

Evaluating the Impact of East Midlands Development Agency – Executive Summary

A report prepared for *emda*

Ecotec

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**Evaluating the Impact of East Midlands
Development Agency**
Overall Assessment Report - Final Report

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Executive Summary

1 Introduction and Overview

This report sets out the findings of a study commissioned by *emda* in March 2005 with the primary aim of establishing the impacts of the Agency's activities since its establishment in 1999 until the end of 2006/07. The study has been built upon evaluations of the impacts of Agency activity against the 12 strands of the Regional Economic Strategy of 2003 and two of the major National Programmes which are implemented by *emda*.

The evaluation of impacts is primarily based upon a 'bottom up' microeconomic methodology which follows the range of national guidance on the evaluation of regional development interventions. It has involved the detailed assessment of a representative sample of some 250 Agency funded projects, supported by an extensive survey of the effects of different types of intervention on their beneficiaries. As well as a contextual review, the work has also involved extensive programmes of interviews and workshops with both *emda* personnel and external stakeholders to support the project level assessments and to inform the assessment of the Strategic Added Value of the Agency's activities as a whole.

The study finds that *emda* has had substantial positive impacts on the East Midlands economy. Its interventions since 1999 have created 23,570 jobs and generated £1.015bn per annum in GVA. This includes impacts associated with *emda* projects and National Programmes which have been delivered by the Agency. *emda* projects account for 13,075 of the jobs created and £565m per annum of the GVA generated. These impacts are expected to be an on-going contribution to the regional economy, raising employment and annual GVA by around 1.2% - 1.4%.

Agency interventions have also safeguarded over 11,700 jobs. A number of other impacts have been identified but these are either difficult to quantify (in the case of some social and environmental benefits) or have been short term in nature and will have already dissipated (as in the case of temporary construction work).

Agency interventions will also have a range of further impacts which lie to a large extent in the future. These will arise directly from the prospective effects on beneficiaries, from more diffused effects as changes in behaviour work through the Region's economy and from the role of projects in establishing the foundations for future growth.

Project activity will have achieved a good level of economy. Projects are overwhelmingly judged to have been effective and to have offered reasonable or good value for money. Effective delivery has been a cornerstone of this performance.

Strategic Added Value has become an increasingly important part of the Agency's activities in recent years. The Agency demonstrates strong engagement and leadership. It exerts an important influence on other organisations and levers in substantial resources both directly and through laying the foundation for future activity. The Agency builds effective strategic linkages and innovation is a prominent feature of its work.

2 The Policy Context and its Evolution

The developing European and UK policy context has played a major role in shaping the evolution of policies within the Region. At a European level the Lisbon and Gothenburg packages and the European Employment Strategy have set the framework for the development of national policies across a range of policy areas and shaped the development of the EU Structural Funds and the focus of their support to the Region. Reforms to the Common Agricultural Policy and Cohesion Policy have also been important influences which in both cases have reduced levels of support to the UK regions over the period since 1999.

Whilst there has been substantial continuity in UK policies over the period since 1999, a number of new themes and emphases which have helped to shape regional development policies in the East Midlands and elsewhere are evident, including:

- A renewed emphasis on innovation and the knowledge economy;
- 'Enterprise for all' and the emphasis on simplifying business support with a focus on regional needs;
- Promoting sustainable communities;
- Modernising rural policy and streamlining the delivery of service provision;
- Increased recognition of the links between transport and economic performance;
- The increasing emphasis on the climate change agenda.

The three editions of the Regional Economic Strategy for the East Midlands (from 2000, 2003 and 2006) share a strong emphasis on improving the Region's productivity and competitiveness but with a recognition of the importance of environmental and social issues. *emda* corporate policies have established a comprehensive framework of objectives and actions to support the delivery of RES objectives.

Notable developments over the period of the evaluation have included the progressive devolution of a range of National Programmes to the RDAs and the establishment by the Agency of the Sub-Regional Strategic Partnerships (SSPs) to act as delivery bodies and to improve responsiveness to sub-regional needs and opportunities.

3 The Economic Context and its Evolution

The East Midlands lags the UK average level of GVA per capita by around 9% and the performance gap relative to leading EU regions is substantially larger. However, the performance of the East Midlands is better than that of other UK Midland and Northern Regions.

The RES Evidence Base argues that the Region's economy is characterised by a "low wage, low skill, low productivity equilibrium". Along with skills, the potential explanatory factors limiting the Region's economic performance are identified as: low levels of investment, limited levels of R and D, and a below average – though relatively improving – level of enterprise.

