can be made in respect of specific areas of cost with national or regional averages. In the case of the NAO report, space utilisation and energy costs were compared. As a result of these comparisons, the Agency is to review these areas to ascertain if cost savings can be achieved.

To provide a high level view of how the Agency's costs compare very broadly with other bodies, the costs per job created/protected for the WDA have been compared with those of Scottish Enterprise and with the combined costs of Enterprise Ireland and the Industrial Development Agency (which together provide similar services and support for economic development in the Irish Republic). These broad comparisons, based on the annual reports of each body for the year ending 31 March 2000 (UK)/31 December 1999 (Ireland) indicate that the WDA's costs compare reasonably with those of Ireland and favourably with those of the Scottish Agency.

¹⁶ Managing the Creation of the Enlarged Agency and Looking for Future Savings – report by the Auditor General for Wales.

	WDA	Scottish Enterprise (1)	Ireland
Total jobs created/protected	20,000	19,000	31,000
Administration costs	£51,000	£74,000	£*65,000
Administration costs per job	£2,550	£4,000	£2,100

Source: Annual accounts – UK agencies 31 March 2000, Irish agencies 31 December 1999

(1) Scottish Enterprise's functions cover not only those of the kind managed by the WDA but also the skills-related activities of TECs, so meaningful comparisons in relation to job creation are hard to make.

*converted to sterling at the rate ruling at 31 March 2000.

8.7 Arrangements for monitoring the quality and efficiency of service delivery. Track record and robustness of plans for improving efficiency.

The Agency's primary arrangements for monitoring the quality and efficiency of service delivery are:

- performance against targets;
- budgetary financial reporting;
- internal evaluation;
- external evaluation;

As previously noted, although the Agency carries out internally produced evaluations of its services and also commissions external consultants for this purpose, the evaluation process might be better co-ordinated and customer/business needs driven. Additionally there is a lack of formal procedures for ensuring recommendations arising from evaluation exercises are consistently acted upon and for seeking client feedback on services for example via client surveys.

Efficiency improvements are taken into account in setting the Corporate and Business Plans and in the annual running cost budget. In addition, the Agency operates a Continuous Improvement Programme. However, no single overall plan for efficiency savings is produced nor are efficiency savings, planned or achieved, collated and monitored centrally.

To support better evaluation and monitoring of its service delivery, the Agency's management information systems will need to be enhanced. To date certain information has been held on a variety of separate systems and frequently developed independently by line management to meet their specific needs. To some extent it is considered that the transitory nature of certain activities and programmes made impractical the development of permanent IT systems.

The need to improve information systems had been recognised by management and a review of IS Strategy was commissioned during 2000, from an external firm of consultants, Deloitte & Touche. They recommended a significant programme of developments to co-ordinate existing information systems, to acquire significant additional facilities and to fully e-enable the Agency. The total cost of the programme envisaged was in excess of £5m. The Agency commenced the initial stages of the programme during 2000.

8.8 Other issues

8.8.1 Board Procedures

We noted that, on occasions, considerable documentation is included in papers submitted for Board consideration, leading to detailed discussion of associated issues. Previously in this report (section 8.1), we have suggested there should be benefit to be derived from developing a revised approach to risk management and to streamlining processes concerning management's review of projects. Should these areas be refined, we believe there could be a knock-on effect in reporting to the Board, including emphasis on exception reporting. Nevertheless, the Board will still need to be made aware of all material details to support informed decision making and we would expect the background to the process to be adequately minuted.

8.8.2 Potential for best practice developments

Although the merger of the Agency with the Development Board for Rural Wales (DBRW) and the Land Authority for Wales (LAW) was considered by the NAO in their report to have been well managed overall there may be scope to revisit and review best practice relating to certain operations of those previous organisations now subsumed within the Agency.

8.8.3 Integration of Land Division

Views were expressed amongst some people externally that the Agency's Land Division is not yet fully and effectively working with the regional divisions.

It should be noted that there is an inconsistency between the delegated Authorities from the Assembly to the Land Division and the rest of the Agency in respect of some property transactions.

9 Benchmarking

9.2 Introduction

Whilst we have not conducted a formal, in-depth benchmarking exercise, we have amassed – from work previously undertaken by KPMG and some original research – information about the respective structures and performance of those development agencies which have been the WDA’s principal competitors. The timeframe and scope of the review, have limited our ability to make direct comparisons (although it should be noted that this would be difficult given the different structures and activities of the agencies concerned) and this section is intended to provide useful background.

9.3 The Irish Economic Development Model

9.3.1 Context

Much has been made of the success of the Irish Republic in transforming its economy through targeted inward investment which has supported the development of industry clusters and local supply networks. This success has been partly attributed, by some commentators, to the Republic’s division of responsibilities for attracting inward investment (the Industrial Development Agency – IDA) and supporting indigenous businesses (Enterprise Ireland) which is seen as ensuring *that the interests of indigenous industry did not lose out to the greater glamour of attracting inward investment*¹⁷. The National Assembly Economic Development Committee’s draft report of its Review of Business Support and Development Services says that *given the recent upheaval associated with the merging of WDA, DBRW and LAW and the need to address the Objective 1 opportunity immediately, the Committee does not believe that dividing the WDA into two separate organisations (as in Ireland) can be justified at this time*. The Interim Report of the Quinquennial Review rehearsed the relative merits and disadvantages of separating the inward investment and indigenous business support functions and rejected this as an option for reorganisation. The Auditor General for Wales also concluded that there is *a link between the Agency’s support for indigenous businesses and its efforts to secure inward investment in Wales: indigenous businesses benefit directly and indirectly from the presence of inward investors, particularly in terms of promoting sales and supplier development*¹⁸. This section describes the Irish economic development infrastructure.

9.3.2 Background

Ireland’s Operational Programme for Industrial Development 1994-1999 featured five key priorities:

measures to develop and improve the capacity of indigenous firms and their personnel to enable them to compete effectively;

attraction of inward investment and the development of the non-indigenous manufacturing and services sectors;

enhancement of research and development in all sectors of Irish industry;

¹⁷ Welsh Affairs Committee, Fourth Report: Investment in Industry in Wales

¹⁸ Welsh Development Agency: Support for Indigenous Businesses in Wales – Report by the Auditor General for Wales, presented to the National Assembly for Wales on 9 May 2000

developing the marketing capabilities within firms;

promotion of the food and natural resources sector.

These five priorities have been delivered through the Republic's different economic development agencies that were reorganised in 1998 to specifically separate the task of supporting indigenous businesses from inward investment promotion. It was felt that by separating these two distinct and non-complimentary functions, it would be possible to place more dedicated emphasis on supporting the indigenous sector. It also reflected historic concern in Ireland that the business support system was incoherent and inefficient and failed to deliver meaningful service to its clients. The *Institute of Welsh Affairs*¹⁹ report from June 2000 draws a parallel between this situation as it existed in Ireland and the current position in Wales.

The Irish Government has vested the State's legal powers for industrial promotion and technological development in *Forfás*, which is the policy and advisory coordination board for industrial development, science and technology in Ireland. Forfas is responsible for a network of five Development Agencies in the Republic that make up the overall Economic Development delivery mechanism. Forfas' mission is *to encourage and promote the development of industry, science and technology in Ireland and to provide advice and support to the Minister for Enterprise and Employment and to the Industrial Development Agencies for this purpose.*

The development agencies under the control of Forfás are:

the Industrial Development Agency (IDA), the executive agency responsible for the promotion of Ireland as a location for overseas businesses. IDA is perhaps the best-known of the five Agencies and is credited with having managed Ireland's astonishing FDI performance through the 1990s;

Enterprise Ireland which brings together key marketing, technology, enterprise development and business training initiatives for indigenous industry;

Foras Áiseanna Saothair, the national training and employment authority;

Shannon Development which is responsible for the development of the Shannon region;

Udarás na Gaeltachta which promotes the economic, social and cultural development of the Irish speaking regions.

For the purposes of this report we have briefly considered the structure and strategic approach of the IDA and Enterprise Ireland as the two prime Agencies.

¹⁹ The Irish Experience of Objective One, Some Lessons for Wales, IWA

9.3.3 Industrial Development Agency (IDA)

9.3.3.1 Background

The Irish Republic has been arguably the most spectacular performer in the inward investment market place in Europe over the past ten years. In August 2000, there were over 1,300 foreign-owned companies in the Republic, employing 125,000 people with an additional 15,000 employed by inward investors on temporary or contract-based terms. In 1998/9, overseas companies exported goods and services to the value of over £21bn, an increase of over 30% on 1997. Best estimates suggest that they spend nearly £8bn in the Irish economy every year. All of this with a population in Ireland of only 3.5 million, not much bigger than Wales.

The IDA has attracted some high profile names to Ireland over the years through a variety of incentives, key skills and low corporation tax. The IDA has actively and successfully targeted the following sectors:

- call centres and shared services;
- healthcare;
- electronics;
- financial services;
- pharmaceuticals;
- research and Development;
- software; and
- engineering.

It has been able to attract blue chip names under each of these sectors to the Republic over the past ten years (some examples are shown in appendix 10 alongside a series of other performance information). This is highly significant of course as the IDA creates a virtuous circle of investment through strong marketing of its association with these blue chip names. Importantly many of these high quality investments have been secured as a result of the IDA's strategic approach to prioritising its resource allocation into its key projects in its areas of strength, particularly shared services, financial services and software/IT. Experience suggests that the IDA rarely loses a project to the UK when it sets out to win it.

The IDA's policy of targeting companies in the computer hardware and software industries in particular has been designed to lead to the development of clustering in these sectors, whereby the geographical proximity of a critical mass of companies operating in the same industry leads to the creation of so-called "positive externalities" (a well-trained workforce, good back-up services and proper infrastructure) leading to self-sustaining growth. The creation of self-sustaining clusters has resulted in a significant reduction in the grant-aid required to persuade foreign companies to locate in Ireland, although clearly low corporation tax remains a factor. Scotland has achieved similar clustering success in Silicon Glen and the benefits are obvious. The IDA has continued to set standards for performance and achievement for other inward investment agencies.

The cumulative total of new jobs for the year to date in the Republic of Ireland is around 6,600 which would deliver an annual total of in excess of 13,000 if the performance is maintained at current levels. Performance in 1999 was no less impressive with 72 investment projects (largely from the US) expected to deliver in excess of 14,000 jobs.

9.3.3.2 The IDA budget

IDA expenditure in 1999 was IR£160 million (approx. £128million sterling at today's rate). Most of this expenditure was on industrial development grants (IR£130 million) with promotion and administration costs of approximately IR£21.5 million. A breakdown of the promotion and administration costs reveals marketing, consultancy, promotion and advertising costs of IR£5 million, general administration costs of IR£4.5 million, wages and salaries of IR£11 million with add-on employment costs of just under IR£1 million. All IDA staff are employees of Forfás and are seconded to the IDA.

9.3.3.3 Overall FDI performance

The success of the Irish Government's inward investment policies is evidenced by the fact that approximately 1,300 overseas companies have chosen to establish bases in Ireland.

Over the past fifteen years a cumulative Ir£6 billion (an average of 2% of GDP per year) has been invested in Ireland on direct investment account, about two-thirds of which is from the United States (over 80% in recent years). The figure below and the table overleaf shows the geographical origin and scale of overseas companies in Ireland in 1999.

9.3.3.4 Recent FDI performance

The table below shows the sectoral breakdown of total employment in IDA supported companies.

It is interesting to note the relative decline in the textile/clothing/footwear sector in recent years, and the relative increase in the international/financial services sector (including IT services such as software). This reflects the change in the type of employment created by IDA support companies and the benefits of its clustering policy leading to almost self-perpetuating growth in key sectors. This is the underlying trend driving up GDP through the 1990's and fuelling the rise of the "Celtic Tiger" from the 1980's "poor man of Europe" - from low value adding to high value adding employment.

Indeed IDA's targeting activities mean that its current prospect list is heavily slanted in favour of service sector projects and whilst manufacturing projects are of interest, they tend to feature significantly less often in the IDA's so-called *must win* project lists, unless they are in technology-based healthcare or pharmaceutical applications and processes.

