Northern Ireland Audit Office

Invest NI: a performance review

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
27 March 2012

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Northern Ireland Audit Office

Report by the Comptroller and Auditor General for Northern Ireland

Invest NI: a performance review

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This report has been prepared under Article 8 of the Audit (Northern Ireland) Order 1987 for presentation to the Northern Ireland Assembly in accordance with Article 11 of that Order.

K J Donnelly
Comptroller and Auditor General

Northern Ireland Audit Office
27 March 2012

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For further information about the Northern Ireland Audit Office please contact:

Northern Ireland Audit Office
106 University Street
BELFAST
BT7 1EU

Tel: 028 9025 1100
email: info@niauditoffice.gov.uk
website: **www.niauditoffice.gov.uk**

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Abbreviations

AFBI	Agri-Food and Bio-Science Institute
AWM	Advantage West Midlands
BITP	Business Improvement Training Programme
BPA	Business Plan Approval
CDP	Company Development Programme
CoE	Centres of Excellence
CPJ	Cost per Job
DCA	District Council Area
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
EDA	Economic Development Agency
EDP	Enterprise Development Programme
ERINI	Economic Research Institute for Northern Ireland
EU	European Union
FDI	Foreign Direct Investment
GFI	Go For It
GVA	Gross Value Added
IDB	Industrial Development Board
IREP	Independent Review of Economic Policy
IRTU	Industrial Research and Technology Institute
KPI	Key Performance Indicator
LEDU	Local Enterprise Development Unit
NDPB	Non Departmental Public Body
NIARLS	Northern Ireland Assembly Research and Library Services
NIPSM	Northern Ireland Private Sector Median
NISRA	Northern Ireland Statistics and Research Agency
NTSN	New Targeting Social Need
NWDA	North West Development Agency
PAC	Public Accounts Committee
PfG	Programme for Government
PIR	Performance Information Report
PPE	Post Project Evaluation
PSA	Public Service Agreement
R&D	Research and Development
RDA	Regional Development Agency
SaBP	Start a Business Programme
SDI	Scottish Development International
SFA	Selective Financial Assistance
SME	Small and Medium Sized Enterprises
UKTI	United Kingdom Trade and Industry

Executive Summary

Executive Summary

Invest NI has spent almost £1.5 billion since April 2002 on job promotion, securing investment and supporting R&D

1. Since its formation in April 2002 as Northern Ireland's major economic development organisation, Invest NI has spent almost £1.5 billion. Invest NI estimates that this has resulted in a range of benefits, including the promotion of over 42,600 new jobs, safeguarding at least 19,400 jobs and planned investment of £5.5 billion in the local economy. Invest NI has measured and reported its performance through a framework of Corporate Plan and Operating Plan targets for three Corporate Plan periods (April 2002 to March 2005, April 2005 to March 2008 and April 2008 to March 2011).

Invest NI's performance in the last three years was much improved

2. Performance in Invest NI's most recent Corporate Plan period (April 2008 to March 2011) has been the strongest to date. All nine Corporate Plan targets and around 80 per cent of Operating Plan targets were achieved. Invest NI promoted over 7,500 new FDI jobs and increased Research and Development (R&D) investment by its client companies by almost three-fold compared to the previous Corporate Plan period. This performance was particularly commendable, given the previous low levels of R&D investment in Northern Ireland and the present difficult economic climate.

3. In its first two Corporate Plan periods, Invest NI's performance was mixed. In the first period, Invest NI achieved just over half of its 15 Corporate Plan targets, and half its Operating Plan targets. Whilst it achieved targets for Foreign Direct Investment (FDI) projects and local business start-ups, there was considerable under-performance in R&D, export sales and high growth business starts. In the second Corporate Plan period, Invest NI achieved eight of its 15 Corporate Plan targets and almost two-thirds of the Operating Plan targets. This represented an improvement on the first period, but overall, a third of targets were missed. Positively, Invest NI's indigenous client companies committed to investment of £606 million (target £488 million), but a key target related to reducing the gap in business expenditure on R&D between Northern Ireland and the rest of the UK was missed – this actually increased by 2 per cent.

4. A number of targets set in the first two Corporate Plan periods were insufficiently challenging. Some targets were significantly over-achieved and some Operating Plan targets were set at substantially lower levels than previous performance. Given the relatively favourable economic circumstances at the time, this calls into question the strength of performance achieved in the first two Corporate Plan periods. Equally, it illustrates the strength of improvement in the latest period, when more challenging targets were achieved under much less favourable economic conditions.

5. It is important to acknowledge that, on its creation, Invest NI faced a number of challenges, most significantly, the need to oversee the successful merger of three significant agencies (Industrial Development Board (IDB), Local Enterprise Development Unit (LEDU) and Industrial Research and Technology Unit (IRTU)). This merger required significant staff rationalisation (reducing staffing from 740 to 575), as well as meeting cost reduction targets. Both targets were achieved on time.

6. Whilst Invest NI has primarily regarded itself as a wealth creation agency, jobs are an indicator on which, inevitably, it is judged by stakeholders. In the first two Corporate Planning periods, Invest NI narrowly failed to achieve targets related to jobs promoted by foreign direct investment projects which were completely new to Northern Ireland (in total 8,983 jobs were promoted against the 9,150 target). In the third Corporate Planning period, the key performance indicator measured all inward investment jobs promoted. The target was for 6,500 jobs, lower than the 8,692 total jobs promoted in the second Corporate Plan period, but set in the context of the difficult economic climate. In the event, this target was exceeded by over 1,000 jobs (7,533 jobs promoted). However since being established, Invest NI's measurement in this area has been based on jobs `promoted'[1], rather than jobs actually created. Similar to many Government agencies in Northern Ireland, the quality and reliability of Invest NI's performance data has not been subject to external validation.

Invest NI has taken steps to address low additionality levels in its main assistance programmes

7. Early evaluations (in 2004) of Invest NI's two largest assistance programmes - Selective Financial Assistance (SFA) and the Company Development Programme (CDP) - indicated that additionality (the net positive difference achieved as a direct result of economic development intervention) was low. Invest NI took steps to address this, and an updated evaluation of the Business Improvement Training Programme (BITP) (CDP's replacement) indicated that additionality levels have increased. Whilst there has been no more recent measurement of additionality for SFA (Invest NI's most significant programme), DETI produced initial terms of reference for a revised evaluation in the course of our review, and this is scheduled for completion in December 2012.

8. Invest NI's R&D programmes enjoyed higher additionality levels than SFA and have helped boost the traditionally low levels of R&D investment in Northern Ireland. However, the degree to which they have contributed to improving productivity has not been quantified. Invest NI's original programme to assist local business start-ups, Start a Business Programme (SaBP) suffered low additionality. It was replaced in 2009 by the Enterprise Development Programme (EDP). Initial research into EDP suggests that numbers of start-up businesses have been disappointing and that there is scope for improving performance in terms

1 Invest NI has traditionally measured its performance in terms of jobs promoted (i.e. those envisaged at the commencement of a supported project) rather than actual jobs created.

Executive Summary

of turnover, employment, salary and export levels.

Invest NI's job promotion record has improved, but the number of jobs actually created is unclear

9. Invest NI has reported jobs promoted (that is, those envisaged at the start of a supported project). It also attempted to estimate the proportion of promoted jobs which translate into jobs created. The most reliable estimate suggests a 75 per cent conversion rate. This would mean that 21,000 of the 28,000 promoted jobs between April 2002 and March 2008 were created. However, the latest additionality estimates for SFA (albeit dated) of 50 per cent mean that only around 10,500 of the 28,000 promoted jobs were created and fully additional. Whilst performance in this area may have improved in recent years, there has been no updated analysis of additionality to confirm this.

10. Analysis by Invest NI suggested that between April 2002 and March 2007, net employment in its client companies increased by just 0.4 per cent. An Economic Research Institute of Northern Ireland review produced slightly more positive results, estimating that net employment in significantly assisted client companies between 2001 and 2007 had grown by around 3.7 per cent. Invest NI is currently undertaking updated measurement to assess the latest performance in terms of net job movement.

11. The quality of jobs promoted is a key performance measure, as higher value jobs boost economic productivity and raise living standards. Although Invest NI did not have any job quality targets until 2008, it did analyse the salary difference between FDI jobs promoted/safeguarded and the Northern Ireland Private Sector Median (NIPSM). Between April 2002 and March 2008, 87 per cent of safeguarded jobs had salaries above the NIPSM compared to only 50 per cent of new jobs. Furthermore, 60 per cent of the new jobs were in `contact centres', and only 33 per cent of these had wages above the NIPSM. There was a marked improvement in the third Corporate Plan period, when formal targets in this area were introduced. Salaries for 75 per cent of the total jobs promoted were above the NIPSM compared to 50 per cent between April 2002 and March 2008. Whilst the development of targets and performance measurement for job quality illustrates Invest NI's commitment to transparent performance reporting, it is important that this is developed further so that outcomes are measured on the basis of jobs created as well as jobs promoted.

Benchmarking the performance of economic development agencies is difficult and inconclusive

12. Benchmarking the performance of economic development agencies (EDAs) has historically proved difficult, due to their activities and objectives having been developed to address different needs. Nonetheless, benchmarking

in recent years indicated that Invest NI had a favourable FDI job creation compared to other UK regions, but lagged behind the Republic of Ireland in this area, and that Invest NI's spend on economic development had been high in comparison to the rest of the UK and its cost per job at the higher end of the UK scale. This is likely to have been influenced by Northern Ireland's special Regional Aid status, granted in recognition that it has been an area of relative economic disadvantage and political instability. Consequently, Northern Ireland has been able to utilise higher rates of financial assistance towards economic development than most other UK regions.

13. In an attempt to arrive at more definitive conclusions, we benchmarked Invest NI's performance with comparator organisations in the rest of the UK and Ireland. We encountered difficulties in gathering data which was fully comparable and spanned the same time-scales. Nonetheless, our work represented the most meaningful benchmarking possible under the circumstances.

14. It was only possible to benchmark Invest NI's first two Corporate Plan periods (covering March 2002 to April 2008), primarily because more recent data for comparator agencies was not available. As Invest NI clearly attained its strongest performance to date in the third Corporate Plan period for a range of indicators, its comparative position may also have improved. Our benchmarking suggests that Invest NI's performance in its first two Corporate Plan periods was mixed. Invest NI performed well in terms of operating costs and encouraging export activity, but less well in the areas of levering inward investment, additionality, cost per job, job quality and encouraging R&D activity and investment.

Invest NI is making good progress in implementing `Transform', a comprehensive change management programme

15. Having assessed the Barnett report[2] and other stakeholder feedback, Invest NI launched `Transform', a major change management programme, in February 2010. Invest NI considers this programme will enable it to deliver better value to the economy, and to be recognised as `best in class' in delivering economic development and value for money. At March 2011, `Transform' was broadly on schedule and a number of key changes had either been introduced, or were at an advanced stage. Most significantly, Invest NI had rationalised its previous suite of 76 financial assistance programmes to 21 tailored solutions; introduced new arrangements for ranking and prioritising SFA projects to target funds at those which provide higher value; was developing a model to enable it to assist all businesses in Northern Ireland; had revised arrangements for negotiating major investment projects and was developing a smaller Key Performance Indicator (KPI) framework focused on outputs, to be introduced in the 2011-14 Corporate Plan.

2 The Barnett Report, or the Independent Review of Economic Policy (IREP), was published in September 2009. It was a wide ranging review of economic policy development and implementation in Northern Ireland.

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16. `Transform' goes a long way to addressing the main recommendations of the Barnett report. However, the ultimate success of this initiative will be judged on the extent to which it delivers outcomes such as higher performing investment projects and improved job quality, leading to increased productivity/Gross Value Added (GVA). Invest NI's revised performance measurement framework will help measure if 'Transform' is delivering the change envisaged. However, it is important that Invest NI clearly identifies the extent of improvement desired. This can be achieved by setting targets around clearly established baselines from previous performance and tracking performance against these. Any narrowing of the productivity gap between Northern Ireland and the rest of the UK would also be an indicator of the impact of `Transform'. However, we acknowledge that Invest NI is only one of a number of `influencers' in this regard, and cannot be held solely responsible for the economy's performance against this objective.

Part One:
Introduction and Background

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Introduction

1.1 Invest NI was established in April 2002 as a Non-Departmental Public Body, operating at arm's length from the Department of Enterprise, Trade and Investment (DETI). On its creation, Invest NI became Northern Ireland's major economic development organisation, assuming the responsibilities of the Industrial Development Board (IDB), the Local Enterprise Development Unit (LEDU) and the Industrial Research and Technology Unit (IRTU). This merger presented Invest NI with a number of significant challenges.[3]

1.2 Invest NI's total expenditure over the nine years to March 2011 was £1.48 billion (see Table 1).

Background

1.3 Up to March 2011, Invest NI estimates that its activities:

- promoted[4] at least 42,610 new jobs;
- safeguarded 19,449 jobs; and
- secured £5.5 billion of planned investment (£2.9 billion external and £2.6 billion local).