The structure of the Region's economy is fairly similar to that of the UK, although manufacturing is relatively overrepresented and key service sectors are underrepresented.

Economic activity and employment rates within the Region are relatively high. Qualification levels and educational attainment are somewhat below average. Partly no doubt reflecting this, earnings are well below the national average, although unemployment is also relatively low.

Particularly away from the major urban centres and the M1 corridor, the end values from industrial and commercial development are limited, a problem compounded by the 'abnormal' costs associated with developments in many coalfield and urban areas.

The extent of progress against the 35 outcome targets of the RES 2003 – which set aspirations for the overall economic performance of the Region rather than for the contributions of *emda* to this performance – has been patchy. Some key targets have been met but there has been no measurable progress against others. In a substantial proportion of cases there is a lack of reasonably up-to-date evidence on which to assess progress because the original targets were based upon specific studies which have not been repeated. Performance against the RES 2006 targets which are based upon data sources for which consistent time series data can be secured has largely been positive.

4 Expenditure Activities and Output

emda expended some £1.125bn over the period to 2006/07. Expenditure on projects amounted to £537m, with a further £355m accounted for by the National Programmes which were transferred to the Agency, either on its establishment or subsequently.

Physical development related interventions and business support activities represent the largest areas of Single Programme expenditure. Around 40% of this spending relates to regional projects, with expenditure in coalfield areas and the cities accounting for the largest shares of expenditure on sub-regional interventions.

Whilst the majority of projects have been small, the bulk of expenditure has been accounted for by projects in the range of £100,000 - £5m. *emda* projects account for 65% of total expenditure with the balance represented by the SSPs.

Over the period as a whole Agency interventions are reported to have created or safeguarded some 75,360 jobs, with 4,793ha of brownfield land reclaimed. This job figure is not in itself a measure of the Agency's economic impact; this can only be estimated through detailed impact analysis. As such the current study considers the extent to which the Agency's interventions are generating net additional employment and GVA. This requires, for example, consideration of how far projects have changed the economic performance and behaviour of those affected and the extent of the potential offsetting effects elsewhere in the Region's economy.

Analysis of outputs for the three sub-periods for which consistent data is available indicate that the majority of the Agency's overall targets have been achieved, often with substantial overachievement. The shortfalls against targets which have occurred are mostly comparatively small.

5 Assessment of the Economy, Efficiency and Effectiveness of *emda* Funded Projects

The diversity of the Agency's activities typically means there are challenges in using standard benchmarks to judge the reasonableness of project costs. However, the project assessment found that the processes used to procure project inputs were robust and secured good economy.

The available evidence indicates that *emda* delivers its interventions efficiently. Projects are generally being delivered on time and to budget - exceptions in the case of the latter are largely confined to strands involving significant physical development activities where

issues which are difficult to anticipate frequently arise. Qualitative evidence from stakeholder interviews has indicated that *emda* is perceived to be highly competent in its delivery function.

The vast majority of the assessed projects are judged as having been successful and to have offered good or reasonable value for money:

- Interventions have a very good level of strategic fit with the RES and other related regional strategies.
- The rationale for intervention is clear in most cases with appraisals having given proper consideration to the question of whether public sector investment was justified on the basis of market failures, equity considerations or other economic or policy rationales.
- *emda* achieves a good level of project additionality, with its investment being vital in enabling projects to proceed in the majority of cases. In most other cases, there is strong evidence that *emda* funding has led to scaling-up and quality improvements. Intervention has also helped to bring initiatives forward in time.

There are many examples of successful longer-term outcomes from studies, partnership initiatives and other SAV-type investments.

The majority of the projects which were assessed demonstrate high quality of design, with implementation arrangements designed to ensure long-term sustainability when public sector funding ceases.

6 The Economic Impact of the Agency's Activities

In overall terms *emda* interventions are estimated to have so far created some 23,570 ongoing jobs and £1.015bn in annual GVA. Over 11,700 ongoing jobs and £505m in annual GVA are estimated to have been safeguarded. Future potential impacts are projected to comprise some 4,645 jobs created or saved, with £210m per annum in associated GVA. Furthermore, using scenarios that impacts endure for 5 or 10 years respectively, *emda* spending is estimated to have generated a present value¹ of GVA of between £4.8bn and £8.5bn, equating to £5.00 and £8.90 of GVA for every £1 of *emda* spending².

¹ Following public sector appraisal guidance, present values are estimated by applying progressively lower weights to benefits the further in the future they arise, using a discount rate of 3.5%.