9.3.4 Enterprise Ireland

9.3.4.1 Background

It is generally accepted that few other industrialised countries have posted as strong an improvement in its indigenous business sector throughout the 1990s than the Republic of Ireland. Inevitably a wide range of influences and factors lie behind such an improved performance, not the least of which is the hard fact that indigenous companies in the Republic had performed far worse than their competitors in the preceding period and therefore offered significant potential for improvement. Another important factor in Irish businesses' contribution to the economic regeneration of recent years has been their linkages with the wave of foreign investors that have located in the Republic stimulating local supply chains and subcontract networks.

Other factors usually cited as contributing to the improved performance are in the area of training and education, management and a greater international openness to export and international trade opportunities often as a result of public intervention. Indeed, the Irish Government's industrial development policy has been generally viewed by critics as having made a substantial contribution to the success particularly as it has emphasised the need for prioritising resource on companies with the potential for growth and economic impact both in the area of inward investing companies as well as indigenous ones.

Enterprise Ireland's mission statement is *to work in partnership with client companies to develop a sustainable competitive advantage, leading to a significant increase in profitable sales, exports and employment.*

The organisation consists of 13 regional offices throughout the Republic and 28 overseas offices, 16 of which are in continental Europe, 3 in the UK, 7 in Asia and 2 in North America. Such a network offers a comprehensive regional and local coverage throughout Ireland ensuring that the Agency is closely connected to its client base. Its overseas offices are in all of the core industrialised countries but also some emerging ones from a trade perspective such as Russia, China, Saudi Arabia and Malaysia.

9.3.4.2 Enterprise Ireland's client base

As discussed earlier in this chapter, one of the strengths of the Irish economic development model is its emphasis on "picking winners" both in indigenous business support and FDI promotion. This culture dominates the philosophy of Enterprise Ireland. The organisation targets Irish manufacturing companies or those with internationally traded services. They have a minimum criterion of 10 employees or more as a cut off point for receiving support. Clearly, they are also attempting to identify companies with the greatest potential for growth. Enterprise Ireland is currently working with over 3000 indigenous companies that meet these criteria and is clearly seeking to add to the list.

Enterprise Ireland also is the conduit for national and EU programmes aimed at increasing technological capacity and innovation as well as leading in the area of technology transfer from academia to industry.

9.3.4.3 Enterprise Ireland's services

Whilst Enterprise Ireland offers a broad range of services to business aimed at boosting their international competitiveness, they can be broadly summarised as coming under the following categories:

Business Planning & Information: Enterprise Ireland provides advisory, financial and other specialised services to its client companies. These services are delivered through locally based Development Advisers and the services can also provide a range of other support measures linked to business planning and funding support for a broad range of specialised activities within client companies.

Research, Development & Design: Enterprise Ireland provides a wide range of support in the area of electronics; ICT; design and invention resources; process, materials and construction engineering, agrifood, healthcare and biotechnology; funding for R&D as well as EU sponsored R&D collaboration schemes.

Production & Operations: Services are provided by Enterprise Ireland in the areas of improving performance, efficiency and quality; environment, health &

safety; ICT; materials, engineering & construction; and funding of improvement in production and operational methods.

Marketing & Business Development: Aimed at helping indigenous companies meet the e-business challenge, these services include assistance in developing overseas markets; exploiting local and international supply opportunities; and, the funding for approved marketing and business development opportunities.

Human Resource Development: An important factor in the Irish economic regeneration story, HRD is an important aspect of Enterprise Ireland’s activities and these include HR strategy and advisory services; help with identifying new skilled workers including the repatriation of Irish expatriates; new skills development and training; and the funding for some human resource development activity.

Finance for Growth: Enterprise Ireland not only offers advisory services, but also access to finance to assist corporate growth. Funding is potentially available for establishing new businesses; expanding existing businesses; third party finance including Business Angels and Seed & Venture Capital Funds as well as business incubation facilities.

9.4 Scottish Enterprise

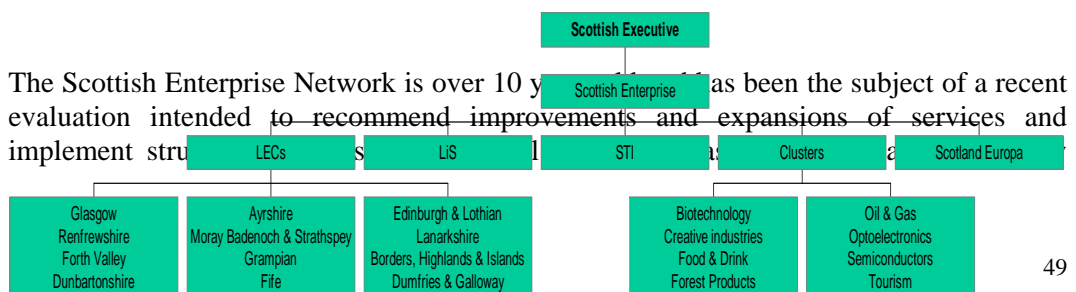
9.4.1 Background

Scottish Enterprise (SE) was established under the Enterprise and New Towns (Scotland) Act 1990. It is the economic development agency for 93% of Scotland's population. The aim of the organisation is to create jobs and prosperity for the people of Scotland. Functions include safeguarding employment, enhancing skills, promoting Scotland's industrial efficiency and international competitiveness and furthering improvement of the environment.

The Scottish Enterprise Network is made up of Scottish Enterprise itself, 13 Local Enterprise Companies (LECs), Scottish Trade International, Locate In Scotland, Scotland Europa as well as the Cluster Teams. The delivery of the majority of the projects, programmes and services funded by SE is done under contract with SE by the LECs.

LECs are private companies limited by guarantee (they are not NDPBs) and are run by Boards of Directors, a majority of whom must be drawn from the senior management of private businesses in the local area. Scottish Enterprise is responsible for providing strategic direction, agreeing the LECs’ plans, allocating resources and monitoring performance. Scottish Enterprise also delivers a range of national projects and programmes and has a particular responsibility for the promotion of inward investment and overseas trade on an all-Scotland basis through Locate in Scotland and Scottish Trade International subsidiaries equating to International Division of WDA and Wales Trade International respectively.

9.4.2 Scottish Enterprise Network



comprised of the 13 Local Enterprise Companies (LECs), Scottish Trade International, Locate in Scotland, Scotland Europa and the Clusters teams.

9.4.3 Local Enterprise Companies

The 13 Local Enterprise Companies are the local centres for client companies to access all areas of Scottish Enterprise's activities. These activities are undertaken by the LECs who in turn contract with Scottish Enterprise to deliver programmes and services. They are private limited companies by guarantee and are run by boards of directors. The LEC boards are currently being restructured in order to feature more representation from SMEs, Chambers of Commerce as well as Higher and Further Education. This reflects the premise in economic development policy in Scotland that the private sector is the pre-eminent driver of economic regeneration matched by the right amount of public intervention. The LECs form the bedrock of the SE service and are all broadly set up to deliver against five goals;

- to generate sustainable economic growth
- to create jobs
- to tackle social exclusion
- to develop a competitive workforce
- to improve competitiveness, nationally and internationally.

For example, Scottish Enterprise Glasgow provides a wide range of assistance:

- Business: from start-up advice to putting together deals for large inward investors
- Skills: from training the unemployed to up-skilling the experienced manager
- Property: from reclaiming derelict land to providing quality industrial sites

9.4.4 Scottish Trade International

Scottish Trade International is Scotland's one-stop shop for public sector export and international trade advice, employing around 100 staff with offices throughout North America, Asia and Europe. It is the prime export agency of Scotland and has just completed its five year Export Development Strategy for Scotland in which it was tasked with working with 2,800 companies of whom 260 should be new exporters. In 1999/2000, it was tasked with working alongside 2,000 new and existing exporters.

It is also responsible for Scotland's "globalisation" programme which is focused on a small amount of home-grown companies with the potential to become global players. STI had a ceiling of 10 target companies who could benefit from this service as it is focused on "picking winners".

9.4.5 Locate in Scotland

Established in 1981, Locate in Scotland is the foreign investment promotion agency for Scotland and has been a consistently strong performer in the field. It has a staff of

around 120 full time people with overseas offices in the US, Germany, Italy, France, Japan, Korea, Taiwan and Singapore as well as a representative office in London.

LIS's sectoral targeting strategy is absolutely embedded within Scottish Enterprise's focus on clusters and aims to attract companies within the cluster sectors, primarily:

software;

microelectronics;

biotechnology;

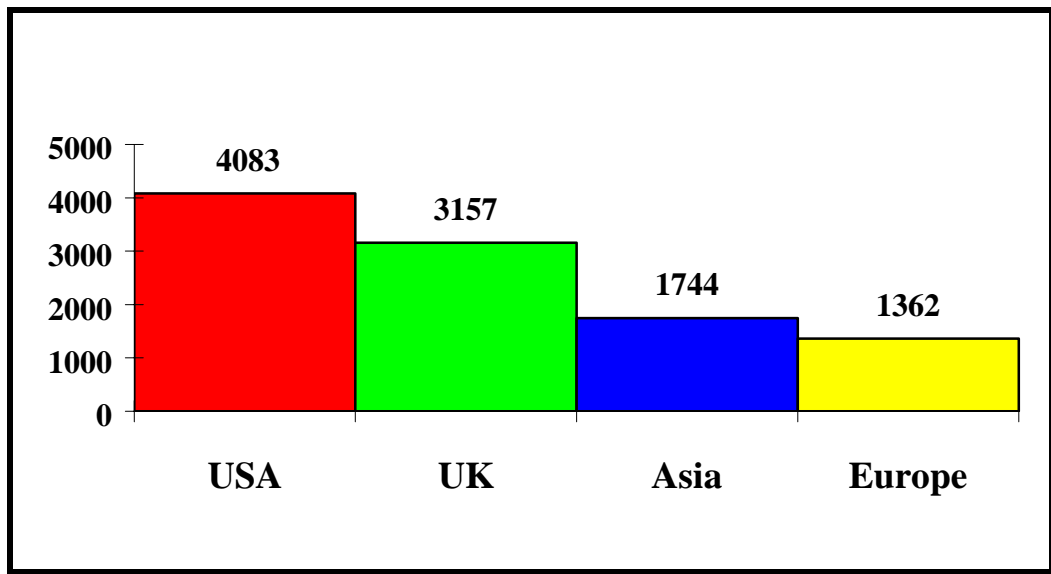
automotive technology;

shared services.

A good example of the synergy between the SE and LIS strategy is the renowned *Project Alba* which is the microelectronics cluster featuring indigenous companies as well as high profile foreign investors such as Cadence.

Locate in Scotland has achieved most of its foreign investment success from the US market as can be seen from Figure 2 below. These figures are an analysis of the composite FDI figures for Scotland between 1991 and 1999 and should be read as an indicator of trend only. This contrasts with the WDA which has recently struggled to achieve strong results from the USA.

Figure 2: average annual job figures by geographical origin



9.4.6 Scotland Europa

Scotland Europa is the Scottish equivalent of the Wales European Centre in Brussels and is set up to network the European Commission and operates out of Scotland House (a similar arrangement to the WEC). It also enjoys private sector support. Its mission is to provide intelligence and partner links to Scottish Enterprise and other members as well as promoting Scottish interests with the European Commission and its institutions as well as amongst the offices of the European regions and the wider business community.

9.4.7 Cluster Teams

SE's work to date has resulted in action plans for biotechnology, food/drink and semiconductors in consultation with its industry and academic partners. SE is currently working with forest products, opto-electronics, tourism, and the creative industries to assess their suitability as a focus for developing further clusters.

The Cluster Teams promote cooperation and knowledge-sharing between firms in the same industry through providing news, organising events, skills initiatives and assistance to access funding.