1.4 Invest NI measures and reports its performance through an internal framework of annual Operating Plan and three-year Corporate Plan targets. The Corporate Plan targets have assessed outcomes over three periods (April 2002 to March 2005, April 2005 to March

Table 1: Analysis of Invest NI expenditure April 2002 to March 2011

Expenditure Type	Expenditure (£m)	Expenditure (%)
Financial assistance to indigenous and foreign inward investment companies	674*	45.50
Expenditure on research and development programmes	208	14.05
Other grant and programme expenditure	137	9.25
Total grant and programme expenditure	**1,019**	**68.80**
Administration costs – staff costs	195	13.17
Other administration costs	44	2.97
Other costs	223	15.06
Total administration expenditure	**462**	**31.20**
Total expenditure	**1,481**	**100**

*Invest NI was unable to provide actual figures for the split of payments made between indigenous and foreign direct investment projects. Its financial systems do not distinguish between these two sets of figures. Invest NI analysis suggests that 44% of all assistance offered was to foreign-owned companies, and 56% to indigenous companies.

Source: Invest NI

3 Invest NI was required to reduce staff numbers from 740 to 575 and to make cost savings. Both of these targets were achieved on time.

4 Invest NI has traditionally measured its performance in terms of jobs promoted (i.e. those envisaged at the commencement of a supported project) rather than actual jobs created.

2008 and April 2008 to March 2011). For the latest period, the Corporate Plan targets align directly with Public Sector Agreement (PSA) targets which Invest NI has been tasked with under the 2008-2011 Programme for Government (PfG). The development of the local economy is the top PfG priority, and central to this is a goal of halving the private sector productivity[5] gap between Northern Ireland and the United Kingdom (excluding the greater South East of England) by 2015.

1.5 As well as reporting performance against its Operating Plan, Corporate Plan and PSA targets, Invest NI has published three Performance Information Reports (PIR). The most recent PIR assessed performance over the period April 2002 to March 2008 (that is, the first two Corporate Plan periods). In view of the Independent Review of Economic Policy (the Barnett report) conclusion that no organisation should have primary responsibility for reporting on its own performance, DETI is to assume lead responsibility for reporting on Invest NI's performance from 2011-12.

1.6 The Barnett report (September 2009) represented a wide-ranging review of economic policy development and implementation in Northern Ireland, and included an assessment of:

- key aspects of Invest NI's performance up to March 2008, such as job creation, the quality of jobs promoted and the degree of support for R&D and innovation;
- the potential for improving the co-ordination and delivery of economic policy development by DETI and Invest NI; and
- how Invest NI's governance structures could be re-organised in order to strike the right balance between accountability, and speed and risk taking in decision making.

Barnett identified a comprehensive range of recommendations aimed at enabling DETI and Invest NI to realign existing policies and introduce new measures to aid achievement of the key Programme for Government productivity goal.

1.7 To address Barnett's recommendations and feedback from client companies and external stakeholders, Invest NI embarked on a major change management programme `Transform' in February 2010. This programme aims to achieve the highest standards of customer service delivery in the most efficient and effective manner.

Scope of NIAO Review

1.8 In May 2000, the Westminster Public Accounts Committee (PAC) reported on the performance of the Industrial Development Board (IDB, Invest NI's predecessor) in delivering inward investment into Northern Ireland[6]. A key conclusion of the Committee was that a substantial proportion of jobs promised (that is, promoted) were not created, and a significant percentage of created jobs had been of limited duration. PAC

5 Productivity measures the rate of output achieved per unit of input.
6 Eighteenth Report – The Industrial Development Board for Northern Ireland: Inward Investment (25 May 2000).

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Introduction and Background

also noted that job creation and duration data was not readily available, with IDB having to carry out a special exercise to obtain this. The Committee recommended that this be reported as standard in future. However, whilst IDB had targets for job promotion, Invest NI had no formal targets of this nature in its first two Corporate Plan periods (April 2002 to March 2008). Consequently, the information requested by PAC was not provided or reported.

1.9 This review examines Invest NI's performance since its inception in April 2002 to March 2011, across the following areas:

Invest NI's performance against its internal targets (Part 2 of the report)

- Invest NI's key expenditure trends;
- Invest NI's performance against its Operating and Corporate Plan targets. We focused on the most recent Corporate Plan period as well as reviewing the first two periods;
- progress against meeting the PfG/PSA targets; and
- an assessment of Invest NI's target setting.

Measuring other key aspects of Invest NI's performance (Part 3 of the report)

- the efficiency and effectiveness of Invest NI's main assistance programmes;
- the extent to which jobs promoted have translated into jobs created, including the efforts made to address PAC's recommendations on performance measurement in this area (see paragraph 1.8);
- the quality of jobs promoted within inward investment projects; and
- performance against New Targeting Social Need (NTSN) targets, and a regional analysis of assistance and intervention activities.

Invest NI's performance in comparison with other economic development agencies (EDAs) in Britain and the Republic of Ireland (Part 4 of the report)

- We benchmarked Invest NI's performance against other EDAs in Britain and the Republic of Ireland spanning the period 2002 to 2008. We also took account of the benchmarking of Invest NI's performance in the Barnett report and by the Research Unit of the Northern Ireland Assembly in 2008.

Invest NI's plans for introducing future improvements (Part 5 of the report)

- Invest NI is currently implementing its `Transform' change management programme. We assessed the improvements planned, the extent to which these will address Barnett's recommendations and progress in implementation.

1.10 In assessing Invest NI's performance, an important consideration is the composition of Northern Ireland's business base and how this compares to the rest of the UK. Analysis by the UK Department of Business, Innovation and Skills shows that in 2010, 22 per cent of the private sector work-force in Northern Ireland were employed in companies which had 250 or more employees. This is significantly lower than in the UK (41 per cent), which has more large multi-national businesses. As these can better afford to invest in R&D and innovation to increase competitiveness, this is likely to have been a factor behind the productivity gap between Northern Ireland and the rest of the UK (see paragraph 1.4). Whilst this emphasises the importance of securing larger-scale and higher-value investment projects to narrow the gap, Invest NI told us that it is very unlikely that a small peripheral region such as Northern Ireland will ever have the degree of large multi-national businesses which are located in economic hubs such as the South East of England.

Part Two:
Invest NI's performance against targets

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Invest NI's performance against targets

Invest NI has spent almost £1.5 billion

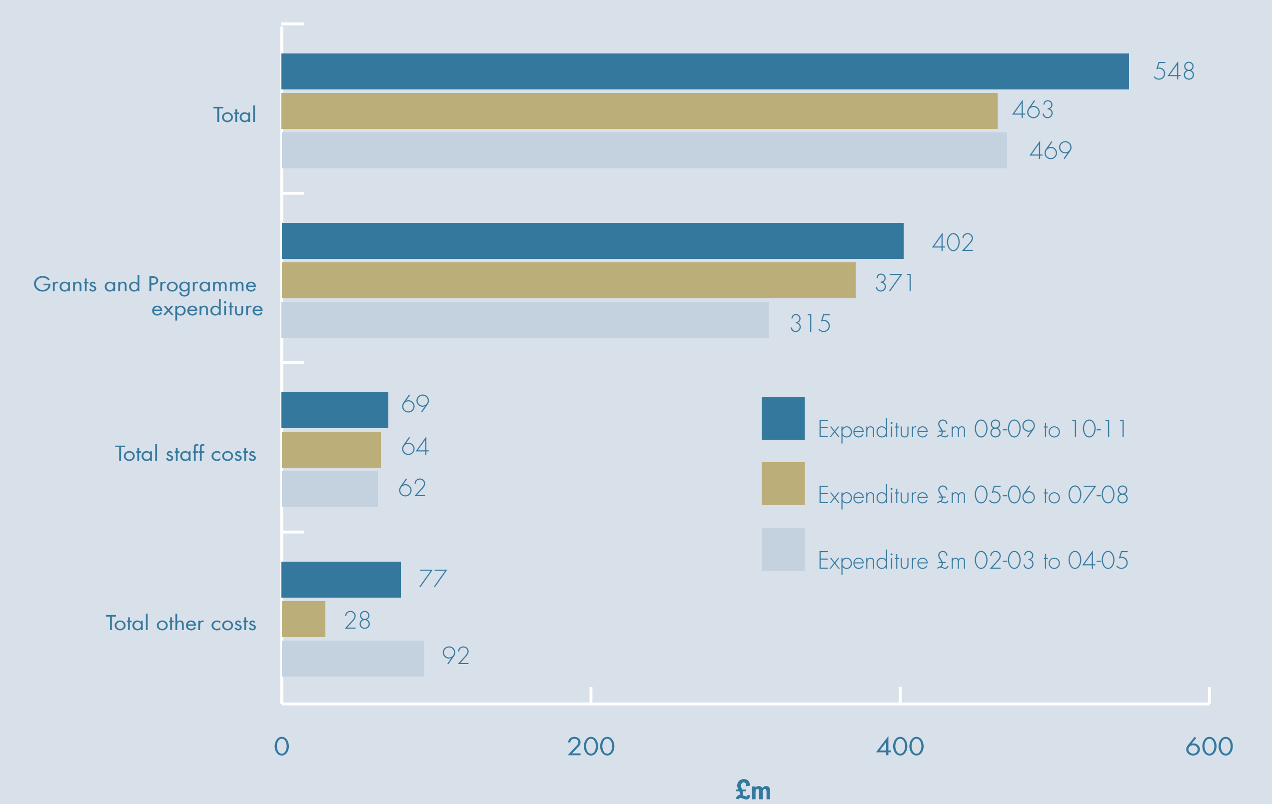
2.1 In its first three Corporate Plan periods (to March 2011), Invest NI's total expenditure was £1.48 billion. Table 2 analyses the main expenditure categories.

The proportion of Invest NI's Programme spend has fluctuated, and Research and Development spend remained relatively low until 2009

2.2 To promote economic development, Invest NI has delivered a range of assistance programmes aimed at local and overseas businesses. In the nine-year period (2002-2011), 73.4 per cent of expenditure was directed towards grants and programmes. Table 3 summarises spend on Invest NI's main programmes for the three Corporate Plan periods.

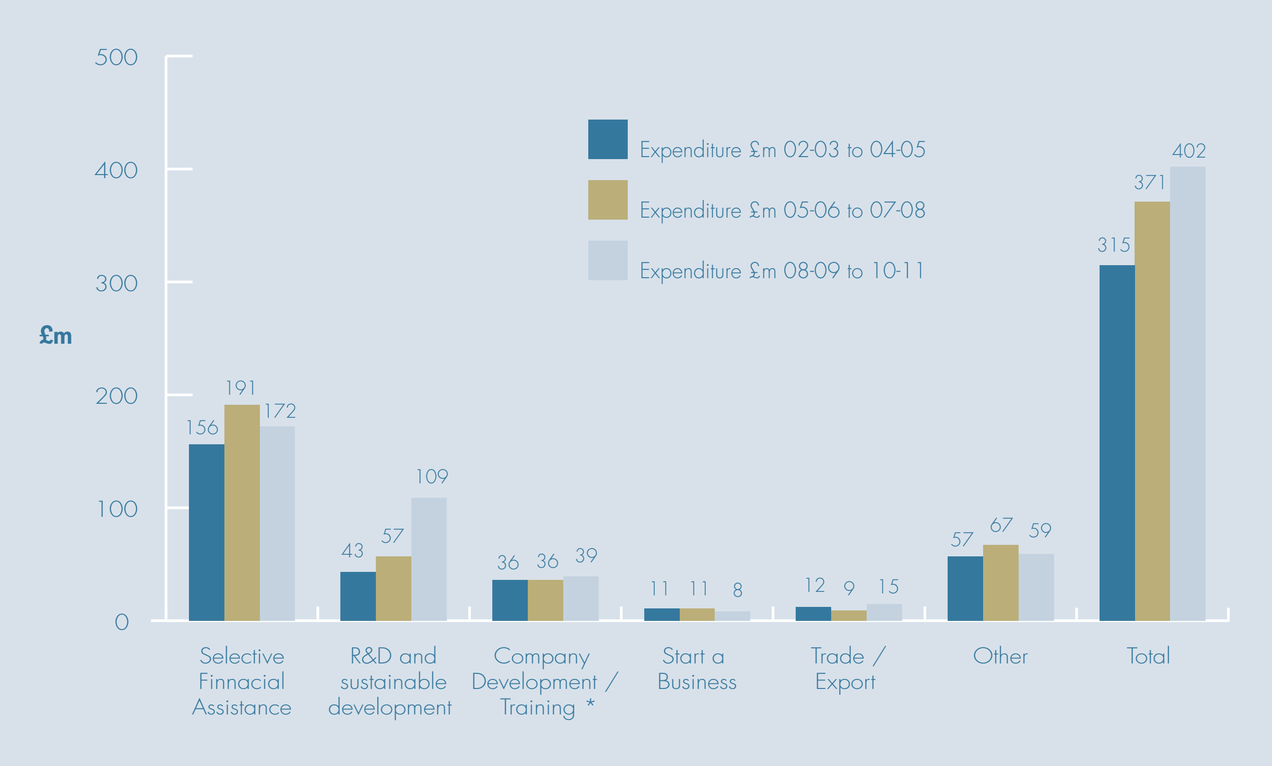
2.3 Selective Financial Assistance (SFA), which is Invest NI's prime programme for Foreign Direct Investment job promotion, has accounted for almost 48 per cent of total grant and programme spend during this nine-year period. The proportion of spend on research and development

Table 2: Analysis of Invest NI expenditure 2002-2011



Source: NIAO based on Invest NI records

Table 3: Analysis of Invest NI's grant and programme expenditure 2002-2011



* Company Development Programme (CDP), Business Improvement Training Programme (BITP) and other business improvement programmes operated by Invest NI

Source: NIAO, based on Invest NI records

(R&D) activities remained relatively static and represented less than 15 per cent of programme spend over the first six years. This is somewhat surprising: R&D is recognised as improving economic competitiveness and in delivering higher additionality[7] than SFA and was a feature of Invest NI's mission statements during this time. In the third Corporate Plan period the proportion of programme spend on R&D increased substantially to 27 per cent. Invest NI attributed the increase in R&D spend in the third period largely to activity in earlier years. This had taken time to come to fruition due to the 'lag effect', that is, the considerable time which can elapse between an initial activity or intervention, and any positive benefits which may be achieved from this.