² Based on the present value of *emda* expenditure

If *emda* expenditure on projects generating economic outputs only is considered, the 10 year figure rises to £14.70 for every £1 of *emda* spending³. As is often the case in economic impact evaluations, there is some uncertainty about the likely duration of the on-going impacts of activity. The 10 year persistence figures are reflective of average job tenure estimates and associated guidance⁴.

Around 55% of the estimated impacts to date and around 60% of the potential future impacts are associated with *emda* project expenditure, most importantly business support, employment and skills, inward investment and various physical development initiatives. The balance is accounted for by the National Programmes, most importantly the National Coalfields Programme and the Single Regeneration Budget.

emda interventions have also generated substantial short term impacts on construction related employment. Tourism marketing activities have also had substantial impacts which may be, at least largely, short term.

It needs to be recognised that, although presented as 'single value' estimates, all figures are subject to a margin of error – most importantly because of issues around how far beneficiaries are able to provide an accurate picture of the effects of the *emda* interventions on economic outcomes.

7 The Wider Benefits of *emda*'s Activities

emda interventions have led to a range of wider benefits. These include:

- Direct effects on the investment, productivity and competitiveness of the beneficiaries of projects which will not be captured in the quantified assessment of impacts on employment and GVA within Section 6. In addition, a range of interventions will have, often more diffused, longer term impacts on the Region's economic performance.
- Encouraging social inclusion. Target groups are well represented within the beneficiaries of employment learning and skills projects and over 30% of firms which have been supported under other strands report that the jobs which have been created are promoted to excluded groups. Projects have also generated a range of wider social benefits – for example, in terms of improving access to services, developing social capital and assets, tackling crime and anti-social behaviour, and provision of housing.
- Environmental benefits. As well as making a major contribution in terms of reclaiming more than 4,000 ha of brownfield land, Agency activities have made important contributions in terms of wider local environmental improvements, improving

³ Undiscounted values

⁴ 10 years is the figure suggested in the 'EGRUP' Guidance: 'A Framework for the Evaluation of Regeneration Projects and Programmes', HMT 1995.

environmental standards in physical development schemes, promoting resource efficiency and encouraging a mode shift in favour of public transport.

8 Value for Money

Net cost per additional job is probably the only practicable overall measure of value for money. It has evident limitations where projects have important 'joint outputs' such as environmental improvements, and it takes no account of the durability or 'quality' of the employment involvement.

The overall net cost per job of Agency project spend is estimated to be £38,550. There is a clear divide between:

- Physical interventions which tend to have high costs per job, reflecting in particular the abnormal costs of physical developments in coalfield and urban areas and the relatively limited job outputs of some types of community, training and sports project.
- Interventions focussed on people and businesses for which costs per net job are clustered around £10,000, although in this case the likely durability of the impacts involved is probably often less certain.

Comparisons should be treated with care but a broad benchmarking analysis indicates that:

- The costs per ha of the reclamation projects which were reviewed fall within the broad range quoted in English Partnerships guidance.
- The net cost per job of the physical interventions appear consistent with the average figures from evaluations of a number of area based urban regeneration initiatives.
- The net public sector costs per job of the business focussed interventions compare well with the figures from recent national evaluations.

9 Strategic Added Value

Approaches to measuring strategic added value are still emerging and there are no targets related to SAV contributions. This mainly qualitative assessment found that :

- *emda* has engaged effectively with stakeholders, both in areas where it is the key policy lead and in areas where it needs to work with others to achieve its ambitions for the Region.
- *emda* has demonstrated strong leadership, both in policy areas where it has formal responsibilities and in some other areas where responsibilities are more fragmented. It

has been decisive in driving forward changes in policy and delivery structures for business support and tourism, for example, and has led a range of successful thematic strategy and plan-making initiatives. The Agency is viewed as an effective advocate of regional interests.

- Influence on the policy and investment decisions of regional and national organisations is exerted through a variety of mechanisms, including a range of formal and informal partnerships and fora. There are good examples where *emda* has funded research and intelligence gathering to inform policy decisions and build the case for investment in particular initiatives.
- *emda* has used its influence and Single Programme resources effectively to generate significant leverage from partners, both initially to support interventions directly, and in the longer term in laying the ground for the subsequent investment of resources by other organisations and businesses. Immediate leverage amounting to nearly £360m was associated with the sampled projects.
- *emda* has often created good links between related areas of work at a strategic level in order to promote an integrated approach to regional development.
- Innovation has been a strong feature of *emda*'s work under a number of strands. A range of initiatives have attracted national attention, with some being replicated in other regions.