9.4.8 Scottish Enterprise Network Priority Targets 2000/2001

Innovative and far-sighted organizations: Projects designed to turn research into businesses	160
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Number of organisations taking up e-commerce trading	975
Number of high-growth start-ups (including company spin-outs)	180
Number of organisations achieving Investors in People recognition	700
Projects aimed at assisting new and existing exporters	2,800
Number of new exporters	260
Projects aimed at supporting research and development	925
Number of organisations SE will support to achieve ISO 14001 and EMAS standards	40
Positive attitudes to learning and enterprise: Number of individual learning accounts delivered	40,000
Number of people entering Skill-seekers or Modern Apprenticeships (level 2 and above) for the first time	19,700
Number of modern apprentices in training	15,000
Number of business start-ups SE will support (600 of these will be people from SIPs areas)	6,600
Amount of land SE will sell (in hectares)	140
Amount of brownfield land SE will prepare (in hectares)	280
Property SE will provide for starting up new businesses (in square metres)	30,000
Property SE will provide for mobile business (in square metres)	100,000
Inclusive economy: Number of people starting Training for Work	14,000
Number of people starting Skill-seekers for the first time	4,300
Number of people starting work through the Social Inclusion Partnership Employment Initiative	1,600
Number of residents and members of social inclusion partnerships becoming self-employed	600

10 Conclusions and recommendations

10.2 Introduction

As we pointed out in the Executive Summary, in conducting this review, KPMG has endeavoured to obtain a balanced view of the WDA's achievements and those areas in which its effectiveness might be improved. The nature of this exercise dictates that the focus tends to be on identifying weaknesses and conveying criticisms rather than on describing what has been done well. However, the review has revealed a very positive attitude towards the Agency and a widespread acknowledgement that, without its considerable efforts during the last quarter of a century, Wales would be in an even less favourable position to exploit the opportunities now available to it.

This section summarises the conclusions we have drawn from the review and, where appropriate, recommends the action we believe needs to be taken. Section 10.2 sets out conclusions and recommendations against each of the points in our terms of reference; section 10.3 describes additional issues which we suggest need attention.

10.3 Conclusions against the terms of reference

What have been the main strategic achievements of the WDA since 1990, to what extent has it met its objectives, what has been its performance against targets, how does its performance benchmark in terms of outcomes and operational effectiveness with that of comparable bodies?

There is a consensus that the WDA's main achievements are in attracting foreign direct investment, land reclamation and environmental improvements. It has tended to be judged on its inward investment performance which has by far the highest profile of its activities but which is largely confined to the M4 and A55 corridors. The Agency has, consequently, struggled to convince partners and customers that a significant proportion of its expenditure supports indigenous businesses in one way or another.

The WDA has largely met its annual targets but Wales still compares unfavourably with the rest of the UK and Europe in terms of GDP. This is not the WDA's fault; it is only one amongst several organisations involved in economic development whilst the impact of macro-economic policy cannot be underestimated.

Historically, and largely because of its inward investment activities, the WDA has been viewed as the development agency which others want to emulate but is now widely viewed as having been overtaken by some of its competitors. It has been compared unfavourably with agencies in the Irish Republic in particular although such comparisons are not always fair given that the success of those agencies is attributable to a wide range of factors. It has been suggested that the Agency will need to do more to evolve in order to meet the challenges of a changing marketplace. The critical issue here is that the WDA does not consistently benchmark itself against its competitors and is not, therefore, in a position to learn from their experiences and to exchange best practice – a message it is seeking to drive home to Welsh companies operating in global markets.

Recommendations:

1. We recommend that the WDA should implement a mechanism to facilitate an ongoing evaluation of performance against equivalent bodies operating in similar socio-economic conditions.
2. The Agency should look at (and reflect in their discussions with the Assembly on strategic planning) objective and target setting in the light of what their competition is seeking to achieve.

How effective is the strategic planning relationship between the Assembly and the Agency, including the Assembly's strategic guidance and the Agency's arrangements for reflecting the Assembly's strategic objectives, guiding themes and values (including equal opportunities, tackling social disadvantage and sustainable development) in its planning and conduct of business? How might the strategic relationship be improved?

A consultation paper on the National Economic Development Strategy is soon to be published. The aim is to develop a long-term, coherent economic development agenda to which the WDA will contribute, using evidence-based research to identify the necessary actions to deliver the strategy and an appropriate set of targets. Monitoring and evaluation arrangements will be an integral part of the Strategy. We would expect the NEDS, of itself, to clarify and improve the strategic planning relationship between the National Assembly and the WDA which is not as effective as it should be. The underlying problem is that the National Assembly has yet to clarify fully its role in the economic development field and whether that role should extend beyond strategy development into the development and delivery of products. Whilst it has been suggested that the Assembly should concentrate on the strategic level with the WDA acting as its implementation arm, the demarcation is unlikely to be that straightforward, not least because the Agency has a significant contribution to make to the development of strategy and the National Assembly to the delivery of key programmes such as Regional Selective Assistance. This issue of clarification has been recognised by, both, the National Assembly and the WDA who are working together to resolve the issues.

The crux of the issue is that the guidance is not strategic – it sets short-term targets which do not relate to an all-encompassing and widely-endorsed economic development strategy providing a coherent plan of action for addressing the key issues. If GDP is the measure of economic success, economic development agencies across the board need clear targets which contribute long-term to the achievement of whatever goal is set alongside robust monitoring and evaluation arrangements. Whilst the criticism for this strategic vacuum was levelled at the National Assembly, the extent to which the WDA simply accepts the strategic guidance rather than arguing for a more robust planning process was unclear.

Over the past few years, the former Welsh Office and the National Assembly have issued a series of policy documents which should have influenced the WDA's corporate plan – amongst them Pathway to Prosperity, www.betterwales.com, the Rural Development Plan, the Objective 1 SPD, the sustainable development scheme, the NEDS and, most recently, the Partnership Agreement *Putting Wales First: Partnership for the People of Wales*. Whilst we accept the need for strategic planning in a range of areas, there must be appropriate links between them if public sector interventions are to be effective.

The cross-cutting themes are not yet an integral part of policies, strategies and programmes across the board. There is uncertainty about how they should be taken into account and a lack of ownership by all staff – the themes tend to be “someone else's problem”. However, the Agency has worked hard, in consultation with others, to develop a sustainable development scheme which takes into account the National Assembly's

emerging Scheme and which is relevant to the WDA's operations. There is a recognition amongst those responsible for drafting the scheme that encouraging all staff to adopt it as best practice is a difficult task which will take time to achieve.

Recommendations:

3. We recommend that the National Assembly's clarification of its roles and responsibilities in respect of economic development should encompass its future expectations of the WDA. Both organisations must balance their leadership roles with the partnership working arrangements which have become an integral part of public sector programmes and initiatives.

4. We recommend that the WDA and the National Assembly consider the establishment of a joint strategic planning team to discuss priorities and actions in a free and open manner. This should facilitate a better development, understanding and communication of the strategic guidance issued by the Assembly to the Agency.

5. We broadly support the recommendation in the EDC's Report of its Review of Business Support Services that some form of Economic Policy Forum should be established to act in an advisory capacity on economic development issues. We are, however, concerned about the public perception and effectiveness of such a body given the plethora of partnerships and other working groups in place. Any such Forum must be seen to have a practical input to the problems of co-ordinating economic development activities across Wales and of ensuring that regional perspectives are taken into account. It must represent a genuine partnership of public and private sector representatives, nominated for their experience and expertise and capable of challenging the assumptions in the Strategy on an ongoing basis. An ongoing review of the Strategy is also important in the context of any emerging policy initiatives or documents which impact on economic development.

6. We also support the EDC's view that a Research and Evaluation Forum is needed to ensure that work being undertaken by the National Assembly, the WDA, local authorities, the private sector and the higher education sector amongst others is complementary and used effectively. We suggest that CETW should be included in the forum.

How effective is the Agency's corporate planning in providing clear strategic direction and practical focus (including sectoral strategies), setting targets and allocating resources to objectives and priorities?

Within the WDA, the development of the corporate plan is seen very much as a top-down process in which the views of many staff are not taken into account. Of itself, this leads to a general feeling that the plan is irrelevant. Beyond this, the Plan does not reflect all of the WDA's activities and, therefore, does not link resources to what the Agency is doing on the ground. Many staff cannot see where they fit in to the overall strategy leading to uncertainty about the contribution they are making and a feeling of insecurity about their position within the organisation.

These problems are compounded by the lack of a coherent business planning process to flesh out the strategic aims of the corporate plan and provide concrete objectives for all staff. This, too, needs to merge the top-down approach imposing strategic aims with the bottom-up approach identifying the activities which can contribute to the achievement of those aims and influence the strategy.

Recommendation:

7. The WDA must develop an internal planning process which marries the strategic direction from the National Assembly and the Board with a bottom-up approach that recognises the experience of those on the ground. Strategic targets must flow from the NEDS but must be translated into operational terms so that WDA staff understand their role and know what they are working towards. There needs to be effective consultation about what the targets should be so that local priorities are not lost in the all-Wales perspective.

Are the main strategic performance measures of the Agency, including jobs figures, fit for purpose in relation to its objectives? Do they form part of a coherent set of measures of economic development at the national level? Are they effective guides to performance and achievement, is there a good balance of measures?

We have already indicated that the main strategic performance measures are generally felt to be inadequate because they are, neither, strategic nor do they form part of a coherent set of measures of economic development at the national level. We would expect the NEDS to address these issues. Whilst annual measures might be useful in justifying the Agency's budget and in demonstrating that it has met the Assembly's expectations, they do not provide an indication of the effect these achievements are having on economic performance. The emphasis should be on value for money through quality rather than quantity of outputs and on recognising that area development activities for example are not jobs-driven and their impact cannot be measured in these terms.

We understand the difficulties in developing the right mix of quantitative and qualitative targets which measure performance in the long-term as well as providing the snap-shot figures often demanded by politicians. The performance measures to which the Agency currently operates are entirely quantitative and fail to assess the overall impact of programmes and initiatives.

Is there scope for increasing the synergy between the Agency's functions, particularly inward investment and business support, through further improvements to its working practices and structure?

The Agency's structure is an uncomfortable combination of regional offices – to which some functions have been devolved – and centralised services, including business development. We can understand the rationale for centralised corporate functions such as HR and marketing (but with some outreach facilities where appropriate) and for a co-ordinated approach to attracting new inward investment projects. We are, however, concerned by the confusion and risk to partnership working which the current operational structure seems to support. We are in favour of regionalised services with central support concentrating on corporate functions, inward investment, best practice, quality control, monitoring and evaluation.

In respect of specific activities:

the interface between the WDA's business development activities and clients is through teams based in each of the four regions supported by a central team which manages All Wales Programmes and contributes to new programme development and corporate planning. We understand that the maintenance of a central team may be appropriate where there is a need to maintain levels of expertise and experience but this does contribute to tensions between the regions and the centre. We have already alluded to the fact that we see ICT as a mainstream business development product with which all advisors need to be

familiar. There are, however, wider issues in respect of business support which we address later in this section;

in respect of increasing the synergy between the inward investment and business support functions, we have concluded that International Division needs a much sharper focus on its core activity – securing *new* investment from overseas, with established foreign investors being managed in the same way as indigenous companies. Performance measurement needs to reflect this distinction. International Division needs a strategy – flowing from the NEDS – setting out a targeted approach which takes into account Wales's strengths and is robust enough to inform on gaps in provision. This will help to inform the work of the WDA's overseas office network, ensuring that lead generation activities are also targeted effectively. It will also contribute to greater synergy in the medium- to long-term not only within the WDA but also with the work of CETW and other agencies;

we have indicated that there is considerable scope for greater synergy between the Land Division and the Area Development teams. Communication between them needs to be more effective and they see themselves as having different objectives. We understand the need to retain the Land Division's expertise but believe that one solution is to increase regional representation to improve relationships and build some bridges, particularly with the local authorities;

finally, we do not believe that the Marketing function sits comfortably within International Division. It has a wider remit than this link would suggest and has an as yet unexplored role in helping to inform the Agency's evaluation function. Whilst overseas marketing activities are important in raising the profile of Wales as an inward investment location (and need to be co-ordinated across the agencies involved), the WDA's activities in Wales and the support it can offer to indigenous businesses is equally important. The lack of knowledge about the Agency's work, particularly on business support, suggests that the message is not effective enough. The regional offices have a role to play in this given their proximity to partners and customers and, whilst we would not recommend dividing the budget, the WDA should consider a more devolved approach to marketing within strictly controlled guidelines.