7 Additionality is the net economic benefit brought about as a result of intervention.

Part Two:
Invest NI's performance against targets

Invest NI has developed a performance measurement framework

2.4 Invest NI has sought to develop a best practice performance measurement framework[8]. Invest NI's Corporate Plans have set out its overall strategic direction over a three-year period, and established objectives and targets. The Corporate Plan targets are designed to align fully with those of the Programme for Government (PfG). In turn, performance against the PfG targets is measured through a series of Public Service Agreements which are linked to DETI's strategic objectives. In its most recent Corporate Plan period (2008-11), Invest NI identified nine of its Corporate Plan targets as being of particular significance, and these were designated as key performance indicators (KPIs).

2.5 Overall, Invest NI's performance reporting has been relatively clear and transparent, and has encompassed a relevant range of performance measures. However, early targets were not always sufficiently challenging (see paragraphs 2.25 to 2.27) and there may also be scope for introducing more meaningful and challenging measures (see paragraphs 2.31 to 2.32). From 2011-12, DETI has primary responsibility for reporting Invest NI's performance (see paragraph 1.5), thereby bringing enhanced independence to the performance reporting process.

2.6 Underlying Invest NI's Corporate Plan targets is a suite of annual Operating Plan targets. These allow Invest NI's individual operating divisions to monitor performance and strive for continuous improvement. Performance against Operating Plan targets which Invest NI deems as being the most significant have been reported within its Annual Reports and periodic Performance Information Reports (PIRs).

2.7 In assessing performance against the Corporate Plan and Operating Plan targets, Invest NI highlighted the importance of taking account of the `lag effect'. Notwithstanding this, targets have covered specifically defined periods (three years and one year respectively) and it might be expected that Invest NI, in setting targets, would have been mindful of what was achievable within these periods given the impact of the `lag effect'.

Invest NI achieved all its targets in its third Corporate Plan (April 2008 to March 2011)

2.8 Invest NI's mission for its 2008-11 Corporate Plan was *"to increase business productivity, the means by which wealth can be created for the benefit of the whole community"*. Invest NI established 29 Corporate Plan targets under four key themes of exports, investment, jobs and R&D. Nine of these were designated by Invest NI as being Key Performance Indicators. As Table 4 shows, all 9 were achieved.

8 Invest NI's initial performance framework was developed in consultation with the Economic Research Institute for Northern Ireland (ERINI), and was influenced by a good practice guide developed by HM Treasury, Cabinet Office, National Audit Office, Audit Commission and the Office for National Statistics in March 2001 – Choosing the Right FABRIC (A Framework for Performance Information).

Table 4: Invest NI Performance against 2008-2011 Corporate Plan Key Performance Indicators

Target Theme	Target	Progress by year			Outturn	Target
		08-09	09-10	10-11		
Increase Exports	Encourage 600 companies to become new first-time exporters	251	286	190	727 companies	**ACHIEVED**
	1,200 companies to diversify into new markets	539	542	585	1,666 companies	**ACHIEVED**
Investment	Attract and support £1.26 bn investment commitments	£412m	£408m	£457m	£1.277 bn	**ACHIEVED**
	Secure £345m annual salaries and wages	£144m	£163m	£169m	£476 bn	**ACHIEVED**
New jobs through Inward Investment	Promote 6,500 new jobs	2,951	1,766	2,816	7,533 jobs	**ACHIEVED**
	Promote 5,500 new jobs with salaries above NI PSM	2,078	1,279	2,279	5,636 jobs	**ACHIEVED**
	Promote 2,750 new jobs with salaries 25% above NIPSM	993	939	1,428	3,360 jobs	**ACHIEVED**
Business Expenditure on R&D	£120 m business expenditure on R&D	£67m	£149m	£111m	£327 m	**ACHIEVED**
	300 companies to engage in R&D for first time	123	104	114	341 companies	**ACHIEVED**

Achieved Not Achieved

Source: Invest NI

2.9 This was a commendable performance, particularly as the economic climate was less favourable than during the previous two Corporate Plan periods:

- **Exports** – Invest NI over-achieved in both encouraging first time exporters and diversification into new markets. However, the Key Performance Indicators (KPIs) in this area would be more meaningful if they measured actual export sales. There are Corporate and Operating Plan targets which measure this indicator, and whilst the data in this area has not yet been fully collated,

Part Two:
Invest NI's performance against targets

initial indications are that these targets will not be achieved. Invest NI is currently refining its performance measurement framework as part of the `Transform' programme, with a view to developing targets which measure export sales. Whilst this is important, given the need to demonstrate the degree to which export drives mature into sales, it is acknowledged that world trade is influenced by many factors (including currency fluctuations, international unrest and local and global economic conditions) which are largely outside the control of Invest NI and the devolved and national governments.

- **Investment** - The targets in this area have been achieved and this is particularly encouraging, given the challenging economic conditions. One caveat is that the targets measure planned rather than actual investment.

- **New FDI Jobs** – Targets for new jobs and the proportion of these paying above the Northern Ireland Private Sector Median[9] were achieved. However, these targets are based on projected rather than actual outcomes. Paragraphs 3.22 to 3.28 provide more details on the extent to which jobs promoted have translated into jobs actually created. It is also important to note that the high number of jobs promoted in 2010-11 (2,816) is likely to have been assisted by investors taking advantage of Northern Ireland's comparatively favourable state aid assistance levels before these were reduced in January 2011 (**see Appendix 5 paragraph 8**). In the three months preceding this, 1,697 jobs (60 per cent of the total for the year) were promoted.

- **Business Expenditure in R&D** - Performance in this area has been particularly strong. Targets have been exceeded considerably and the level of client investment in R&D was 280 per cent higher than in the second Corporate Plan period.

2.10 Between 2008-09 and 2010-11, Invest NI also reported performance against 29 Corporate Plan targets (that is, the nine KPI's and 20 other measures). Again, Invest NI recorded a strong performance, achieving 24 (83 per cent) of these targets.

2.11 In this period, Invest NI also established 299 lower level Operating Plan targets. We focused on the 129 of these which directly related to the Public Service Agreement measures. Whilst the Operating Plan targets are reported annually, we assessed performance on an aggregated basis across the three years. Of the 43 different indicators in place between 2008-09 and 2010-11, Invest NI achieved 32 (74 per cent). This was Invest NI's best performance to date against its Operating Plan targets, with strong outcomes in the areas of Foreign Direct Investment, export, business starts and business expenditure on R&D. However, there were less positive outcomes in 2010-11 for the Enterprise Development Programme (Invest NI's

9 The Northern Ireland Private Sector Median (NIPSM) measures the average weekly wage within the Northern Ireland private sector.

main small business start-up scheme). Invest NI told us that the difficult economic conditions were a factor which influenced this performance.

Invest NI's Corporate Plan targets for the third period focused on key strategic areas and were relatively challenging

2.12 In the third Corporate Plan period, it is clear that:

- Invest NI reduced its main framework of targets to nine key performance indicators (compared to 15 and 14 previously), and these were mainly output-focused;
- the KPI's were challenging, particularly in light of the difficult economic environment;
- for the first time, Invest NI introduced formal targets to measure the quality of jobs promoted (see paragraph 3.41).

These developments provide further assurance over the strength of Invest NI's performance in the third Corporate Plan period.

2.13 Whilst the level of performance achieved by Invest NI in the third Corporate Plan period is welcome, it is also important to review the previous six years to provide a complete view on performance. Invest NI spent a total of £931 million (63 per cent of total spend to date) during this time. Paragraphs 2.14 to 2.22 detail our findings.

Invest NI achieved just over half of its targets in its first Corporate Plan (April 2002 to March 2005)

2.14 Invest NI's mission for its first Corporate Plan period (April 2002 to March 2005) was *"to accelerate economic development in Northern Ireland, applying expertise and resources to encourage innovation and achieve business success, increasing opportunity for all within a renewed culture of enterprise"*. In support of this, Invest NI established four main objectives and 15 Corporate Plan targets. Invest NI achieved eight (53 per cent) of these targets, and narrowly failed to achieve another two. Nonetheless, 47 per cent of Corporate Plan targets were missed, and Invest NI also failed to achieve almost half of its Operating Plan targets.

2.15 Table 5 summarises Invest NI's performance in achieving its Corporate Plan targets.

2.16 Almost half of the targets were missed. Performance related to achieving higher levels of growth by existing businesses was mixed, with three of the eight targets not achieved. As **Appendix 1** shows, there was considerable under-performance in the areas of R&D, client company export sales and high growth business starts. More positively, targets related to Foreign Direct Investment and new local business starts were achieved.

2.17 Between 2002 and 2005, Invest NI also reported performance against 123 `key' Operating Plan targets. Analysis of these

Part Two:
Invest NI's performance against targets

Table 5: Invest NI's performance against Corporate Plan targets (2002 to 2005)

Source: NIAO, based on Invest NI records

on an aggregated basis across the three-years shows that Invest NI achieved 33 of the 63 different targets in place during this period (52 per cent).

2.18 **Appendix 2** shows that while performance against Operating Plan targets for new Foreign Direct Investment projects and local business start-ups was strong, it was disappointing for global business starts and R&D.

Invest NI's performance improved in its second Corporate Plan (April 2005 to March 2008) although a third of targets were still missed

2.19 Invest NI's mission in its second Corporate Plan period was *"to deliver expertise and resources to accelerate the creation and growth of businesses committed to, and capable of, being entrepreneurial, innovative and international"*. Whilst Invest NI achieved eight of its 15 Corporate Plan targets and only narrowly failed to achieve another two, more than a third of Operating Plan targets were missed.

2.20 Table 6 summarises Invest NI's performance against its 15 Corporate Plan targets:

2.21 Performance far exceeded targets in a number of instances, including:

- Over 3,600 people, process and innovation improvements in Invest NI client companies (target 1,500) - 2,200 of which were skills related (target 300);
- 246 client companies participated in first time R&D activity (target 100); and
- 719 client company personnel improved their sales and marketing skills (target 500).

A key target related to R&D was missed. Instead of reducing the gap in business expenditure on R&D between Northern Ireland and the rest of the UK, this actually increased by 2 per cent.

Table 6: Invest NI's performance against Corporate Plan targets (2005 to 2008)

*It was not possible to determine if one innovation related target (60% of Invest NI client companies to produce new/ improved products or services) was achieved from the information reported.

Source: NIAO, based on Invest NI records

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2.22 On an aggregate basis across the three-years, 37 (63 per cent) of the 59 different targets in the Operating Plans were achieved. Again, there were examples of good and poor performance (**see Appendix 2**). For example, Invest NI's indigenous client companies committed to providing £606 million of investment, against the £488 million target. Less positively, the target for investment by foreign companies (£795 million) was missed (actual performance was £696 million). On a related note, our benchmarking exercise (**see Appendix 12, paragraph 13**) suggests that Invest NI levered lower levels of investment per £ assistance provided compared to economic development agencies in Scotland and the Republic of Ireland between 2002 and 2008. However, this could reflect the fact that during this period, Northern Ireland was allowed to offer higher levels of support to Foreign Direct Investment projects under EU State Aid rules.