Recommendations:

8. We recommend that, with the exception of the functions mentioned above, the WDA regions should be the main focus of its interface with sub-regional and local partners and with customers.

9. We recommend that the co-ordination and balance of activities between the WDA's offices and the organisational structure which supports them should be reviewed.

11. International Division must achieve a more focused approach to its core activity of securing new inward investment within an overall strategy which fits in with the long-term goals for the Welsh economy. We are aware of the recent management changes implemented by the Chief Executive and hope that these will facilitate the necessary refocusing of activity without major structural change.

12. The WDA must acknowledge that the work of the Area Development teams and the Land Division is complementary and working arrangements need to reflect this.

An element of regionalisation is called for without jeopardising the core of expertise and experience built up by the Land Authority

13. We recommend that the Marketing and Communications' function be separated from International Division in recognition of the fact that its remit is wider than supporting the generation of inward investment projects.

14. We recommend the development of an all-Wales strategy as a framework for the overseas marketing activities of, in particular, the WDA and the Wales Tourist Board.

15. We recommend that the WDA should consider how its marketing activities can be used to inform research and evaluation and whether its regional offices can be used more effectively to market products locally.

16. We recommend that the WDA reviews its sponsorship of external bodies to ensure that it is in line with the organisation's economic objectives and statutory purpose.

Are the respective roles of the Agency and other bodies in relation to skills development and business support clearly defined and coherent? Are there changes to the allocation of responsibilities, having regard for example to the human resource development role of the new Council for Education and Training in Wales, which would improve their delivery and development?

There were conflicting views on the WDA's skills development function and the majority of consultees believe that these should be transferred to CETW. As a general principle, we disagree because:

the Graduate Wales programme and SME Equality Project are business development initiatives whose emphasis is on supporting SMEs and enhancing their competitiveness;

the Agency's support for Chwarae Teg, the Welsh Semiconductor Training Centre and the Waterton Technology Centre is an integral part of the partnership arrangements established with other public bodies and the private sector.

We accept that there may be individual threads within Graduate Wales which fall within CETW's human resource development function but are concerned about the risk to the integrity and effectiveness of the programme should those elements be transferred in advance of the development of an appropriate working partnership amongst the organisations involved.

Recommendations:

17. These so-called skills development initiatives should remain with the WDA but would be more appropriately badged as enterprise/business development.

18. The WDA and CETW should jointly review Graduate Wales and discuss the most effective delivery mechanism.

The respective roles of the WDA and other organisations in the provision of business support services are unclear to the customer. There is overwhelming support for the WDA to assume overall responsibility for Business Connect (working closely with CETW which will sponsor the skills initiatives), providing a gateway to the infrastructure

as well as strategic direction. Whilst this might help to alleviate the confusion, there are other considerations:

the Interim Report stated that *a number of consultees have argued that the WDA's business support programme is poorly focused, subject to low take-up amongst target groups and, overall of questionable benefit.* The consultations undertaken as part of the second stage of the Quinquennial Review suggested that the WDA is not seen as a credible provider of business support to the SME sector and there is concern that it does not have the in-house skills and expertise to manage and deliver these services. The WDA argues that the public perception is related to a fundamental misunderstanding of its role in business development and senior management is confident that the Agency is in a strong position to take on an effective role in the market;

there are significant weaknesses in the provision of business support services across the multiplicity of agencies operating in the market. There is no strategy for the development of public sector business support services – these tend to be product- rather than demand-led and, therefore, not focused on business needs;

evaluation is poor – new products are introduced without market testing but others are not discontinued as the market changes.

These issues need to be addressed before consideration is given to transferring to the Agency the National Assembly's business support services.

Recommendations:

19. We agree with the conclusion of the EDC's Review of Business Support Services that the WDA should assume responsibility for Business Connect but believe that this will provide only a partial solution.

20. We recommend that the Business Connect network must have a strategy for business support to ensure that the products available address business needs, that they fill gaps in the market and that there is a mechanism for impact monitoring and evaluation (which must offer a robust and realistic assessment of customer views).

21. We recommend that the WDA assesses its role in the provision of business support services – as deliverer of, or contractor for, services – and ensures that it has the necessary skills to fulfil that role.

22. We recommend that the WDA ensures that best practice in business support activities – particularly those for small firms – is disseminated throughout the organisation.

23. Subject to the resolution of the issues outlined above, we recommend that, with the exception of Regional Selective Assistance and Wales Trade International, consideration should be given to transferring the National Assembly's business support services to the WDA taking into account the potential benefits/disadvantages to customers. During our review, there has been expressed support for the transfer of Wales Trade International to the WDA. We believe that this may not be a practical option given the further upheaval and instability it would attract at this juncture, and recommend effectiveness in operation be the driver for any future need to change.

How effective is the organisation of business support services by the Agency, taking account of the proposed small business division and the Agency's relationship with Business Connect?

There is some confusion here following the WDA's announcement last year of the establishment of a Small Business Division and we understand that the Agency is to review the configuration of services. This should address the tensions we have identified in the central/regional balance and remove the confusion which exists.

Recommendation:

24. We recommend that the WDA should review the structure of its business development activities with a view to strengthening its regional presence. It should maintain a smaller central division to oversee strategic issues in connection with Business Connect including service quality and best practice.

Are there ways in which the strategic and operational effectiveness of the Land Division in relation to Agency and Assembly objectives might be improved?

The Land Division has a culture which is fundamentally different to the rest of the WDA and which results largely from its self-funding requirement. In simple terms, the removal of that requirement and its replacement by grant-in-aid might ease the process of integration and ensure a greater focus on the WDA's strategic objectives. A number of consultees were in favour of this. The issues are:

whether the National Assembly would be prepared or able to increase the WDA's budget;

whether the WDA would be prepared to commit grant-in-aid to the Land Division's activities given that the Division would have to bid for funding through the corporate planning process;

whether the change in funding mechanism would improve the Division's effectiveness.

We cannot offer a substantive view on the former although the arguments in favour would need to be strong if public sector funding is to be diverted from other priorities. It is difficult to judge the respective merits of self-funding and grant-in-aid on divisional effectiveness without a more comprehensive review of the operation's impact on the market. The consultations revealed consistent themes that the Division is driven by the profit motive, that some in the private sector are unhappy with its activities and that some local authorities have found it difficult to establish a relationship with the organisation. We believe that there are a number of measures which could be implemented to improve the effectiveness of the Land Division as an integral part of the WDA.

The interim report of the Quinquennial Review suggested that the WDA should not be involved in the conduct of housing land availability studies. Our discussions have revealed a divergence of views on this issue. We believe, however, that the Agency possesses considerable experience and expertise in this area and performs a service which is valued by the National Assembly and the private sector. We note that there have been no complaints to the Welsh Office/Assembly about the WDA's involvement.

Recommendations:

25. We recommend that the WDA should review the Land Division's regional representation to improve the working relationship with the area development teams, ensure local priorities are taken into account and to facilitate communication with the centre.

26. We recommend that consultation arrangements with local authorities need to be clarified, formalised and monitored within the context of the Memorandum of Understanding.

We recommend that the Corporate Planning process needs to recognise the division's activities – regardless of the fact that it does not bid for funding – and that its operating guidelines should recognise the Agency's objectives as the driver for those activities.

We recommend that the WDA retains responsibility for the conduct of housing land availability studies.

What would be the most effective way for the WDA to contribute to, the Assembly's objectives for the development of ICT infrastructure in Wales and government policies for the Information Age?

We understand that the WDA has been fully engaged in the development of *Cymru Ar-lein* and believe it has major contributions to make in respect of infrastructure development – by encouraging private sector provision wherever possible – in supporting businesses to take up the challenge of new technologies and in identifying the skills gaps which exist in SMEs, preventing them from utilising ICTs. However, there is a risk of overlap and duplication, notably between the National Assembly and the WDA, but also with other partners to the Strategy. Roles and responsibilities must be clearly defined and understood and we would see these as involving the Assembly in the development and monitoring of strategy with the WDA and other partners implementing the resultant actions (through contracting arrangements where appropriate).

In carrying the message to the business community, we would expect ICT to be seen as part of the wider business support advisory network, rather than as a specialism within the WDA.

Recommendations:

29. We recommend that, in implementing the National Assembly's ICT Strategic Framework, the roles and responsibilities of the respective partners are made clear and that each should confirm that there is no duplication of activities.

30. We recommend that the Agency's external ICT function should be included in its consideration of the location and scope of its business development activities.

Is there an effective mutual understanding of the roles of the Agency's board and senior managers in setting corporate objectives and monitoring their implementation?

As the consideration of operational matters consume a significant proportion of Board members' time, their effectiveness, in terms of contributing to strategic issues, must be impaired.

Recommendations:

31. An exercise be carried out by the Assembly to redefine delegated authorities. Were these to prove more flexible there could be a resultant freeing-up of protocols in reporting mechanisms to the board thus providing greater opportunity for members to contribute more effectively to this area.

32. The implementation of a corporate approach to risk management, along the lines of HM Treasury recommended models associated with best practice and Turnbull, should assist a wider understanding of the Agency's Corporate strategic objectives throughout the organisation.

How effective is the Agency's partnership working, for example in relation to initiatives such the ERDF programmes? Is it responsive to its partners and customers, does it have their confidence as a body with which they can do business, are there ways in which the Agency's management of these relationships might be strengthened?

Whilst there are examples of constructive partnership working with a number of organisations, including the local authorities, the WDA does not have a strong culture of co-operation and relationships have tended to be established according to the personalities/good will of individuals. That said, we suspect that there are occasions when the Agency will be criticised whatever it does – if it leads, it is accused of arrogance and of ignoring partners' views; if it remains in the background, it is blamed if nothing is achieved. It accepted a difficult challenge from the National Assembly when it was asked to lead the formation of several Objective 1 Regional Partnerships at a time of uncertainty about how the programme would be implemented.

It needs to find a better balance and, most importantly, to manage its relationships more effectively. The regions seem to be on the right track – they consult and hold regular meetings with partners. They will become increasingly important as CETW begins to influence the market and given that CETW's strength will be its regional operations. Those in Principality House have a difficult task because Cardiff is seen as remote and lacking in understanding of the problems facing the rest of Wales. It needs to use its regional network more effectively to access the partnership arrangements in place as well as improving effective partnership working at the all-Wales level. The Memorandum of Understanding with the WLGA may show the way forward but will be irrelevant if the partnership approach is not embraced by all staff and if the MoU is not regularly reviewed and updated.

Recommendations:

33. We recommend that the WDA develops a communications strategy to inform its partnership working arrangements.

34. We recommend that, as a matter of urgency, the National Assembly in conjunction with the Programme Monitoring Committee should clarify the WDA's role in the Objective 1 programme as a way of ensuring that it can make an effective contribution and removing any conflicts of interest (perceived or otherwise).

Are reporting arrangements adequate between the Agency and the National Assembly, does the Agency need different freedoms and flexibilities, is there sufficient public accountability for the Agency's work?

Assembly officials who were consulted in this review felt there was adequate information provided by the Agency to fulfil requirements. The view of senior Agency personnel, as

may be expected, was that while they understood the need for many of the reports requested of them, they would appreciate a streamlining, if possible, and certainly adequate warning of “special” reporting needs.

There were no concerns raised over the issue of public accountability. Indeed, comments were received citing the existence of the board structure as helping to avoid potential for a compromise in accountability issues. From our observations, and discussions with auditors and senior Assembly officials, it appears public accountability (and governance issues generally) is well understood and there is a culture within the Agency which respects, and aspires to, the highest standards. There has also been an underlying theme that as this attitude now pervades the organisation, the time is right to move on to an atmosphere where authorities and procedures required of the Agency by the Assembly could be reviewed to give more freedom to determine procedural matters and provide greater effectiveness.

At an operational level within the Agency, there was no real consensus view on the reporting arrangements. There was somewhat of a feel that an historical attribute of the reporting process was one of lack of openness and understanding between the two organisations. This may have restricted the WDA’s ability to be innovative and take risks as the conduct of business has the potential for slowing down through the compliance procedures within the National Assembly.

Recommendations:

35. Reporting requirements should be addressed by the Assembly and kept under review for further evolutionary change (consequent, for example, on changes which may come about as a result of actions emanating from the Driscoll review).

36. Such a review should incorporate efficiencies which could be accomplished from any revision of delegated authorities referred to elsewhere in this document.

37. The process should involve representatives of the Agency, as well as the Assembly, in order to highlight particular areas of existing difficulty, and to brainstorm other areas which may not, to date, be readily apparent.

Are the financial and managerial control arrangements between the Agency and National Assembly working effectively?

A similar issue, in terms of operational style, to that referred to immediately above has been drawn out from our consultations.

The nature, and purpose, of certain reporting requirements made of the Agency by the Assembly have not necessarily been as well defined, or responded to, as they may have been.

However, overall, these do not appear to have prejudiced the effective operation of financial and managerial control arrangements.

There are specific inter-related issues concerning delegated authorities (see section 8.1.1) which hamper smooth operation of working arrangements.

Recommendations:

38. Review (jointly and as above) specific control reporting requirements. This process should be informed by any development of the Agency's approach to risk management, along the lines of HM Treasury/Turnbull best practice.

39. Review delegated authorities.

Do internal and external audit reports and the operation of its Audit Committee provide confidence that the Agency is managing its finances in line with the Assembly's expectations of public bodies?

The current terms of reference, and operation, of the Audit, Compliance and Legal Committee confirm to public sector best practice.

There is a healthy dialogue with external and internal audit. There is evidence that issues arising are addressed, and acted upon by management.

Recommendation:

40. That the Agency explores the evolution of best practice in risk management and corporate governance currently being developed in the central government sector, and related to Turnbull in the private sector. Any resulting changes in operation impacting on the role of the Audit Committee, Management, Board or audit functions, should be reflected in the reporting requirements of the Assembly.

Is the Agency managing its finances and assets effectively, are value-for-money issues, including policy appraisal and evaluation, being rigorously pursued?

Budgetary control is performed well. There are issues concerning the inclusiveness and communication of the process and its outcome in operation.

The current process for determining, and carrying out, programme and operational appraisal and evaluation should be more customer and business focused.

Monitoring, follow-up and reporting of actions required as a result of evaluation processes should also be revisited.

Recommendations:

41. The processes for budget allocation, and for virement should be reviewed as should their communication across business functions.

42. As the need for change in internal reporting develops within the Agency, regard should be had to the effect on existing and evolving Management Information Systems (MIS) and IT facilities.

43. The Agency should review its process of programme and operational evaluation, including follow-up procedures.

Does the Agency's conduct of business meet the standards of practice expected of public bodies in relation to procurement, openness and the handling of complaints?

The only issues concerning recent adherence to well-defined procurement procedures are few and isolated. Such issues as have arisen have been identified and acted upon.

Within the confines under which the Agency has to operate, commercially and politically, it would appear its activities are in the public domain to an appropriate extent.

There is a well-defined policy for handling complaints and few complaints are made. **Understandably, this is a difficult area, and one over which senior management need to maintain adequate monitoring processes, lest insensitive, or inappropriate actions would damage the Agency (whether financially or reputationally).**

Are the Agency's running costs and staffing levels being controlled and scrutinised. Can useful comparisons be made with the operating costs of similar bodies?

This area is well controlled, and covered, as part of the budgetary control and reporting process.

Recommendation:

44. We believe there may be scope for installing improved systems of benchmarking to further inform, and challenge, current practice.

(a) Does the Agency have good arrangements for monitoring the quality and efficiency of its service delivery?

(b) Does the Agency have a good track record and robust plans for improving efficiency?

Our comments following refer to the questions posed at (a) and (b) above:

While there is evidence of strong performance and financial budgetary monitoring, there appear to be improvements required in the area of evaluation (internal and external).

Our recommendations here match, and are inter-linked with, comments made earlier in this report on appraisal and evaluation procedures.

10.4 Other issues

10.4.1 Introduction

This section outlines other issues which have emerged from the consultations but which do not sit obviously within the terms of reference.

10.4.2 Rural development

It is important that any public perception that this function has been, or risks being, marginalised because of the loss of a dedicated rural development agency is addressed.. This does not necessarily involve allocating a specific budget since rural development might quite reasonably be treated as a cross-cutting theme which all Agency staff need to take into account. The WDA's work in this area needs to be monitored and, with the re-establishment of the policy function within the Agriculture Department of the National Assembly, this is an opportune time to refocus this work.

Recommendation:

45. We recommend that the Agency reviews the work of the Rural Policy Unit.

10.4.3 Human resources and communication

The reorganisation of the Human Resources Department from April 2000 has introduced a new impetus to ensure that staff are properly equipped to deliver the WDA's objectives. There are a number of key issues:

we have debated extensively the merits of separating the human resource and finance functions to clearly demonstrate that the Agency's HR strategy is not finance-driven. We understand that the senior management team has considered this and decided against the need for changes as the HR function builds its skills base and operational effectiveness;

the implementation of a training and development framework is to be welcomed. The WDA must ensure that: it knows what skills it needs to achieve its objectives and targets; it identifies where there are gaps; and it has an action plan in place to fill those gaps (we have already raised concerns about this in respect of the WDA's ability to deliver/manage business development activities). The Agency knows that it must pay market rates to attract the right people and the National Assembly must accept this;

the Agency's commitment to Investors in People has helped to place HR at the centre of its corporate activities and has identified gaps which need to be addressed;

we understand that a HR Strategy has been developed and that consideration is also being given to developing a new set of corporate values. These are important steps forward in the WDA's recognition of the importance of its people. We hope that the HR Strategy encompasses communication throughout the organisation.

There are a number of issues running through this study which demonstrate the need for more effective lines of internal communication. We have not attempted to reiterate them here, but would emphasise the need for attention.

Recommendations:

46. We recommend that, as part of business planning and training and development framework, the WDA assesses its need for specialist as well as generic skills and implements a programme to fill any gaps.

47. We recommend the development of a more comprehensive internal communications strategy.

Appendix 1

Quinquennial Review of the WDA: interim report – recommendations

The key functions performed by the Agency remain necessary.

These functions should continue to be carried out by an Assembly-sponsored public body.

Subject to further consideration as part of the second stage of the review, the WDA should not become an executive agency, but should retain a board with functions defined in terms of the development of operational strategy, challenge and evaluation.

The case for radical change involving a functional or geographical splitting of the Agency has not been made.

The Agency continues to require a sharp focus. Its responsibilities should be clearly defined in strategic guidance to lie in the field of economic development (whilst recognising the Assembly's commitment to cross-cutting themes of social inclusion, sustainability and equal opportunities). It should be recognised that prime responsibility for social regeneration does not lie with the Agency.

The Assembly should consider, as a separate matter, whether it wishes to create a new organisation dedicated to the sponsorship of businesses in the social economy.

The rationale for the Agency's functions lies in market failure, and each of its activities should be justified in these terms. Such a justification is central to the business case for each activity and the main themes should be summarised in the corporate plan.

There is an urgent need to improve the co-ordination of the key government bodies playing a role in economic development, and to develop the evidence base. The Assembly needs to explore how this might best be achieved.

There is a need to develop the approach to evaluation so that it can contribute more effectively to the development of a strategy. This points to a bigger role for the Assembly in this area, probably in the form of the joint sponsorship of the WDA's evaluation programme. Evaluations should be published²⁰, and key evidence from evaluations should be summarised alongside programme details in the business plan and contribute to an accumulation of evidence.

There are a number of boundary issues that require clarification, and perhaps in some cases a transfer of activities. Recommendations here include:

That the WDA should not have responsibility for the provision of skills development activities (but of course has a key role to play in advising on skill needs);

That, subject to further consideration during the second stage of the review and in the light of the Economic Development Committee (EDC) report on business services more generally, business support activities provided on behalf of the Assembly should in general be managed by the WDA (but responsibility for RSA and export promotion should stay with the Assembly)²¹;

²⁰ Some editing may of course be needed on grounds of confidentiality

²¹ A review of individual activities lies beyond the scope of this report. Consideration should be given, following the review of the WDA and the EDC's review of services to business, to a systematic assessment of individual Assembly provided services to business, with a presumption that these should transfer to the WDA. These services include support for new technology, including the SMART and SPUR schemes, and certain services to the agricultural sector, such as the provision of processing and marketing grants (and their successor schemes).

That the boundary between the WDA and the WTB should be considered in the context of the next quinquennial review of the WTB;

That there may be a case for a broader role for the WDA in the coordination of business services in Wales, including Business Connect, but that this matter should be considered in the context of the EDC's more wide-ranging report into the provision of business services.

There is a case for the WDA ceasing to be the body that carries out housing land availability studies on behalf of the Assembly. There is also a case for regular publication of the WDA's land holdings.

A number of issues have been identified which should be carried forward for more detailed consideration as part of the second stage of the quinquennial review:

The role and structure of the WDA's proposed small business division;

The potential for reorganisation to improve synergy between the WDA's land division and its regeneration activities;

The merits of relaxing the self-funding requirement placed on the land division;

The effectiveness of consultation between the WDA and local authorities over land purchases by the WDA;

The effectiveness of arrangements for co-ordination with the WTB;

The scope for developing the evidence base for decision-making within the WDA;

The organisation of business support services and responsibility for the overall management of Business Connect;

The market penetration, targeting and effectiveness of the WDA's business support programmes;

The scope for internal re-organisation to promote greater customer focus.

Appendix 2

NATIONAL ASSEMBLY FOR WALES

WELSH DEVELOPMENT AGENCY (WDA)

QUINQUENNIAL REVIEW - TERMS OF REFERENCE (Revised October 2000)²²

Introduction

The Quinquennial Review of the Welsh Development Agency is being undertaken in the context of the Assembly's published Quinquennial Review Guidelines. The Guidelines set out the process for conducting the reviews. This includes self-assessment by the sponsored body, discussion with Members of the Board and senior managers, inviting views from major stakeholders including staff and their trade unions, partners and customers.

The Terms of Reference sets out the key questions which the Review has to address. The issues common to all reviews are identified in the Guidelines, but the Terms of Reference also take account of issues specific to the Welsh Development Agency. The Review will take into account the National Assembly Economic Development Committee's Review of Business Support and Development and its emerging conclusions.

There will be two parts to the Review: the Strategic Review and the Corporate Governance Review.

Strategic Review

The context for the Strategic Review is the Assembly's strategic plan, *betterwales.com* and related economic documents including the ERDF Single Programming Documents and the draft National Economic Development Strategy.

Stage 1: Functions

In the light of the statutory duties of the Welsh Development Agency, the objectives of the National Assembly and models of good economic development practice elsewhere in the UK or EU, is there a continuing need for all the functions of the Welsh Development Agency and, if so, is the current organisational framework for delivering those functions the most appropriate?

- What is the legal framework governing the Welsh Development Agency?
- Are the functions of the Welsh Development Agency still necessary?
- Do they need to be carried out by an Assembly Sponsored Public Body – are other options for undertaking the functions likely to be more effective?
- Are they best carried out by a single body? Is there a need to rationalise functions between the Welsh Development Agency and other public bodies engaged in economic development in Wales, such as the local authorities or other national public bodies?

²² Confirmed as final by National Assembly for Wales on 31 October 2000.

Output: an Interim Report recommending what changes, if any, are required to current arrangements, what powers the Assembly has to make those changes and what the advantages and disadvantages would be.

Stage 2: Strategic effectiveness

Are there improvements which might be made to the way in which the Welsh Development Agency's functions are delivered and to its working relationship with the National Assembly, taking account of the findings in the Interim Report (September 2000), the statutory duties of the Agency, and the values and objectives of the National Assembly.