Overall, Invest NI's performance was significantly stronger in the last three years

2.23 Table 7 provides a broad summary of Invest NI's performance for each of the three Corporate Plan periods. This confirms that whilst performance was initially mixed and disappointing in some areas, it improved strongly in the third Corporate Plan period. As stated earlier (paragraph 2.7) there is a `lagged'

Table 7: Summary of Invest NI's performance 2002-11

Corporate Plan	Targets achieved	Targets not achieved
2002-2005	• FDI projects / jobs • Local business start-ups	• R&D investment • Growth in existing client companies • High-growth potential business start-ups • Investment leverage from client companies
2005-2008	• FDI projects / jobs • R&D investment and first time participation • Investment by indigenous companies	• Salaries in indigenous and external companies • External business start-ups • Reducing gap in R&D spend with UK
2008-2011	• Investment by local and external companies • FDI projects / jobs • FDI job quality • R&D investment and first time participation	• Local business start-ups

Source : NIAO analysis of Invest NI performance data relationship between Invest NI's activities and interventions, and the change in business outcomes achieved from this such as sales, R&D expenditure and jobs. Consequently, some outcomes achieved in the most recent Corporate Plan period may be attributable to work undertaken in the previous six years. Invest NI told us that it was not established as a job creation agency, and that, in keeping with national policy, its Corporate Plans have instead focused on increasing wealth and prosperity through business growth. However, given the direct link between wealth and employment creation, jobs are an indicator on which, inevitably, Invest NI is judged by its stakeholders. In the first two Corporate Plan periods, Invest NI had Operating Plan targets related to jobs promoted through inward investment projects which were completely new to Northern Ireland. In the third Corporate Plan period, the key performance indicator measured jobs promoted from both new inward investment projects, and re-investments by companies already resident in Northern Ireland. Table 8 below shows performance against these targets, as well as the overall number of Foreign Direct Investment (FDI) jobs promoted (new and re-investment projects) for the three Corporate Plan periods.

2.24 Invest NI failed narrowly to achieve the FDI jobs promoted target for new projects only in the first two Corporate Plan periods (in total, 8,983 jobs were promoted against the 9,150 target). It did achieve its Key Performance Indicator in the third Corporate Plan period for overall FDI job promotion (7,533 against the 6,500 target). Whilst the 6,500 jobs target was considerably lower than the 8,692 achieved in the second Corporate

Table 8: FDI jobs promoted by Invest NI 2002-11

Corporate Plan period	Nature of Target	Performance against Target	Total FDI jobs – new projects and re-investments*
2002 to 2005	3,500 jobs from new inward investment projects only	3,455 jobs – target not achieved	6,262 jobs
2005 to 2008	5,650 jobs from new inward investment projects only	5,528 jobs – target not achieved	8,692 jobs
2008 to 2011	6,500 jobs from both new and re-investment inward projects	7,533 jobs – target achieved	7,533 jobs

*In the first two Corporate Plan periods, Invest NI's target measured jobs promoted from new FDI projects only (i.e. first time overseas investors). In the third Corporate Plan period, the target measured all FDI jobs (both new FDI projects and re-investments by existing overseas investors). This column shows jobs promoted on this basis for all three Corporate Plan periods.

Source: Invest NI

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Plan period, this was set in the context of the difficult economic climate. It is important to note that jobs promoted only represent envisaged employment levels at the start of a project. Whilst there is some uncertainty over the extent to which this translates into jobs created, the most reliable estimates suggest a 75 per cent conversion rate, with similar uptake levels of assistance offered (see paragraphs 3.22 to 3.26).

Some of Invest NI's early targets have been insufficiently challenging

2.25 Invest NI has clearly defined processes for setting its targets, which require approval of its Board and DETI before being formally adopted. The Corporate Plan targets also require the approval of the DETI Minister. Despite these processes, we identified examples of considerable over-performance against Corporate Plan targets (**see Appendix 3**). In addition, a number of Operating Plan targets were set at substantially lower levels than performance achieved in the preceding year (**see Appendix 4**).

2.26 Overall, a number of targets in the first two Corporate Plan periods were insufficiently challenging, with little apparent regard to achieving continuous improvement. This makes the strength of Invest NI's overall performance between 2002-03 and 2007-08 more difficult to assess, and the apparently strong performance against some individual targets should be treated with caution. In subsequent years, the Public Accounts Committee (PAC) has emphasised the importance of targets being sufficiently meaningful, challenging and stretching so as to act as a driver for improved performance[10]. The evidence from the 2008-11 Corporate Plan suggests that Invest NI's targets were set at appropriately challenging levels, particularly with regard to the weak economic climate.

2.27 In the first two Corporate Plan periods, the performance measurement framework contained a relatively large number of targets. Furthermore, a significant proportion of these reported inputs and activities rather than outcomes, including economic benefits. However, the number of Key Performance Indicators was reduced in the third Corporate Plan period, and these were more output focused. Under `Transform', Invest NI is refining its performance framework and plans to introduce this within its 2011-14 Corporate Plan. This will potentially provide a much clearer basis upon which to assess Invest NI's performance and impact.

Performance measurement would benefit from enhanced external validation

2.28 Invest NI's performance data is fundamental in demonstrating the value and impact of its activities. To help provide assurance on the completeness and accuracy of this data, Invest NI has seconded statisticians from the Department of Finance and Personnel (DFP) and the Northern Ireland Statistics and Research

10 PAC reports on Management of Social Housing Rent Collection and Arrears (16/09/10R – 15 October 2009) and Control of Bovine Tuberculosis in Northern Ireland (40/08/09R – 11 June 2009).

Agency (NISRA). However, the quality and reliability of this data has been subject to little or no external validation. Invest NI told us that it was not aware of any other economic development agency having its data externally validated, and that this was also the case with other government agencies and NDPB's in Northern Ireland. We note that the Agri-Food and Bioscience Institute (AFBI) - the largest NDPB of the Department of Agriculture and Rural Development - has its performance data validated annually. In the absence of routine external validation, we carried out a limited exercise which assessed the robustness of:

- the figure of 2,816 new FDI jobs "promoted" in 2010-11 (see paragraph 2.9). This is linked directly to a key Corporate Plan target; and

- analysis by Invest NI in 2010 which indicated that 78 per cent of FDI jobs promoted between 2002-03 and 2007-08 had actually been created, and were still in existence (see paragraphs 3.23).

2.29 There was sufficient evidence to substantiate the 2,816 jobs "promoted" in 2010-11. Furthermore, whilst there were some uncertainties over the suggested job creation ratio of 78 per cent, Invest NI generated information during the course of our study which suggested that a ratio of 75 per cent was a more reliable estimate (see paragraph 3.24).

2.30 Barnett concluded that no organisation should have primary responsibility for reporting on its own performance. This will be addressed when DETI assumes lead responsibility for reporting on Invest NI's performance from 2011-12.

Recommendation

To help ensure that performance reporting is consistent with best practice, DETI should validate a sample of Invest NI's key performance data annually to verify its completeness and accuracy.

Comparative performance reporting would provide a more informative means of assessing Invest NI's performance

2.31 Assessing any government body solely against its internal targets provides only a partial picture of performance. Comparing performance with other economic development agencies (EDAs) in Britain and Ireland would provide a clearer picture of Invest NI's performance. To date, there has been a lack of comparison with other EDAs, although this is an area which has historically proved difficult. We examine benchmarking in Part 4 of this report.

2.32 Barnett's recommendation that both DETI and Invest NI's targets should be based around performance relative to the UK average (for example, the per cent of inward investment secured) would provide an informative means of assessing comparative performance on an ongoing basis. Reporting of this nature

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is undertaken by United Kingdom Trade and Industry (UKTI)[11], and in 2010-11, analysis suggests that whilst Northern Ireland accounted for 3 per cent of the UK population, it attracted 3.1 per cent of Foreign Direct Investment (FDI) projects and 4.9 per cent of new FDI jobs. It should be noted that these figures account for all regional FDI, and not only those secured through assistance provided by EDA's. Nonetheless, it supports the conclusion of the Barnett report that, as a region, Northern Ireland has fared well in terms of the numbers of FDI jobs promoted (**see Appendix 5 Paragraph 3**).

2.33 We welcome Invest NI's intention to report future performance in respect of jobs and investment secured, as a proportion of the overall UK performance. Some form of effective comparative performance measurement will be important in the context of Invest NI demonstrating that it is achieving a key objective of its `Transform' programme (see paragraph 5.2) of being recognised as `best in class' in delivering economic development and value for money.

11 UKTI is a UK Government Department which works with UK based-businesses to assist them trade successfully in international markets.

Part Three:
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Invest NI's Assistance Programmes: Background

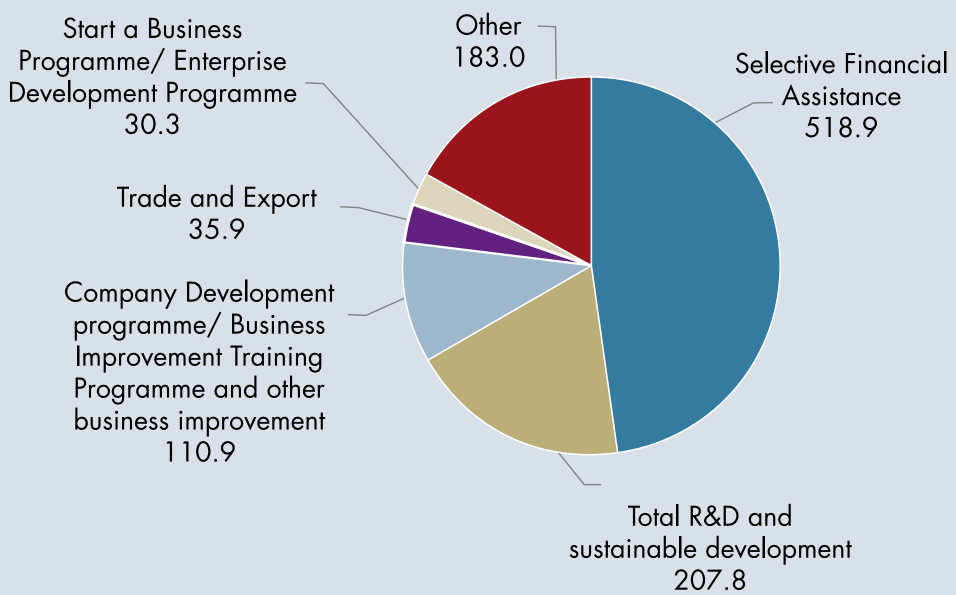
3.1 Up to March 2011, Invest NI spent £1.09 billion (73.4 per cent of its total budget) on programmes to assist indigenous businesses and Foreign Direct Investment projects. Table 9 below provides expenditure details.

3.2 Table 10 provides a brief overview of the objectives of the main Invest NI assistance programmes.

3.3 Given the significance of these programmes, we assessed their performance, focusing on their efficiency and effectiveness. Our full findings are contained in **Appendices 5 to 9**, and a summary of our conclusions and recommendations in paragraphs 3.5 to 3.21 below. In arriving at our conclusions, it is important to acknowledge that Invest NI has implemented a framework for evaluating programmes, which assesses whether the maximum benefits are being derived, and to identify actions needed to improve performance. Furthermore, Invest NI compiles an action plan to demonstrate and monitor how the recommendations from each of the evaluations are being implemented.

3.4 A key element of assessing the performance of Invest NI's assistance programmes relates to measuring `additionality' and `deadweight':

Table 9: Total spend on Invest NI assistance programmes April 2002 to March 2011 (£ million)



Source: NIAO, based on Invest NI records

Table 10: Overview of main Invest NI assistance programmes

Programme	Main objectives
Selective Financial Assistance (SFA)	Provision of assistance to support indigenous and overseas business formation and expansion.
Research and Development (R&D) programmes	Invest NI has supported a range of R&D assistance programmes, most significantly: • Centres of excellence – Centres within companies or universities which carry out leading-edge, industrially exploitable and commercially focused R&D • COMPETE – A programme designed to encourage manufacturing businesses develop innovative and high quality products and processes, and increase the level and quality of `near-market' R&D • START – A programme which has encouraged advanced stage research by companies, either independently, or in partnership with universities.
Start a Business Programme (SaBP) re-launched in March 2009 as Enterprise Development Programme (EDP)	Invest NI's main programme for assisting local business start-ups.
Company Development Programme (CDP) re-launched in 2005 as Business Improvement Training Programme (BITP)	Programme for assisting companies improve competitiveness and performance through workforce training.
Trade / Exports	A suite of interventions aimed at assisting locally based companies grow their export markets.

Source: Invest NI

- Additionality – establishing the minimum assistance necessary to ensure a project proceeds in the nature, scale, timing or location (or any combination of these) proposed; and

- Deadweight - a project or activity which would have occurred in the absence of intervention.

The Selective Financial Assistance (SFA) programme has been undermined by deadweight and mixed results for job quality, but Invest NI has taken steps to address these

3.5 Selective Financial Assistance (SFA) has been Invest NI's primary programme for supporting indigenous and FDI business formation and expansion, with expenditure of £519 million between April 2002 and March 2011 (35 per cent of Invest NI's total budget and 48 per cent of its grant and programme

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spend – **see Appendix 5**). Whilst delivering favourable outcomes in terms of job promotion, there is uncertainty over the degree to which this has translated into jobs actually created (see paragraphs 3.22 to 3.26). Furthermore, there is evidence to suggest that the performance of SFA has been undermined by low levels of additionality (full additionality was estimated[12] as being 8.5 per cent between 1998 and 2004 - however, the period up to April 2002 pre-dates the establishment of Invest NI). Doubts have also been cast over the performance of SFA with regard to assisting client company growth and the quality of jobs promoted. Invest NI has taken steps to improve the impact of SFA (**see Appendix 5, paragraph 6**), and data for April 2008 to March 2011 shows that the quality of jobs promoted has improved (see Table 4 and paragraph 2.9). The estimates of additionality for SFA are now quite dated and in the course of our examination, DETI produced initial terms of reference for an updated evaluation of the SFA programme. This is scheduled for completion by December 2012, and will provide an indication of whether performance in this area has improved.

Recommendation

To inform future key policy decisions, it is important that the proposed updated evaluation of SFA is completed as quickly as possible.

3.6 The Barnett report (see paragraph 1.6) also highlighted that 42 per cent of total assistance provided by Invest NI between 2002-03 and 2007-08 had been directed towards re-investments by companies already operating in Northern Ireland, rather than completely new investors. Most significantly, Barnett concluded that almost 65 per cent of this had been directed towards safeguarding existing jobs and supporting local expansion projects with no associated job promotion.

3.7 Paragraph 1.10 of this report noted the disparity between the business bases in Northern Ireland and the rest of the UK, with the latter having a much greater ratio of large multi-national businesses which could best afford to invest in R&D and innovation, thereby increasing competitiveness. This helps explain the historical productivity gap between the two regions, but also highlights the importance of securing larger-scale investment projects to address this. Analysis between 2008-11 indicates that Invest NI may be making little progress in this respect. Of the 120 projects assisted in this period, 62 (52 per cent) consisted of between 1 and 20 promoted jobs, whilst only 7 (6 per cent) had more than 250 jobs.

3.8 Post 2013, Invest NI may be unable to offer Selective Financial Assistance to client companies due to changes in Northern Ireland's Regional Aid Status[13]. However, DETI and Invest NI have not yet identified the most effective alternative mechanism of utilising financial assistance to promote economic development.

12 It is only possible to estimate additionality, and this estimate was derived from a survey of over 400 companies which had received assistance from Invest NI.

13 SFA operates within the European Commission's Regional Aid Guidelines. Northern Ireland along with a small number of other areas in the UK has been able to utilise assistance of between 30 per cent and 50 per cent of total programme costs. From January 2011, this fell to between 10 per cent and 35 per cent, and post 2013, this may reduce to zero.

Recommendation

In light of likely changes to Northern Ireland's Regional Aid status, it is important that DETI and Invest NI examine alternative assistance options for growing the economy. This should take account of issues which have impacted on the effectiveness of SFA, such as low levels of additionality.

Invest NI's R&D programmes have high additionality levels

3.9 Investment in R&D is recognised as improving the competitiveness and performance of an economy (**see Appendix 6**). Although grant levels for Invest NI's three main R&D programmes (Centres of Excellence, Compete and START) have generally been higher than for Selective Financial Assistance, these have delivered higher additionality and have helped increase the traditionally low levels of R&D activity and spend in Northern Ireland. Furthermore, the Centres of Excellence programme has performed well in terms of income leverage and Compete has assisted in boosting sales and employment levels of participants.

3.10 The degree to which these programmes have contributed to improving the overall performance of the Northern Ireland economy and any improvement in regional productivity has not been formally quantified. However, what is apparent is that a historic gap in private sector expenditure between Northern Ireland and the rest of the UK has narrowed significantly in recent years. In 2002, Business Expenditure on Research and Development accounted for 1.3 per cent of Gross Value Added in the UK compared to 0.7 per cent in Northern Ireland, but by 2009 this equated to 1.2 per cent (UK) and 1.1 per cent (Northern Ireland). The R&D programmes sponsored by Invest NI are likely to have contributed to narrowing this gap, and to have had some impact in improving regional productivity.

3.11 Less positively, it is also apparent that:

- some £288 million (57 per cent) of total income levered was secured by Foreign Direct Investment Centres of Excellence, the commercial benefits of which were not retained within Northern Ireland;
- quantifiable benefits delivered from START projects are not yet fully clear; and
- the significant administration burden associated with Compete may have deterred participation and prevented projects from achieving their full commercial potential.

3.12 In 2009-10, Invest NI subsumed its R&D programmes into a single grant scheme with a simplified application process. The high number of applications for the new programme was an indicator that this approach was proving successful.

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3.13 All of Invest NI's projects and programmes are subject to appraisal prior to funding. However, the risks and uncertainties attached to R&D projects means that assessing potential benefits to the Northern Ireland economy, including any contribution towards achieving Programme for Government targets, is particularly difficult. Invest NI has traditionally appraised R&D projects largely on the basis of profits generated by companies, but has recognised that there are wider potential outcomes from these, including development of knowledge and skills, transferability of technology, impact on the supply chain and productivity. Barnett also highlighted the difficulties of appraising outcomes for R&D projects, and recommended that Invest NI re-assess its appraisal methodology to ensure that these projects are not disadvantaged in the allocation of funding.

3.14 To address this, in September 2011, Invest NI developed an enhanced economic appraisal methodology designed to estimate the fuller range of potential benefits from R&D projects, as well as better quantifying the risks associated with these. Given that Invest NI's spend on R&D increased from £56.5 million to £108.5 million between the second and third Corporate Plan periods, and there is potential for this to increase further post-2013 (when it may no longer be able to utilise Selective Financial Assistance), the introduction of an enhanced R&D appraisal model is important and welcome.

3.15 Equally important will be the need to demonstrate that the benefits and outcomes anticipated from R&D projects are actually achieved, and that key learning points are identified for future application to maximise the potential for success. In line with DFP requirements, Invest NI carries out Post Project Evaluations (PPEs) for all supported projects. However, in addition to completing PPEs, it is very important that the key lessons and recommendations which emerge from these are adequately disseminated, and applied to future projects. Otherwise, common themes associated with poor project management are likely to recur.

Recommendation

Given the likely increasing future levels of R&D spend, it is important that Invest NI assures itself that PPE reporting is comprehensive and timely, and that findings are adequately disseminated across the organisation, to assist planning and management of future R&D projects.

Invest NI's local business start-up programme faces a number of challenges

3.16 Launched in 2001, the Start a Business Programme (SaBP) aimed to increase the numbers and viability of small businesses in Northern Ireland (**see Appendix 7**). To address issues identified with SaBP which included low additionality, Invest

NI re-launched the programme as Enterprise Development Programme (EDP) in March 2009, removing the grant previously paid to start-ups in an attempt to increase additionality. Whilst it is too early to draw definitive conclusions on EDP's performance, initial research suggests that the programme faces a number of challenges. Start-up numbers have been lower than anticipated (3,071 in 2010-11 compared to the target of 3,800) and there is significant scope for improved performance in terms of turnover, employment, salary and exports levels. Invest NI highlighted the relevance of the difficult economic conditions when considering the results to date for EDP.

Invest NI's major training programme has been mainly directed towards larger companies which may not have needed the financial assistance

3.17 The Company Development Programme (CDP), launched in 1991, was designed to assist companies' competitiveness and performance through training both management and employees (**see Appendix 8**). After Selective Financial Assistance, it has been Invest NI's second most funded programme with £75.8 million of expenditure. An evaluation of CDP covering the period April 2002 to March 2004 identified high levels of deadweight as well as a low level of assistance to small firms.

3.18 The programme was re-launched as the Business Improvement Training Programme (BITP) in 2005. Funding levels have remained high, with £51.4 million of expenditure between April 2005 and March 2011. Whilst an evaluation of BITP found that deadweight was lower compared to CDP, it also identified that the lack of support for small companies remained an ongoing issue. This evaluation also highlighted the need for improved evidence gathering on the performance of the programme and enhanced target setting to measure outcomes.

3.19 A review of Invest NI's action plan (see paragraph 3.3) indicates that progress has been made in implementing the 13 recommendations which flowed from the BITP evaluation. In particular, a new skills development programme to replace BITP was introduced in December 2011 and steps are being taken to address specific issues identified:

- Invest NI is continuing to challenge funding claims in an attempt to increase additionality;
- a methodology to calculate benefits realised by BITP participants was introduced in early 2012; and
- a training programme which will focus exclusively on smaller firms (distinct from the replacement for BITP) was introduced in 2012.

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Recommendation

Given the significant amount of funding devoted to company training it is important that, after the revised arrangements have `bedded in', Invest NI assesses whether these are resulting in the optimal use of funding and best value for money. In particular, there is a need to demonstrate that funding is being directed towards firms which have the scope for growth, but which currently do not have the necessary resources to undertake the required training.

Invest NI's exports programme has provided value for money, but there is scope to maximise future performance

3.20 `Passport to Export' provides a suite of interventions aimed at assisting locally based companies to grow their export markets. Between April 2002 and March 2011, total spend on the four main elements of the programme was £35.8 million. An evaluation of `Passport to Export' (for the period between April 2006 and March 2010) was completed in May 2011, and, overall, this concluded that the programme had provided value for money, with positive outcomes in terms of Gross Value Added (GVA)[14] and increasing participants' turnover. The evaluation also reported that Invest NI's main targets in the area had been met or surpassed. However, there are concerns that these were not set at sufficiently challenging levels (**see Appendix 9**).

3.21 Whilst the evaluation concluded that the programme had provided value for money, issues around significant gaps in management information for assessing the programme's performance were also identified. In addition, the evaluation highlighted a number of areas which needed to be addressed to maximise future performance, and increase co-ordination with other public bodies working in this sector (including InterTradeIreland, Enterprise NI, local authorities and the Chamber of Commerce). Invest NI's action plan has outlined proposed follow-up action to address the evaluation's findings.

Recommendation

As many of the recommendations of the evaluation of Invest NI's trade interventions are at an early stage of implementation, Invest NI should strive to ensure the earliest possible completion. This will assist in maximising the potential of this programme.

Invest NI measures its performance in terms of jobs promoted rather than jobs created

3.22 Invest NI has always reported performance for SFA in terms of jobs promoted (that is, those envisaged at the start of a supported project). Invest NI focuses on jobs promoted within the

14 Gross Value Added measures the contribution to the economy in terms of goods and services produced, in respect of each individual producer, industry or sector.

original offer of assistance because this is the best knowledge available about the project at the time. However, changes in the way projects are implemented mean that sometimes not all jobs promoted will be created. The Westminster Public Accounts Committee's 2000 report on the Industrial Development Board's (IDB's) Inward Investment programme recommended that job creation and duration data be reported as standard in future. To address this, IDB and more recently Invest NI have undertaken work to estimate job creation, but this has not yet evolved to formal, ongoing performance reporting. Consequently, the PAC recommendation has not been implemented fully. Invest NI highlighted the considerable difficulties in this area, but nonetheless told us that it is committed to developing more robust job creation performance reporting arrangements.

3.23 In 2010 Invest NI estimated that, for new Foreign Direct Investment projects supported between April 2002 and March 2008, 78 per cent of jobs promoted were actually created and still in existence. Invest NI acknowledged that this is "*subject to some estimation*". Furthermore, it was based on an overall employment headcount for client companies rather than the jobs specifically created within the assisted projects. This means that the job creation ratio of 78 per cent is likely to be over-stated, and we therefore do not consider that this analysis can be viewed as sufficiently robust.

3.24 In an attempt to measure more accurately jobs created within assisted projects, Invest NI generated data which took account of only the initial project for first-time investors to Northern Ireland between 2002-03 and 2007-08. This suggested that 4,295 of the 5,731 jobs promoted within this category were created (that is, a 75 per cent job creation ratio). Whilst this analysis is limited to a sample of 57 per cent of the total jobs promoted during this period, we acknowledge that it is likely to provide a more accurate measurement than the company `headcount' approach (see paragraph 3.23). However, it is important to note that the job creation data within this analysis reflects the position at the completion of the project implementation stage, rather than current job levels. As many of the projects have now been in place for some years, it is likely that the number of jobs still in existence will be lower.

3.25 Accurately measuring the number of jobs actually created clearly represents a challenge for all economic development agencies (EDAs), and our findings indicate a need for Invest NI to establish appropriate processes and systems to gather more robust job creation data. That said, on the basis that the 75 per cent analysis is the most reliable estimate available, 21,000 of the 28,000 jobs promoted by Invest NI between April 2002 and March 2008 would actually have been created.

3.26 A further important aspect of measuring an EDA's performance relates to additionality

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(see paragraph 3.4). The Barnett report concluded that Invest NI's Selective Financial Assistance (SFA) programme had yielded additionality of 50 per cent. This was based on an evaluation commissioned by DETI covering the period 1998 to 2004 which is now somewhat dated (only covering the first two years of Invest NI's operations). Invest NI has subsequently taken steps aimed at improving the impact of SFA (**see Appendix 5, Paragraph 6**), but there has been no updated estimate of additionality levels. In the absence of this, 50 per cent additionality would mean that, of 28,000 jobs promoted between April 2002 and March 2008, around 10,500 would probably have been created and fully additional (see Table 11 below):

3.27 These figures make no allowance for Invest NI's assistance having resulted in investment projects which would have proceeded anyway without assistance, being delivered quicker as a result of the support. Invest NI regard this as `partial additionality'. The effects of this are difficult to quantify and whilst there are no robust estimates for Invest NI in this regard, DETI is currently undertaking research on the matter. For illustrative purposes, if this were to be afforded a weighting of 25 per cent, Invest NI's overall additionality levels would increase to around 60 per cent. This would mean that 12,600 of the 28,000 promoted jobs were created and fully additional (28,000 jobs promoted x 75 per cent jobs created ratio x 60 per cent additionality).