This should take account of any independent studies, for example by the National Audit Office, the Economic Development Committee's Review of Business Support, the transfer of TEC enterprise functions and the other inputs set out in the Quinquennial Review guidelines.

- What have been the main strategic achievements of the WDA since 1990, to what extent has it met its objectives, what has been its performance against targets, how does its performance benchmark in terms of outcomes and operational effectiveness with that of comparable bodies?
- How effective is the strategic planning relationship between the Assembly and the Agency, including the Assembly's strategic guidance and the Agency's arrangements for reflecting the Assembly's strategic objectives, guiding themes and values (including equal opportunities, tackling social disadvantage and sustainable development) in its planning and conduct of business? How might the strategic relationship be improved?
- How effective is the Agency's corporate planning in providing clear strategic direction and practical focus (including sectoral strategies), setting targets and allocating resources to objectives and priorities?
- Are the main strategic performance measures of the Agency, including jobs figures, fit for purpose in relation to its objectives? Do they form part of a coherent set of measures of economic development at the national level? Are they effective guides to performance and achievement, is there a good balance of measures?
- Is there scope for increasing the synergy between the Agency's functions, particularly inward investment and business support, through further improvements to its working practices and structure?
- Are the respective roles of the Agency and other bodies in relation to skills development and business support clearly defined and coherent? Are there changes to the allocation of responsibilities, having regard for example to the human resource development role of the new Council for Education and Training in Wales, which would improve their delivery and development?
- How effective is the organisation of business support services by the Agency, taking account of the proposed small business division and the Agency's relationship with Business Connect?
- Are there ways in which the strategic and operational effectiveness of the Land Division in relation to Agency and Assembly objectives might be improved?
- What would be the most effective way for the WDA to contribute to, the Assembly's objectives for the development of ICT infrastructure in Wales and government policies for the Information Age?
- Is there an effective mutual understanding of the roles of the Agency's board and senior managers in setting corporate objectives and monitoring their implementation?

- How effective is the Agency's partnership working, for example in relation to initiatives such as the ERDF programmes? Is it responsive to its partners and customers, does it have their confidence as a body with which they can do business, are there ways in which the Agency's management of these relationships might be strengthened?
- Are reporting arrangements adequate between the Agency and the National Assembly, does the Agency need different freedoms and flexibilities, is there sufficient public accountability for the Agency's work?

Corporate governance review

Is the Agency managing its finances effectively and in accordance with the requirements of regularity, propriety and value-for-money? What progress has the Agency made in improving operational efficiency? This should take account of the evidence from the existing control framework, as set out in Annex 2 of the Guidelines, and the changing nature of the Agency's functions.

- Are the financial and managerial control arrangements between the Agency and National Assembly working effectively?
- Do internal and external audit reports and the operation of its Audit Committee provide confidence that the Agency is managing its finances in line with the Assembly's expectations of public bodies?
- Is the Agency managing its finances and assets effectively, are value-for-money issues, including policy appraisal and evaluation, being rigorously pursued?
- Does the Agency's conduct of business meet the standards of practice expected of public bodies in relation to procurement, openness and the handling of complaints?
- Are the Agency's running costs and staffing levels being controlled and scrutinised. Can useful comparisons be made with the operating costs of similar bodies?
- Does the Agency have good arrangements for monitoring the quality and efficiency of its service delivery?
- Does the Agency have a good track record and robust plans for improving efficiency?

Appendix 3

Documents reviewed

Responses to NAFW's first phase consultation
Promoting Prosperity: WDA Corporate Plan 2000-2003
www.betterwales.com
NAFW Economic Development Committee: paper for the meeting on 13/09/00 re the Driscoll review
NAFW Economic Development Committee: minutes of the meeting 13/09/00
Terms of reference for Steering Groups
NAFW Economic Development Committee: paper for the meeting on 13/09/00 re the National Economic Development Strategy (NEDS)
NAFW Economic Development Committee: paper on the economic analysis for the NEDS
WDA service standards
NAFW's framework re Consultation with Business
Consultation responses to betterwales.com (x 2)
FSB's submission to the Driscoll review
Letters from First Secretary/SoS for Wales re Strategic Guidance (2000, 1999, 1998)
Auditor General's report re Enlarged Agency, May 2000
Auditor General's report re Support for Indigenous Business, May 2000
NAFW Audit Committee questions re WDA, May 2000
WDA Accounts and management letters - 1994/5 - 1998/9 (1999/2000 to follow when available)
Letter from Val Feld to Mike German, 18/10/00 and the draft response
House Builders Federation: comments on the interim report
WDA presentation for Mike German about what the Agency does
Welsh Office/NAFW strategic guidance letters 1994-2000
WDA letter of 4/10/00 to NafW about skills development activities
"WDA: support for indigenous businesses in Wales" – report by the Auditor General for Wales, 9 May 2000
Welsh Affairs Committee: Report on Investment in Industry in Wales, November 1998
Government's response to the WAC report on Investment in Industry in Wales
Agriculture schemes in Wales administered by NAWAD
Putting Wales First: a Partnership for the People of Wales
Government Report on activities under the Industrial Development Act 1982
WDA's corporate governance arrangements
WLGA's comments on the WDA's corporate plan, 2000-2003
WLGA's comments on the Driscoll Review of Business Support Services
NAFW Agriculture and Rural Development Committee – minutes of the 17 May meeting
NAFW Agriculture and Rural Development Committee – minutes of the 21 June meeting
NAFW Agriculture and Rural Development Committee – minutes of the 29 June meeting
NAFW Agriculture and Rural Development Committee – paper on rural diversification by the Special Advisor, September 2000
NAFW Agriculture and Rural Development Committee – minutes of the 14 September meeting
NAFW Agriculture and Rural Development Committee – minutes of the 10 October meeting
Diversification of the Welsh Rural Economy – paper by Peter Midmore of the Welsh

Institute of Rural Studies
Review of rural diversification – evidence from the CBI Wales
Review of rural diversification – evidence from the WLGA
Review of rural diversification – evidence from Menter a Busnes
Review of rural diversification – evidence from the FSB
Review of rural diversification – evidence from Wales Enterprise
Building Prosperous Communities: A Local Government Economic Agenda for Wales (incorporating the Memorandum of Understanding between the WLGA and the WDA)
Welsh Development Agency Act 1975
Government of Wales Act 1998 – part VI
Government of Wales Act 1998 – schedule 13
Review of Business Support and Development Services – draft Executive Summary of the Driscoll report to the NAfW EDC
NAfW Audit Committee: the creation of the enlarged Agency and the Agency’s support for indigenous businesses in Wales
Learning to Work Differently: a sustainable development policy for the WDA
Sustainability checklist and guidance
Greening the Valleys
Greening the Valleys: First review 1998-2000
Landscapes working for Wales
Joint Housing Land availability studies: briefing note by the NAfW
Skills Development: keeping Welsh companies in the lead
Wales Information Society
Pathways to Learning: WDA staff development resource
Market Towns Initiative
WDA External Perception reports
Media Evaluation of the WDA
WDA’s Draft Corporate Plan, 2001-2004
Online for a Better Wales – the National Assembly’s ICT Strategic Framework

Appendix 4

Consultations: interviews

Welsh Development Agency

Name	Position
Sir David Rowe-Beddoe	Chairman
Robin Lewis	Board member
Graham Hawker	Chief Executive
Brian Willott	Former Chief Executive
Geoff Sheppard	Former Executive Director, International and Marketing
Richard Beaumont	Executive Director, Human Resources and Finance
Graham Moore	Executive Director, Strategic Policy
John Burrows	Executive Director, Regional Operations
Alan Morgan	Executive Director, Business and Product Development
Roy Thomas	Legal Director and Agency Secretary
Nic Neal	Managing Director, Land Division
David Swallow	Partnership Development Director
Chris Munday	Funding director
Tracey Burke	Director of Structural Funds
Tom Bourne	Environment Director
Mark Osland	Chief accountant
Brian McKensie	Senior accountant
Geoff Smith	Head of Compliance and Audit
Neil Jones	Head of Human Resource Development
Phil James	Head of Information Systems
Penny Mitchell	Head of Strategy and Planning
Geraint Davies	Head of European policy
Ann Watkin	Head of Rural Policy
Steve Hill	Chief Economic Adviser
Alisdair Denton	Acting Chief Executive, Finance Wales
Iain Willox	Development Director, Skills and Enterprise
Virginia Chambers	Development Director, Technology & Innovation
Patrick Sullivan	Development Director, all Wales Media Technology Programmes
Wynford James	Agri-food Director
John Adshead	UNISON representative
Mike Cuddy	IPMS representative

Name	Position
<i>North Wales Division</i>	
Christopher Farrow	Managing Director, North Wales Division
Colin Morgan	Head of Support Services
Tim Raby	e-Business Leader (former Business Development Director)
Jeff St Paul	Acting Area Development Director
Jeff Lonsdale	Environmental and Rural Services Director
<i>South East Wales Division</i>	
Karen Thomas	Managing Director, South East Wales Division
Howard Filer	Business Development Director
Josephine Williams	Head of Support Services
David Davies	Business Support Director
Alan Nicol	Area Development Director
Gwyn Griffiths	Land Reclamation Director
<i>South West Wales Division</i>	
Gareth Hall	Managing Director, South West Wales Division
Colin Morris	Head of Support Services
Allan Gray	Business Development Director
Gordon Andrews	Area Development Director
Roger Thompson	Strategic Accounts Director
<i>Mid Wales Division</i>	
Siân Lloyd-Jones	Managing Director, Mid Wales Division
Martin Morgan	Head of Support Services
Karen Latham	Business Development Director
John Williams	Head of Regional Development
Nick Gerrard	Business Connect and Enterprise Manager
Other	
Mike Morris	International Finance and Admin Director (now Acting Marketing Director)
Bet Davies	Media and Communications Director
Hilary Hendy	International Services Director (now Acting Executive Director, International and Marketing)
Jeff Simcox	Executive Vice President, North America

Central Government: National Assembly for Wales

Name	Position
Mike German	Minister for Economic Development
Val Feld	Chair, Economic Development Committee
Derek Jones	Senior Director, Economic Affairs, Transport, Planning and Environment
David Pritchard	Director, Economic Development Group
Martin Evans	Director, Transport, Planning and Environment
David Richards	Principal Finance Officer
Huw Brodie	Director, Agriculture
Richard Wilson	Chief Estates Officer
Stephen Phillips	Director, Economic Development Division
Ron Loveland	Director, Competitiveness and Infrastructure Division
Gary Davies	Director, Industrial Development Division
Hugh Rawlings	Director, European Affairs Division
Nigel Finlayson	Director, Business and Information Systems
Jonathan Price	Economic Advice Division
Roger Thomas	

Local Government

Name	Position
Victoria Winckler/Henry Roberts	Welsh Local Government Association

Training and Employment Organisations

Name	Position
John Taylor	Chief Executive, TECSEW
Anthony Drew	Chief Executive, CELTEC
Grenville Jackson	Chief Executive, Mid Wales TEC
Alan Mackie	Chief Executive, West Wales TEC
John Glyn Davies	Employment Service
Steve Martin	Chief Executive, CETW

Business/union representatives

Name	Position
David Rosser	CBI Wales
Russell Lawson	Federation of Small Businesses
Helen Conway	Cardiff Chamber

HE/FE/Business schools

Name	Position
Kevin Morgan	Cardiff Business School

Others

Name	Position
Aziz Tharani	Welsh Ethnic Minorities Association
Catherine Eva	EC representative in Wales
Jim Driscoll	
Keith James/Alan Meredith	Institute of Welsh Affairs/Eversheds
Alastair Golley	Golley Slater
Ian Summers	Director, National Audit Office
Mike Usher	Manager, National Audit Office
Gilian Body	Manager, National Audit Office
Geraint Davies/Paul Marsh	Grant Thornton
Brian Morgan	
James Turner	Turner Associates Ltd
David Irwin	Small Business Service
Jonathan Jones	Chief Executive, Wales Tourist Board

Consultations: by letter²³

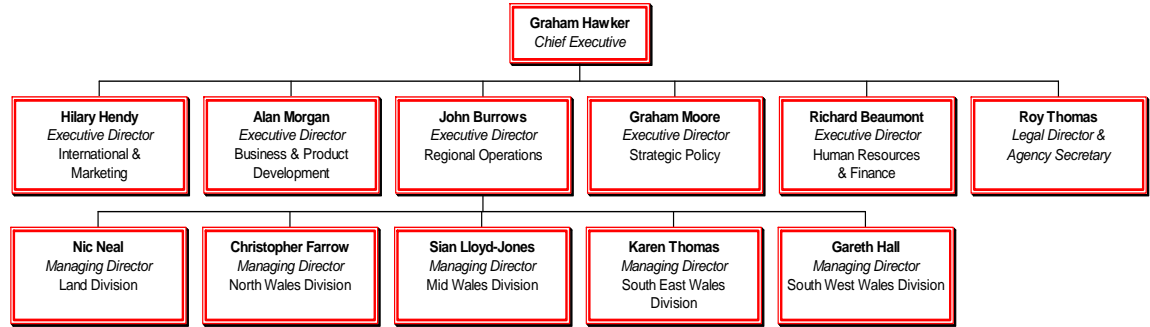
HE/FE/Business schools

Name	Position
Vice Chancellor	Aberystwyth*
Vice Chancellor	Bangor
Vice Chancellor	Cardiff
Vice Chancellor	Glamorgan
Vice Chancellor	Lampeter
Vice Chancellor	Swansea
Principal	Swansea Institute
Principal	North East Wales Institute
Principal	University of Wales College Newport
Principal	University of Wales Institute Cardiff*
Ceri Preece	Chamber Wales
Paul Loveluck	Chief Executive, Countryside Council for Wales
Roger Thomas	Director Wales, Environment Agency*

²³ Those invited to comment; those who submitted comments are highlighted with *

Appendix 5

WDA Structure



Division	Functions
International and Marketing	International Services Marketing Overseas offices Finance and administration
Business and product development	Skills and Enterprise Technology and Innovation Media technology programmes Food Directorate
Regional Operations	Land Division North Wales Division Mid Wales Division South East Wales Division South West Wales Division
Strategic Policy	Strategy and Planning Economic Advice Structural Funds European Policy Rural Policy
Human resources and finance	Finance and accountancy Information Systems Compliance and Audit Employee relations and conditions Human resource development
Legal department	Solicitors and legal executives Legal registry and archives
Finance Wales Ltd	Xenos Business Angels Wales Innovation Fund Wales Small Loan Fund Management Support Programmes

Appendix 6

Annual targets set by the Welsh Office/National Assembly

	1996-97	1997-98	1998-99
Inward investment:			
Number of projects			
Investment	£500m	£400m	£360m
New jobs/safeguarded jobs	10,000	8,000	6,300
Land reclamation:			
Amount reclaimed	400ha	200ha	370ha
Cost per hectare			
New/safeguarded jobs:			
Number	14,000	14,000	11,250
Outside M4/A55	45%	45%	50%
Private sector leverage	£680m	£632m	£480m
Management running costs not to exceed			
	£26.22m	£26.23m	£27.41m
Business development:			
Value of business	N/A	£24m	£35m
Land disposal:			
Area	220ha	160ha	250ha
Value	£12m	£11m	£17m
Business space	60,000m ²	18,000m ²	18,000m ²
Disposal of land held for 7 years:			
Area	70ha	60ha	28ha
Value	£10m	£9m	£11m

Figures for the WDA, DBRW and LAW combined as set out in the NAO's report "Welsh Development Agency – Managing the Creation of the Enlarged Agency and Looking for Future Savings" May 2000.

Appendix 7

www.betterwales.com

Results wanted by March 2003	Aspirations for 2010
<i>Build an advanced, competitive and more diverse economy, with a dynamic small and medium enterprise sector</i>	
The rate of business start-ups to be closer to the UK level; More sole traders to employ people; A stronger presence of service and knowledge-based businesses	Total number of new businesses to have risen by 35,000;
Inward investment projects to generate an average of 7,000 jobs a year and expansion of the home-grown sector of industry to receive a higher priority from public agencies	
The percentage of UK R&D spending in Wales to have doubled; The number of top level research ratings in Welsh higher education to have risen by one third and to have drawn on the Knowledge Exploitation Fund to encourage spin-off companies from higher and further education, more college-company collaborations – targets for the fund will be set by October 2001	
An independent Development “Bank” or fund to be launched to help stimulate development among small and medium enterprises	

Results wanted by March 2003	Aspirations for 2010
<i>Increase the number and quality of jobs and reduce economic inactivity, particularly in less prosperous areas</i>	
40,000 net additional jobs to be created, 34,000 of which should be in West Wales and the Valleys (20,000 filled by people over the age of 50) by implementing Objective 1 plans and targeting a greater proportion of Assembly and WDA development programmes and support on companies in West Wales and the Valleys	The number of jobs to have grown by 135,000 of which 110,000 should be in the Valleys and West Wales; The percentage of people of working age who are in employment must have increased, reducing the gap between Wales and the UK; and in West Wales and the Valleys the percentage should have caught up with the rest of Wales and the UK as a whole; The proportion of women aged 50 to 59 and of men aged 50 to 64 who are economically inactive should have fallen from around 40% in 1999 to less than 30%.
<i>Promote a sustainable future for agriculture and forestry within a modern rural economy</i>	
The value added per person employed in agriculture to grow at least as far as productivity in the economy as a whole; The number of jobs in the dairy, lamb and beef processing industries to increase by about 5%	Excluding direct subsidies, the added value for every person employed in agriculture should have risen faster than productivity in the economy as a whole; The number of jobs in the dairy, lamb and beef processing sectors should have grown by at least 10%
Updated action plans for the lamb, beef, dairy and organic sectors to be agreed with the Agri-Food Partnership	
An action plan for strengthening training, information and advisory services to help farms adapt to be agreed with the Agri-Food Partnership by December 2000	

Appendix 8

Review of Business Support Services in Wales: main recommendations²⁴

	Recommendation	Lead Agency	Approach
<i>Strategy, Roles and Responsibilities</i>			
1	An Economic Policy Board should be formed as the vehicle to develop Wales' Economic Strategy and Strategic Framework defining roles and responsibilities and setting clear objectives.	National Assembly for Wales	Modelled on Irish Forfas board of senior executives from private sector and key public agencies supported by executive body.
2	An Economic Research Monitoring and Evaluation Unit should be set up to underpin the work of the Policy Board, develop our understanding of the Welsh economy in its global context and monitor and evaluate strategic objectives.	Initially set up in the National Assembly for Wales	Co-opting/seconding research capability of other agencies specifically WDA, local authorities (WLGA) and HE. Utilising private sector specialisms on commercial basis.
3	Roles and Responsibilities should be clearly defined based on the Assembly setting policy, the WDA as Wales' lead economic development agency and Business Connect as the gateway to all business services.	Economic Policy Board.	Clear definitions of roles and responsibilities will emerge from the Strategic Framework. With the possible exception of RSA the Assembly should withdraw from service delivery.
4	Business Connect through its Regional consortia, should become the first-stop-shop gateway to all business services for indigenous business;	Business Connect	The Regional Consortia should continue to develop the gateway concept with a shared client management system and more effective branding. CETW and WTB need to be fully integrated partners. Business Connect Wales should maintain the involvement of business with local authorities, CETW and other main service deliveries eg Local Enterprise Agencies.

²⁴ as published in December, 2000

	Recommendation	Lead Agency	Approach
<i>Strategy, Roles and Responsibilities (continued)</i>			
5	Business Connect Wales Ltd should be reconstituted as a partnership within WDA with more executive support.	WDA	WDA should set up a small working group with Business Connect, WLGA, CETW and businesses to agree and implement the change.
6	Through the Business Connect Regional Consortia, co-ordination of the client manger pool within a region should be developed.	Business Connect Regional Consortia	This could encompass client managers within WDA, local authorities, TECs and LEAs.
	Consultancy scheme to provide better access to private sector specialists;	WDA	A modified version of the previous DTI Consultancy scheme is favoured.
	rationalisation of services and “products”;	All service deliverers	
	better customer focus of services and agencies;	All service deliverers.	
	better targeting of companies with potential.	Business Connect Regional Consortia	Joint research
7	Team Wales should be re-established as a small action-orientated team. Wales inward investment performance should be reviewed.	WDA WDA/Team Wales	Team Wales should involve local authorities, CETW/HEFCW and specific private sector partners.
8	The WDA should review its internal organisation to focus clearly on:-	WDA	Roles should evolve through Business Connect Regional Consortia and should be agreed in the Strategic Framework.
	Start-ups and small firms;		
	larger business services and specialist initiatives; and		
	inward investment.		
	Other agencies should also seek to focus on specific client groups to develop specialist services.	All agencies	Agreed with Business Connect Regional Consortia.

	Recommendation	Lead Agency	Approach
<i>Strategy, Roles and Responsibilities (continued)</i>			
9	The private sector must be involved as an equal partner in the Economic Policy Board, in Business Connect and Team Wales.	National Assembly for Wales WDA Business Connect	
<i>Partnership Working</i>			
10	Recommendations to improve partnership working include:		
	more formal and informal inter agency contact;	National Assembly for Wales and All.	
	inter-agency secondment and cross-membership of agency Boards;	National Assembly for Wales and All.	
	channelling of funding through partnerships.	National Assembly for Wales.	
<i>Service Delivery</i>			
11	Recommendations to improve service delivery include:		
	maintaining and enhancing business networks and sectoral initiatives under threat with the demise of TECs;	CETW and WDA	Local authorities and local Enterprise Agency have also to be involved.
	introduction of a Tier 3 Enterprise Grant to provide better access to funding for SMEs outside the assisted areas;	National Assembly for Wales. (already under consideration)	A Tier 3 scheme to meet Wales' strategic objective is required likely to be different to the English model.
	promoting RSA and SMEs and streamlining the appraisal process with local access;	National Assembly for Wales	
	establishing regional call-centres, improving the Business Connect website and a network of local business centres.	Business Connect.	Existing business centres should ideally be rebadged as business Connect.
	promoting RSA to SMEs and streamlining the appraisal process with local access;	National Assembly for Wales	

	Recommendation	Lead Agency	Approach
<i>Service Delivery (continued)</i>			
	establishing regional call-centres, improving the Business Connect website and a network of local business centres.	Business Connect.	Existing business centres should ideally be rebadged as business Connect.

Appendix 9

Memorandum of Understanding between the Welsh Local Government Association and the Welsh Development Agency

Introduction

The Welsh Development Agency (“the Agency”) and the Welsh Local Government Association (“the WLGA”) are committed to working together in partnership, and with others in the public, private and voluntary sectors, to further economic development, community regeneration and the improvement of the environment across Wales in a sustainable manner.

The Agency and the WLGA recognise and respect each other’s statutory role and responsibilities.

The WLGA represents the collective interests of local authorities in Wales. Local authorities are the democratically elected representatives of their communities, and have a responsibility (proposed to become a duty) as the leaders of those communities to articulate their views and promote their social, economic and environmental interests. Local authorities have a significant role in promoting the economy of their area through the provision of infrastructure and business support services, as well as responsibilities for other services which underpin in the local economy such as transport, education, planning and the environment, and the regulation of certain business activities.

The Agency has an all-Wales remit to further economic development, to promote industrial efficiency, and international competitiveness and to improve the environment. The proposed enlarged Agency will take on the community and social powers of the Development Board for Rural Wales and the land acquisition and advisory powers of the Land Authority for Wales and its role in securing land for development.

Purpose of the Memorandum

The Memorandum describes the working relationships agreed between the new Welsh Development Agency and the Welsh Local Government Association in order to promote the prosperity of the people of Wales. This Memorandum (which has no legal effect between the parties) builds on and enhances the established structures and relationships for consultation and co-operation between the Agency, the WLGA and local authorities which are mutually beneficial and make best use of limited resources.