3.28 Additionality impacts to varying degrees on all EDAs. It involves striking a balance between ensuring that value for money is achieved through carefully assessing the level of financial assistance necessary to secure a project, or risk losing projects to other regions due to delays in decision making. Nonetheless, our benchmarking exercise indicated that Invest NI's additionality levels have been at the lower end of the scale for UK agencies (see paragraph 4.7). At 51 per cent, Invest NI's additionality was below that of the top performers (International Business Wales – 75 per cent, ONE North East – 63 per cent and Scottish Development Investment – 60 per cent). The performance of the top performing agencies may have been attributable to their focusing primarily or exclusively on new inward investment projects, which

Table 11: Analysis of jobs created by Invest NI (April 2002 to March 2008)

Description	Number of jobs
Total jobs promoted by Invest NI	28,000
Jobs created (i.e. 75% of jobs promoted)	21,000
Fully additional jobs (i.e.50% of jobs created)	10,500

Source: Invest NI and The Barnett Report are much more likely to have higher additionality. Furthermore, whilst Invest NI's current additionality levels may be higher than 51 per cent recorded by the last evaluation of this area, the absence of updated analysis and lack of formal measurement of the impact of Invest NI's assistance in delivering outcomes quicker (see paragraphs 3.26-3.27) means that this is the only formal estimate available.

Recommendation

In view of the fact that it has not implemented PAC's recommendation from 2000, Invest NI should introduce revised job creation targets and report performance in this area from now on.

Net job creation within Invest NI's client companies was low until 2007

3.29 Both Invest NI and the Economic Research Institute of Northern Ireland (ERINI) have estimated the extent to which new jobs within Invest NI's client companies have been counter-balanced by jobs lost (referred to as the net job movement):

- Invest NI's third Performance Information Report (PIR) analysed net job movement in client companies between April 2002 and March 2007, and reported 28,873 job gains and 28,545 job losses, with employment increasing from 86,322 in 2002-03 to 86,650 at the end of 2006-07 (an increase of 328 jobs); and
- ERINI assessed the job creation of significantly assisted Invest NI client companies[15] between 2001 and 2007, and concluded that net employment had grown by around 3,000 jobs.

3.30 We asked Invest NI why there was such a variance between the two sets of analysis. Invest NI told us that the two exercises had employed different methodologies and used different data sources, and were also carried out over slightly different time periods.

3.31 On the basis of its analysis, Invest NI's PIR acknowledged that the net job movement of 328 (0.4 per cent) was *"only a marginal change in employment."* The significant job losses were attributed to the continued demise of the clothing and textiles sector, and the equally large number of jobs created were due to growth in the service sector. ERINI attributed the modest net jobs increase identified by its analysis to high Foreign Direct Investment (FDI) job losses. Whilst locally owned firms had recorded net gains of around 3,300 jobs (8.9 per cent), FDI projects had shown net losses of 305 (-0.7 per cent). This was mainly due to high levels of contractions within FDI firms (10,400 jobs were lost through contractions compared to 6,000 for local firms). ERINI concluded that the high FDI job losses were linked to the heavy focus within Invest NI's client base on the manufacturing sector and the decline within this during this period.

15 Invest NI clients in receipt of an offer of assistance worth £25,000 or greater, and / or £250,000 in the previous ten years.

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3.32 Clearly, the net job movement within Invest NI's client companies up to 2007 was minimal, during a time of favourable economic conditions. However, a number of industries faced difficult competitive challenges, most notably within the clothing and textiles sector where significant numbers of jobs were lost. The evidence suggests that Invest NI's outcomes for FDI job sustainability were particularly poor. However, performance would have been significantly worse had Invest NI not promoted and safeguarded a considerable number of jobs during this period (a significant proportion of the 28,000 new jobs within the client companies are likely to have been directly promoted by Invest NI and in addition, almost 12,000 jobs were safeguarded).

3.33 Analysis within the Barnett report suggests that the costs of safeguarding jobs were substantial. Barnett estimated that between 2002-03 and 2007-08, 15,069 jobs (11,957 FDI and 3,122 locally created) were safeguarded at an average respective cost of £8,000 and £1,700. This means that total expenditure of almost £101 million was incurred in this regard, which amounts to over 24 per cent of Invest NI's total Selective Financial Assistance (SFA) budget (£418 million) during this period. However, Invest NI has estimated that each FDI job safeguarded cost £12,545, meaning that total safeguarding costs between 2002-03 and 2007-08 would be in the region of £150 million (36 per cent of the total SFA budget).

3.34 The analysis of net job movement only covers the period up to 2007. Invest NI is currently undertaking work to assess the latest performance in terms of net job movement within its client companies.

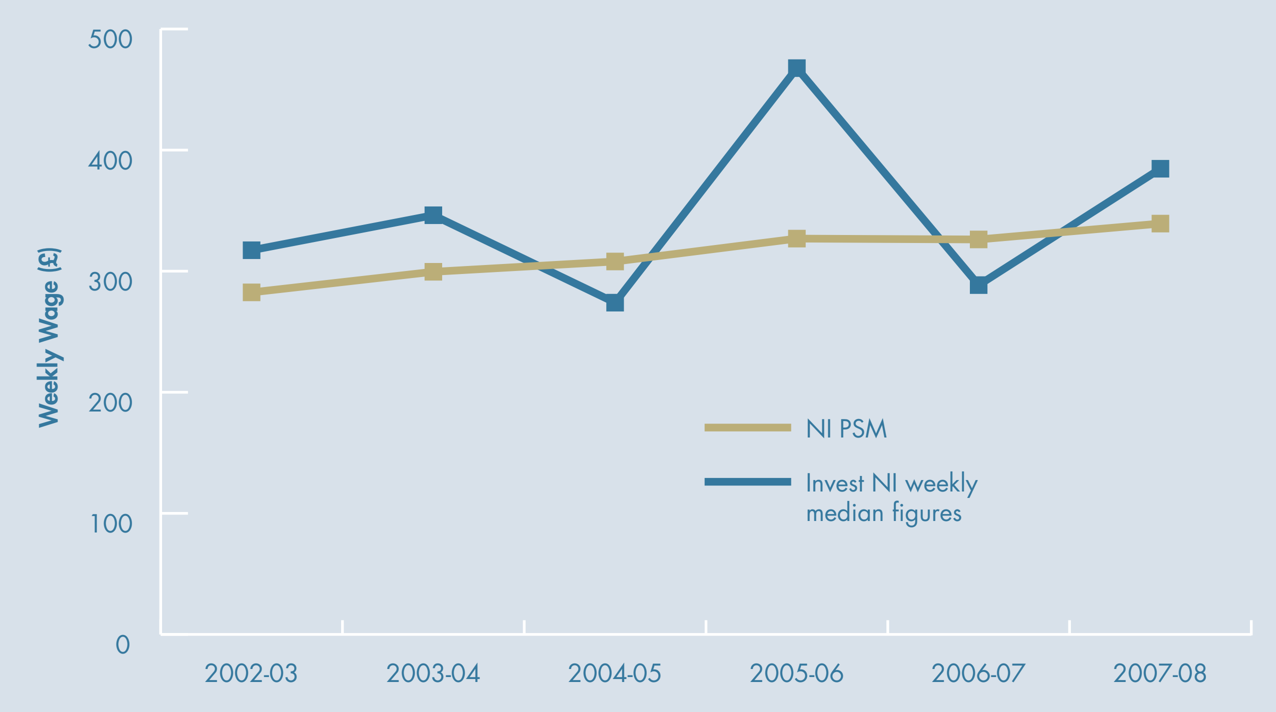
Invest NI has recently adopted a greater focus on promoting higher value jobs

3.35 The quality of jobs promoted is key to measuring an economic development agency's performance. Higher value jobs boost economic productivity and raise living standards. Given its significance, we are surprised that Invest NI did not have any formal job quality targets until 2008-09.

3.36 Although it had no formal targets in the first two Corporate Plan periods, Invest NI's Performance Information Reports (PIRs) did include job quality outcomes. The first PIR concluded that between April 2002 and March 2005, average salaries for Invest NI first time Foreign Direct Investment (FDI) projects were generally lower than those reported by the English RDAs. Invest NI attributed this to regional variations in the cost of living and industrial structure.

3.37 The second and third PIRs analysed FDI job quality on the basis of the difference in wages for Invest NI promoted and safeguarded inward investment jobs and the Northern Ireland Private Sector Median (NIPSM). Table 12 shows outcomes between April 2002 and March 2008.

Table 12: Variance between wages for Invest NI promoted and safeguarded jobs and the Northern Ireland Private Sector Median (NIPSM) 2002-03 to 2007-08



Source: Invest NI

3.38 Invest NI acknowledged *"some volatility in job quality, reflecting the nature of those projects supported on an annual basis. The exception to the generally higher level of wages and salaries occurred in 2004-05 and 2006-07, when a number of lower-wage projects were offered assistance."*

3.39 This analysis was based on an amalgamation of new and safeguarded jobs. Invest NI also reports separately on these. Between April 2002 and March 2008, 87 per cent of safeguarded jobs had wages above the NIPSM compared to just 50 per cent of new jobs. Invest NI told us that this could be expected, given that the types of jobs being promoted reflect the characteristics of the Northern Ireland labour market. New jobs tended to have lower starting salaries which could subsequently increase to levels above the NIPSM. Nonetheless, initial salaries for half of new jobs promoted were below this level. Furthermore, of the 15,331 new jobs promoted during this period, 9,128 (60 per cent) were in `contact centres', only 33 per cent of which had wages above the NIPSM. This was clearly a factor which prevented Invest NI from achieving a better overall job quality performance in the first two Corporate Plan periods.

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3.40 Overall, Invest NI's performance for job quality in its first two Corporate Plan periods was mixed, particularly given that a high percentage of newly promoted jobs had salaries below the Northern Ireland private sector median. In examining this area, Barnett expressed concern that a considerable proportion of jobs promoted had been within the service sector (with a particular emphasis on call centres), and that these had made little contribution to boosting business productivity in Northern Ireland.

3.41 Invest NI told us that its 2008-11 Corporate Plan was developed on the basis of a significantly revised strategic approach, involving a greater focus on high value programmes and activities. Consequently, in 2008 Invest NI introduced a formal job quality target which measures the number and proportion of newly promoted Foreign Direct Investment jobs with salaries above the NIPSM, and a sub-target measuring salaries 25 per cent above this. Table 13 below outlines performance for 2008-11 in respect of the new targets.

3.42 We welcome the introduction and achievement of job quality targets by Invest NI. This is all the more creditable, given that there is little evidence of any of the other economic development agencies in the UK or Republic of Ireland publicly reporting performance in this area. However, performance against these targets to date has been reported on the basis of projected outcomes rather than those which actually occur.

Recommendation

Invest NI should enhance its performance measurement of job quality to reflect actual jobs rather than projected jobs. The targets for job quality could also potentially be supplemented by Invest NI benchmarking its performance against other economic development agencies, comparing the percentage of jobs with salaries above the respective regional private sector averages.