Working Together

The WDA will consult the WLGA on its ongoing analysis of economic issues and on its Corporate Plans and pan-Wales programmes for economic, environmental and community development. The WDA will involve and consult local authorities both individually and through the Regional Economic Forums on matters of mutual local interest including business support services, inward investment strategies and area and community regeneration and development proposals.

The WLGA will consult the Agency on proposals and policy documents which relate to economic and community development in its widest interpretation. Local authorities will include the Agency as a consultee in the production of their programmes, plans and

strategies, including statutory Economic Development Strategies and land use plan. The WDA, WLGA and local authorities will consult in both the drafting and post-publication stages, giving careful consideration to the other's views. (This will include the Agency having regard, at local and regional level, to local authority adopted statutory plan). Each party will also liaise on major research proposals.

The WDA will consult with local authorities, the Welsh Office and the housing industry in undertaking Land Availability Studies.

Progress Review

There will be regular meetings between the Agency and local authorities at senior level (normally Regional Managing Director/Chief Executive) at no less than 6 monthly intervals to review progress and discuss matters of mutual interest.

Business Support

The WDA and local authorities share responsibility with others, for supporting and developing business. Both parties are committed to the delivery of the highest quality services, utilising the Business Connect network and local delivery mechanisms, subject to appropriate quality standards.

The WDA's Business Development Division will develop pan-Wales products and services for businesses, which will be delivered wherever feasibly through its regional offices.

Local authorities will develop local products and services for business that meet the needs of their area, which may be delivered directly or by a third party. Each party will make the other aware of the business support products and services which it intends to make available at local level.

The Agency and local authorities will liaise with one another and with the TECs and other agencies on company account management, sharing intelligence and information, whilst respecting any requirements for confidentiality.

Inward Investment

The WDA will continue to undertake the lead role in overseas promotion and generation of inward investment opportunities and acts as the main point of contact for inward investors. Marketing of inward investment from the rest of the UK is largely undertaken through WDA regional offices within a national strategy working with local authorities and marketing partnerships. The implementation of inward investment projects and their after-care is devolved to WDA regional offices. The WDA and local authorities share responsibility for effective realisation of investment projects and their integration into the Welsh economy.

Local authorities may promote their areas individually, liaising with the WDA, and through local partnerships. They have a vital role to play in supporting inward investment, through the provision of essential infrastructure and services for investment projects, and through the development of their areas as attractive places to live, work and do business.

Both parties acknowledge the success of the 'Team Wales' approach which subject to the client's agreement, brings together all the relevant organisations. The Agency will seek to involve local authorities in individual inward investment cases at the earliest

appropriate stage in full recognition of their contribution to securing such projects for Wales.

Area and Community Regeneration

Local authorities and the Agency recognise that successful regeneration involves co-ordinated and targeted action, and respects and involves people in the areas and communities concerned. It brings together the development of sites and premises, provision of infrastructure and improvement of the environment along social and community based initiatives.

Local authorities will normally lead the regeneration of areas and communities, working in partnership with the Agency and other organisations.

The WDA adopts an holistic area approach to regeneration. The WDA and local authority will draw up joint non-statutory area strategies and plans for between 3 and 5 years. These will be reviewed each year subject to annual budget rounds. The plans will set out the proposed actions of the parties. The WDA and each of the local authorities undertake to maximise the involvement of the private sector and maximise funding contributions from the European Union and other sources.

Publicity

The WDA, WLGA and local authorities will make every effort to consult each other prior to the issue of any press release or public statement on matters where the WDA and one or more local authorities have been jointly involved or where the interests of either party may be substantially affected. Publicity statements issued by either party will acknowledge the other's role.

Databases and information

To avoid duplication, each party will liaise on databases of common information, for example company directories sourcing information, land and property availability, and will supply information to the other in agreed cases.

Review

The WDA and the WLGA agree that this Memorandum should be subject to periodic review, in particular in the light of any changes in relevant circumstances, such as the establishment of a National Assembly for Wales.

Appendix 10

The Irish Development Agency: facts and figures

Figure 1: IDA Ireland organisation structure, 2000

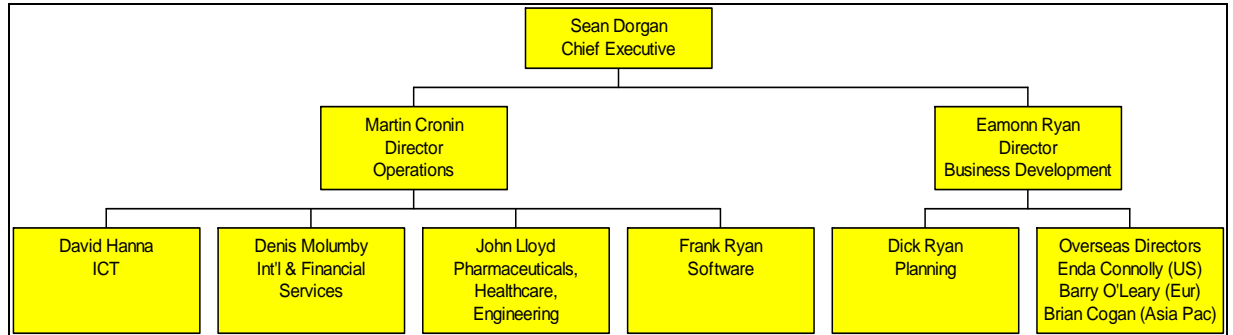


Table 1: projects secured by the IDA

Call Centres	Electronics	Engineering	Financial/ Shared Services	Software
AOL Bertelsmann	Apple Computer	ABB	Chase Manhattan	Alcatel
Compaq	Celestica	Brugmann	BNP	Berlitz
Electrolux	Dell	Schneider	Commerzbank	EDS
Gateway 2000	Ericsson	HP Chemie Pelzer	Dresdner Bank	Ericsson
Hertz	General Electric	Van Leer	Société Générale	Fujitsu
IBM	Hewlett Packard	Kostal	Merrill Lynch	IBM
Korean Air	Motorola	Leonische Draht.	Deutsche	Microsoft
Radisson Hotels	NEC	Liebherr	Novell	Philips
Sitel	Siemens	Microtherm	Whirlpool	Siemens Nixdorf
UPS	Schlumberger	Tractech	ABN-Amro	Computer Assoc.

Source: IDA

Table 2: Employment in IDA supported companies

	1993	1994	1995	1996	1997	1998	1999
New jobs filled	8,223	9,881	11,743	13,285	14,810	16,127	18,079
No. of companies	873	909	963	1,044	1,110	1,172	1,279
F/T employment	78,218	83,192	89,817	97,123	107,043	115,977	124,664
Net change in F/T employment	+2,711	+4,974	+6,625	+7,306	+9,920	+8,934	+8,687
% net change	+3.6%	+6.4%	+8.0%	+8.1%	+10.2%	+8.3%	+7.5%
Job losses	-5,512	-4,907	-5,118	-5,979	-4,890	-7,193	-9,392
Job losses as % of total jobs	7.0%	5.9%	5.7%	6.2%	4.6%	6.2%	7.5%
Temporary employment	5,265	8,988	11,498	9,345	13,313	14,844	15,394

Figure 2: Overseas Companies in Ireland 1999: % of Total Employment by country of origin

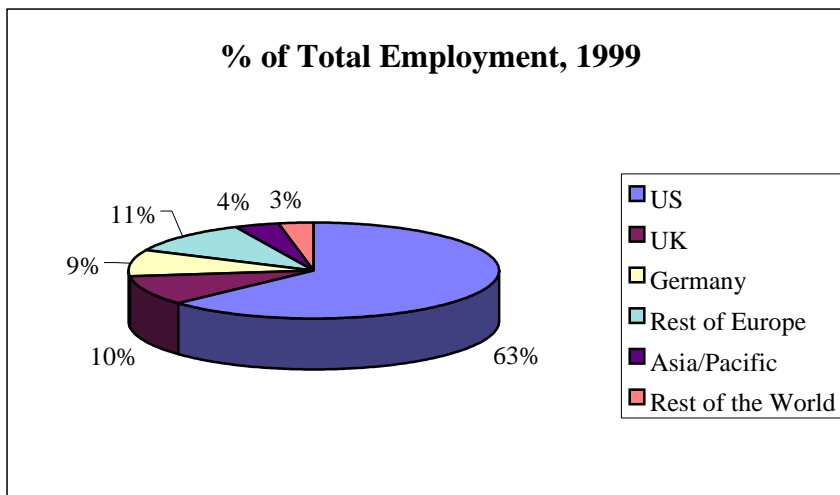


Table 3: Overseas Companies in Ireland 1999: Total Companies and Employment by country of origin

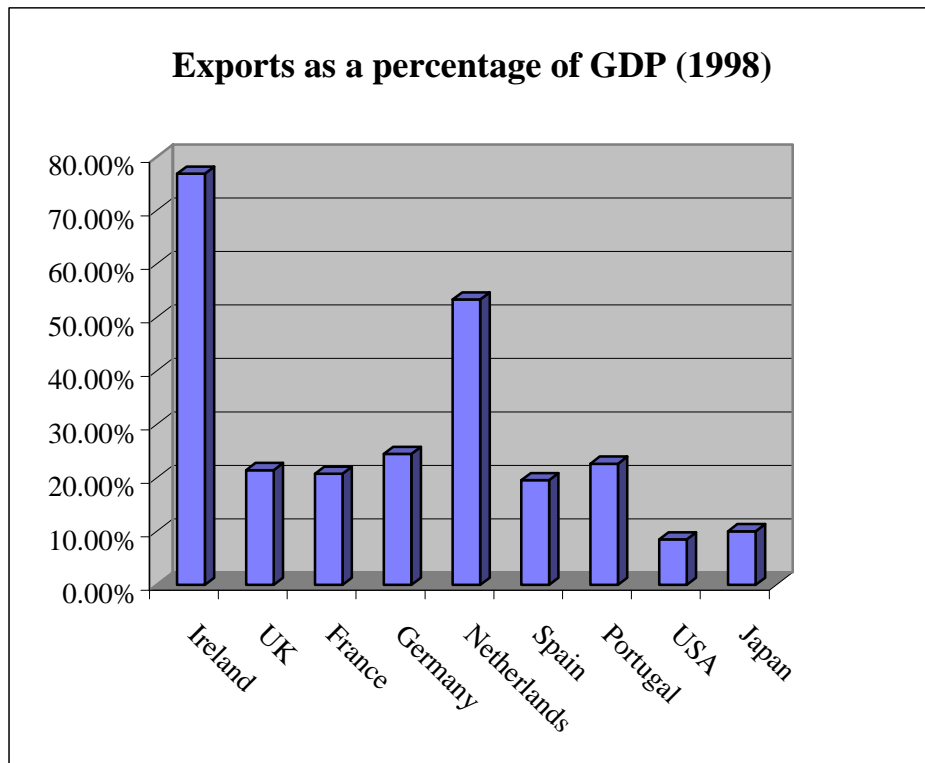
Country of Origin	Number of Companies	Total Employment 1999
United States	497	78,521
United Kingdom	198	12,956
Germany	172	11,070
Rest of Europe	291	13,642
Asia/Pacific	57	4,949
Rest of World	64	3,526
TOTAL	1,279	124,664

Source: IDA 1999

Table 4: Total Employment by Sector - IDA supported companies

	1994	1995	1996	1997	1998	1999	% change 98/99
Pharmaceuticals/Healthcare	13,455	14,041	14,935	15,544	16,623	18,172	+9.3
Electronics/Engineering	42,424	47,127	50,946	56,574	59,082	61,457	+4.0
Textile/Clothing/Footwear	8,020	7,673	6,961	6,047	5,509	4,074	-26.0
Miscellaneous Industry	8,057	7,768	7,429	7,768	7,486	6,971	-6.9
Int'l/Financial Services	11,236	21,110	16,852	21,110	27,277	33,990	+24.6
Total	83,192	89,817	97,123	107,043	115,977	124,664	+7.5

Figure 3: Exports as % of GDP, 1998



Source: IMD World Competitiveness Yearbook, 1999