Table 13: Performance against Invest NI job quality targets (2008-11)

Target	Outcome
6,500 jobs promoted	7,533
5,500 with salaries over NI PSM	5,636
2,750 to be at least 25 % over NI PSM (42%)	3,360

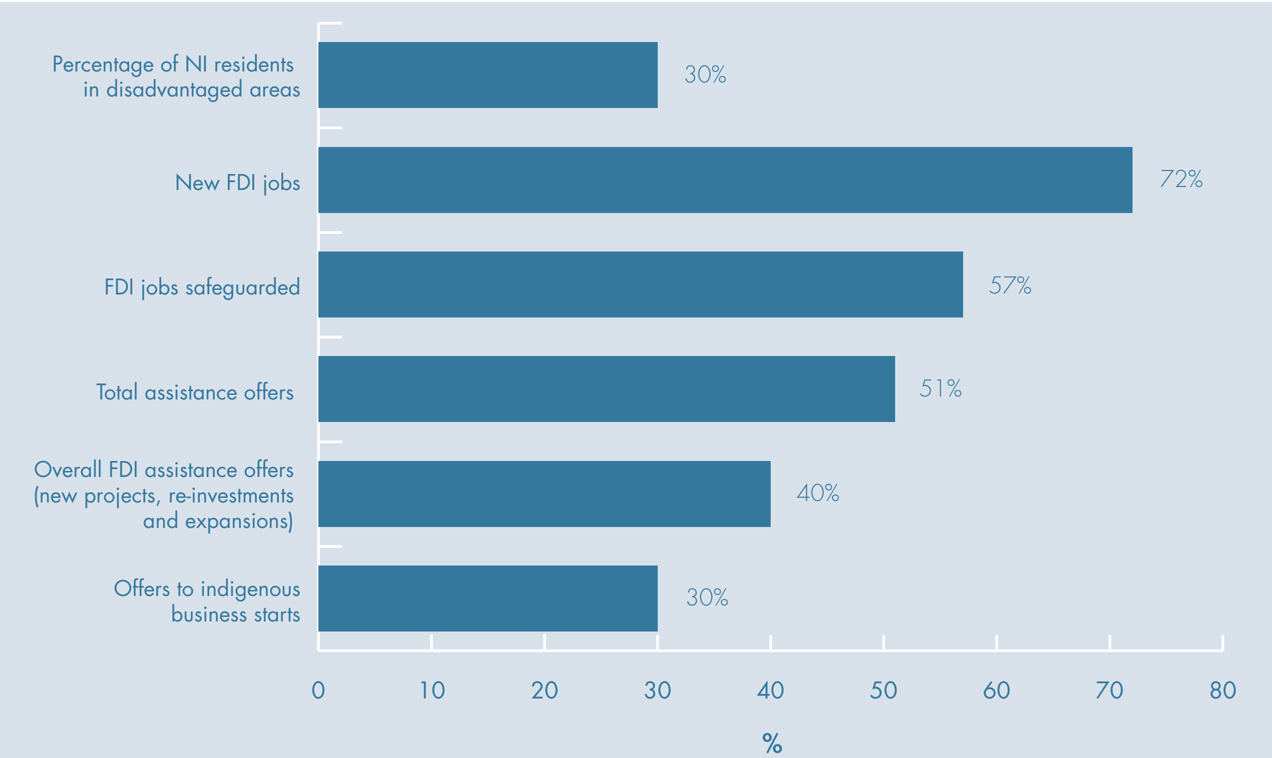
Source: Invest NI

Invest NI made progress in promoting economic development in disadvantaged areas in the first two Corporate Plan periods, but its current target is less challenging

3.43 In its first two Corporate Plan periods, Invest NI had a target to locate 75 per cent of new Foreign Direct Investment (FDI) projects in New Targeting Social Need (NTSN)[16] areas. This was virtually achieved between April 2002 and March 2005 (actual performance was 74.3 per cent). For its second Corporate Plan (April 2005 to March 2008), 40 of the 51 new FDI projects secured were in NTSN areas. Numerically, the target (30) was exceeded, but the proportion (69 per cent) was slightly below the 75 per cent envisaged.

3.44 Data relevant to Invest NI's intervention in disadvantaged areas has also been reported in Invest NI's Performance Information Reports (PIRs). Table 14 below summarises the findings of the most recent PIR which reported outcomes between April 2002 and March 2008. Whilst 30 per cent of the Northern Ireland population lived in these disadvantaged areas, 72 per cent of new FDI jobs promoted were located there. These areas received 40 per cent of overall FDI assistance offers (including re-

Table 14: Summary of Invest NI assistance to disadvantaged areas April 2002 to March 2008



Source : NIAO based on Invest NI records

16 New Targeting Social Need was an initiative launched in Northern Ireland by the UK Government in 1998. In the summer of 2006, the UK Government launched a new anti-poverty strategy for Northern Ireland, and from this date, DETI and Invest NI have referred to targeted areas as "disadvantaged areas".

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investments and expansions as well as new projects), and 30 per cent of offers for local business starts. In overall terms, disadvantaged areas received just over half of total assistance offered.

3.45 In analysing outcomes across Northern Ireland's 26 District Council Areas (DCAs - seven of which are categorised as disadvantaged areas[17]) the PIR reported that:

- apart from Belfast, all other disadvantaged District Council Areas had a greater number of local business start-ups per 10,000 population than the overall Northern Ireland average; and
- aside from Belfast and Derry, the other disadvantaged District Council Areas had lower levels of inward investment per head than the overall average (£240) – Cookstown (£197), Strabane (£192), Newry and Mourne (£166), Dungannon (£136) and Omagh (£81).

3.46 Overall, in terms of NTSN / disadvantaged areas:

- Invest NI came very close in the first two Corporate Plan periods to achieving its target to locate 75 per cent of new FDI projects in NTSN areas. In the third period, the amended target which required 70 per cent of new FDI projects to locate within 10 miles of an economically disadvantaged area was achieved comfortably (92 per cent);
- whilst NTSN areas only received 47 per cent of Invest NI's overall FDI assistance offers between 2002-03 and 2010-11, these accounted for 66 per cent of overall planned assistance;
- around 33 per cent of indigenous business start-ups were in disadvantaged areas; and
- per capita spend on inward investment has been notably lower for several individual disadvantaged DCAs located in the West than for the Northern Ireland average. However, assistance per head in the Derry DCA (£853) was over twice as high as the Northern Ireland average (£355).

3.47 Invest NI's main NTSN target was amended in the third Corporate Plan period to "*encourage*" 70 per cent of new FDI projects to be located within ten miles of an NTSN area. The fact that 92 per cent of projects met this criterion indicates that the revised target is much easier to achieve. On the basis of the previous target, 40 projects (73 per cent) were actually in NTSN areas, meaning that performance was broadly consistent with the previous two periods. However, these targets have provided no measurement of the degree to which people residing in disadvantaged areas have secured employment in these projects. Invest NI told us that whilst it is very difficult to link place of employment to residence, DETI has undertaken to look at this issue further.

17 Certain wards of Belfast City Council and Derry, Cookstown, Strabane, Newry and Mourne, Dungannon and Omagh District Councils.
18 Examining Patterns of Labour Mobility: FDI Companies in Northern Ireland (September 2009).

3.48 Invest NI did commission a report in 2009 which examined patterns of labour mobility within a small sample of FDI companies[18]. Its principal aim was to assess whether it was possible to determine the characteristics of workers in these companies. A key recommendation of the report was that Invest NI should extend the data it collected from client companies to capture employees previous economic and employment status, educational attainment, skills and address. The report considered that this would increase Invest NI's knowledge of the economic and social impact of its assistance. However, the report also acknowledged potential problems with gathering this data, and was only able to source this for 9 out of 16 businesses assessed. Invest NI told us that gathering this data on a large scale would be extremely difficult.

Proportionately, the East has received more assistance than the West, but the Foreign Direct Investment (FDI) jobs promoted have been evenly split

3.49 Invest NI has also analysed the breakdown of assistance provided, and the outcomes achieved from this between the East and West of Northern Ireland[19]. Table 15 summarises the latest key data from April 2002 to March 2011:

3.50 In absolute terms, the East has received significantly greater assistance and jobs promoted. However, measuring outcomes on a ratio basis (either by per adult head or per 10,000 population) provides a more meaningful comparison. This shows that:

- the East received 18 per cent more total assistance (£803 v £680) and

Table 15: Breakdown of Invest NI intervention and outcomes between the East and West of Northern Ireland (April 2002 to March 2011)

Indicator	East	West
Overall assistance	£828.6 million (76%)	£261.5 million (24%)
FDI assistance	£361 million (75.7%)	£116 million (24.3%)
FDI new jobs promoted	16,314 (74.4%)	5,608 (25.6%)
Total assistance per adult (£)	803	680
Planned FDI assistance per adult (£)	350	301
Planned FDI investment per adult (£)	2,175	1,590
FDI jobs promoted per 10,000 population	158	146
FDI jobs safeguarded per 10,000 population	80	107
Indigenous business start-ups per 10,000 population	163	255

Source: Invest NI

19 East of NI District Council Areas (DCAs): Armagh, Antrim, Ards, Ballymena, Ballymoney, Banbridge, Belfast, Carrickfergus, Castlereagh, Craigavon, Down, Larne, Lisburn, Moyle, Newry & Mourne, Newtownabbey, North Down. West of NI DCAs: Coleraine, Cookstown, Derry, Dungannon, Fermanagh, Limavady, Magherafelt, Omagh, Strabane.

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16 per cent more Foreign Direct Investment (FDI) assistance (£350 v £301) per adult head;

- the East received almost 37 per cent more planned FDI investment per adult head (£2,175 v £1,590), suggesting that more of the higher-value projects located there. However, the number of new FDI jobs per 10,000 population was evenly split (158 v 146), and a higher ratio of jobs were safeguarded in the west (107 v 80); and

- there were 56 per cent more indigenous business starts per 10,000 population in the West (255 v 163).

It is important to note that Invest NI cannot direct investors to specific areas, and that businesses' location decisions are primarily based on their own criteria. Another relevant factor is that figures for the East (FDI investment per head) are heavily influenced by the Bombardier `C' series project. If this is discounted, there is only a 5 per cent variance with the West, as opposed to the 37 per cent variance.

Part Four:
Benchmarking Invest NI's Performance with other Economic Development Agencies

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Benchmarking the performance of economic development agencies is problematic

4.1 Assessing Invest NI's performance against its own targets provides a limited measurement of its performance. In the UK and Republic of Ireland, there are a range of potential comparator organisations responsible for promoting economic development:

- England - nine Regional Development Agencies (RDAs)[20];
- Scotland - Scottish Enterprise and Scottish Development International (SDI);
- Wales – International Business Wales; and
- Republic of Ireland - Enterprise Ireland and IDA Ireland.

4.2 This part of the report focuses on benchmarking Invest NI with other agencies. It considers benchmarking by the NI Assembly Research and Library Services (NIARLS) and the Barnett Report, as well as that undertaken as part of this review. At the outset, it is important to note some relevant issues:

- benchmarking the performance of economic development agencies has historically proved difficult, due to their activities and objectives having been developed to address specific political, geographic, socio-economic and environmental contexts. We encountered some difficulties in gathering data which was fully comparable, and which did not always span across the same time-scales. Therefore, whilst our work represented the most meaningful benchmarking possible under the circumstances, there are certain limitations with it;
- in recognition of its status as an area of relative economic disadvantage and political instability, Northern Ireland has historically enjoyed special EU Regional Aid status to assist in attracting inward investment. This allowed Northern Ireland to utilise higher rates of financial assistance than most other UK regions. Whilst this assisted Invest NI in attracting Foreign Direct Investment (FDI) projects, it has the potential to result in higher costs for projects and jobs than other UK regions; and
- for the majority of indicators, it was only possible to benchmark for Invest NI's first two Corporate Plan periods (April 2002 – March 2008), primarily due to more recent data for the comparator agencies being unavailable. In the third Corporate Plan period, Invest NI clearly attained its strongest performance to date across a range of indicators. Consequently, its comparative performance may also have been stronger in this period.

20 England's RDAs were launched in 1999. However they are being replaced by Local Enterprise Partnerships from March 2012.

Both the NI Assembly Research and Library Services (NIARLS) and Barnett have benchmarked Invest NI's performance

4.3 In recent years, both the Northern Ireland Assembly Research and Library Services (NIARLS) and the Barnett report have benchmarked Invest NI's performance against comparator agencies (**see Appendix 10**). Whilst both highlighted the difficulties associated with benchmarking EDA performance, these exercises did indicate that:

- Invest NI has secured relatively few FDI projects per £million assistance compared to the English RDAs;
- Invest NI has a favourable FDI job creation record in comparison to other UK regions, but has lagged behind the Republic of Ireland in this area;
- Invest NI spend on economic development has been higher than in the UK. NIARLS reported that Invest NI spent £69 per capita in 2006-07 compared to an average of £64 for the 12 comparator agencies examined. Barnett concluded that Invest NI had by far the highest proportionate spend on Selective Financial Assistance in the UK in 2005-06, and in 2008-09 spent up to 66 per cent more on economic development than the UK average. This may be partly attributable to Northern Ireland's special economic context, and its associated regional aid status; and
- R&D spend in Northern Ireland has been low in comparison to the UK, the Republic of Ireland and internationally.

Benchmarking the performance of economic development agencies is difficult and inconclusive

4.4 In an attempt to arrive at more definitive conclusions about Invest NI's comparative performance, we benchmarked its performance with what we identified as the most meaningful comparator organisations. **Appendix 11** highlights these agencies, together with our selection criteria.

4.5 The key findings from our work are detailed in **Appendix 12**. Overall, our analysis further highlighted the difficulties of benchmarking in this area. It did gather sufficient evidence to suggest that Invest NI's comparative performance in its first two Corporate Plan periods was mixed. Invest NI performed well in terms of operating costs and exporting activity but less well in the areas of levering inward investment, additionality, cost per job, job quality and encouraging R&D activity. However, in its third Corporate Plan period Invest NI recorded a significantly improved overall performance, particularly for job quality and encouraging R&D activity and investment.

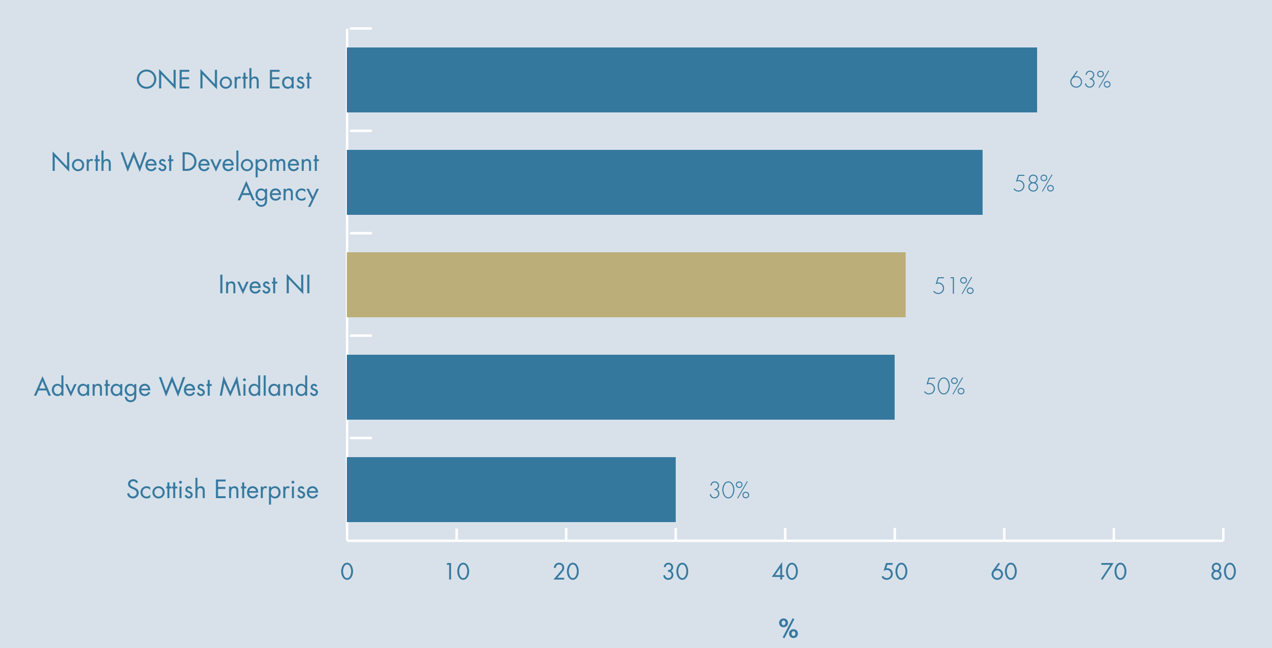
4.6 Additionality is an important aspect of securing value for money in economic development (see paragraph 3.4). Between April 2002 and March 2008, we estimated that the weighted average

Part Four: Benchmarking Invest NI's Performance with other Economic Development Agencies

additionality for jobs created and safeguarded by Invest NI was 51 per cent. Table 16 compares this performance against the other Agencies[21].

4.7 Within our comparison, there are some variables in terms of datasets and time periods. Also, the analysis of Invest NI's additionality is now somewhat dated and contains no allowance for speeding up projects which would have occurred anyway without assistance, due to the absence of formal measurement of this (see paragraph 3.27). It should also be noted that ONE North East's additionality score includes partial additionality. Scottish Development International and International Business Wales (two of the higher performing agencies with additionality of 60 per cent and 75 per cent respectively) are excluded from the comparison, due to their heavy focus on new inward investment projects which are more likely to have higher additionality rates. Whilst Invest NI's current additionality levels may be higher than recorded here, this will only be apparent when the results of the updated evaluation of Selective Financial Assistance are known.

Table 16: Invest NI's job creation additionality performance compared to other agencies



Source: Invest NI and other comparator Agencies

21 Whilst data for Invest NI related to the full period between 2002-03 and 2007-08, data for the other Agencies relates to varying time-spans between 2002-03 and 2008-09. Data for Scottish Enterprise is subject to a margin of error of +/- 3.2 per cent.

4.8 Three recommendations flow from our benchmarking exercise. These relate to the areas of administration costs, local business start-ups and R&D. These are listed below and are discussed fully at **Appendix 12**.

Recommendations

Our benchmarking of administration costs provides a useful baseline in this area, and Invest NI should use this to carry out ongoing performance measurement and comparison.

Whilst Invest NI currently has a target for business start-ups, measurement of the number who survive the first year and the proportion demonstrating growth would provide an enhanced picture of performance.

To date, Invest NI has measured the number of companies engaging in any R&D. This should be supplemented by a target to measure and report the level of high value R&D projects assisted. Whilst this should be as challenging as possible, it will of course be influenced by the current limited base of large businesses in Northern Ireland.

Part Five:
Implementing 'Transform', Invest NI's change management programme

Part Five:
Implementing 'Transform', Invest NI's change management programme

5.1 Having assessed the conclusions and recommendations of the Barnett report, as well as feedback from clients, stakeholders and staff, Invest NI commenced a major strategic change management process. `Transform' was launched in February 2010 with the objectives of:

- delivering a higher level of performance and economic impact;
- improving efficiency and effectiveness;
- embedding a customer-led service culture and enhancing customer experience;
- achieving greater autonomy within a robust governance framework; and
- equipping staff with the skills, knowledge, systems and resources to support business needs.

5.2 Invest NI considers that `Transform' will deliver greater value to the economy, and enable Invest NI to be recognised as `best in class' in delivering economic development and value for money. Given the challenges associated with benchmarking EDA performance, we asked Invest NI how it would demonstrate that it had achieved this. Invest NI told us that it intends to use a mix of research using published information from similar agencies (e.g. annual reports), and qualitative data possibly drawn from its customer and stakeholder surveys to establish benchmarks.

5.3 As **Appendix 13** shows, 'Transform' has four main themes (customer focus, people, processes and performance) to be achieved through 18 projects. Invest NI established deadlines for initial recommendations to be produced for each project. At March 2011, 15 of these either had the initial recommendations completed or were broadly on schedule. The only project to have experienced significant difficulties relates to proposals by Invest NI for greater autonomy and flexibility in managing its budgets. Invest NI had proposed changes which included priority call for in-year resources and retention of consolidated fund extra receipts. Whilst these proposals cannot be implemented as they fall outside established Treasury guidelines, Invest NI intends to continue to make the case to DETI and DFP for increased budgetary flexibility.

5.4 We assessed progress made to date in implementing the other `Transform' projects. Our findings are detailed at paragraphs 5.5 to 5.19 below, under the four themes.

Customer focus

Invest NI has rationalised its product offering

5.5 Prior to `Transform', Invest NI operated 76 financial assistance programmes, an approach it acknowledged as being fragmented and difficult to understand for customers. `Transform' has rationalised Invest NI's product offering through a new

Client Solutions Framework which focuses on five core areas (Business Starts, Business Growth, Maximising Efficiencies, Product Development and International Trade & Investment) and 21 underlying tailored solutions. These arrangements were introduced in May 2011.

Invest NI has worked with the Department for Employment and Learning (DEL) to develop a skills training programme

5.6 Invest NI recognised that when a company was interested in creating jobs in Northern Ireland, there was a need to provide greater support to ensure the availability of a suitably skilled workforce to meet their requirements. To address this, in partnership with DEL, Invest NI has been developing a new `assured skills' pilot programme. This has involved the design and delivery of bespoke training solutions to a number of Invest NI's client companies. The short case example below describes one project which has been delivered through the programme:

To meet the needs of a multi-national financial services company, DEL facilitated Belfast Metropolitan College to deliver industry relevant professional qualifications not previously available in Northern Ireland to almost 200 of the company's staff. To further enhance staff skills, DEL also involved the University of Ulster to provide technical training on Global Securities Operations.

5.7 An evaluation of the `assured skills' pilot has produced favourable results, and Invest NI and DEL are currently working to roll this out as a permanent programme.

Invest NI is striving to improve the impact of Selective Financial Assistance (SFA)

5.8 Despite the noticeable shift towards R&D in its third Corporate Plan period, Invest NI considers there is still a strong need to utilise SFA in the context of re-building the economy following the economic downturn. One `Transform' project has examined how SFA could be best utilised to improve productivity. Invest NI has developed an assessment tool to rank and prioritise SFA projects which involves an initial assessment of how projects address Public Service Agreement targets related to productivity and employment, and a more detailed subsequent resource allocation assessment of all SFA projects over £250,000. Invest NI and DETI are also working to assess the scope for improving overall value for money from SFA, in terms of striking the appropriate balance between job quality and cost.

Invest NI intends to assist the entire Northern Ireland business base, but focus on firms capable of export focused growth

5.9 To address a recommendation of the Barnett report that the concept of `clients' should be removed, Invest NI has developed a model to enable it to work in partnership with all businesses in Northern Ireland, with the overriding objective of achieving export-focused growth. As a first step, Invest NI segmented the Northern

Part Five:
Implementing 'Transform', Invest NI's change management programme

Ireland base of 126,000 businesses into tiers which reflect the differing extent to which these businesses contribute to Gross Value Added (GVA)[22], Exports, Innovation and Employment.

5.10 Invest NI is currently developing a tailored service for each customer tier, dependent on customer needs and proportionate to the potential for growth, which is likely to consist of three main elements:

- provision of information and advice to all businesses;
- market development and capability support to help businesses grow and move into new markets
- tailored solutions to businesses to help them increase investment towards innovation and achieve higher levels of export sales and wages & salaries.

An implementation plan to support the introduction of the new assistance model is at an advanced stage. Invest NI envisage that funding will be weighted towards the customer segments which will make the greatest contribution to GVA, R&D and export growth. Whilst this approach will involve the provision of some level of support to all businesses, it does not involve the establishment of a Small Business Unit as had been suggested by Barnett.

People

Invest NI has introduced a new vision statement, values and behaviours for staff and a related staff performance system

5.11 In recognition that the quality of its staff relationships with customers are fundamental to delivering benefit to the economy, Invest NI has developed a simplified purpose and vision statement, as well as a set of values and associated behaviours. The values have been developed around customer focus and the associated behaviours outline how all Invest NI staff should work to influence customer experience and achieve desired outcomes. The values and behaviours form an integral element of a new performance management system which was introduced in April 2011.

Processes

Invest NI has agreed new delegated limits and introduced revised casework procedures to improve customer response whilst maintaining governance

5.12 The Barnett report emphasised the importance of striking a balance between accountability, risk-taking and speed of decision-making. To provide Invest NI with greater autonomy, DETI and DFP approved revised arrangements in July 2010, which provided Invest NI with the delegated authority for assistance of up to:

22 Gross Value Added measures the contribution to the economy in terms of goods and services produced, in respect of each individual producer, industry or sector.

- £6 million for R&D and innovation projects (previously £2 million);

- £3 million for SFA with certain exceptions[23] (previously £1 million):

- £6 million for General Programmes which are not novel and contentious (previously £1million); and

- up to £20,000 SFA grant per job for non-mobile SFA projects (previously £10,000).

Invest NI has also introduced simplified internal casework approval arrangements for all projects above £50,000 (excluding property support). These involve five delegated limit levels compared to the previous system of over 30 different delegations.

Both DETI and Invest NI are required to keep the delegated limits under review as a condition of DFP approval.

Invest NI has introduced new arrangements aimed at improving management and appraisal of major projects

5.13 Invest NI has introduced revised arrangements for managing the negotiation of major projects (involving over £1million of public funds), aimed at ensuring that it achieves the best possible deal. This comprises:

- a Major Projects Team to manage each project;

- reaching agreement at the outset with the top management team on parameters for negotiation with potential investors, and for signing up to projects; and

- implementation of enhanced forecasting and performance reporting for all major projects throughout their life-cycle.

5.14 Invest NI has also developed a revised economic appraisal framework commensurate with project size, which will involve small projects (less than £250,000) being subject to a largely qualitative assessment, and medium projects (more than £250,000 but less than £1million) being subject to this process as well as tests related to productivity, salaries and skills.

5.15 Large R&D and Selective Financial Assistance projects (over £1million) will be subject to a full economic appraisal, involving:

- wider measurement and quantification of likely benefits. Whilst appraisals previously focused heavily on profits generated from projects, the revised arrangements will also assess outcomes including R&D spill-overs[24], benefits from supply chain transactions, salaries and productivity; and

- more robust appraisal of risks, uncertainties and likely outcomes.

23 Where the median salary is below the Private Sector Median (PSM) and GVA per employee does not increase as a result of the project, Ministerial approval is required for assistance above £1m; in addition, where the safeguarding element of a project exceeds £1m, Ministerial approval is required.

24 These include the acquisition of skills and knowledge and the transfer of technology.

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In addition, all projects will now be assessed in terms of the benefits generated at a local (NI) level, rather than a national (UK) perspective. Invest NI considers that this provides a broader, more accurate and robust evidence base upon which to assess value for money and optimise resources towards projects with the greatest potential in terms of productivity, growth and employment. Invest NI introduced these new arrangements in September 2011, and told us that they are working well in practice.

Performance

Invest NI intends to introduce a business scorecard and a streamlined performance measurement framework

5.16 Invest NI developed a business scorecard which was introduced in 2011-12. This enables it to track performance against its core performance indicators and key strategic goals in the areas of customer / stakeholder satisfaction, efficient delivery of business processes and people / organisational development. It also assists the future planning of Invest NI's strategic activities.

5.17 Having reviewed its performance reporting framework, Invest NI identified scope for streamlining the substantial number of individual targets it had been reporting on. Whilst it has already reduced the number of targets in the third Corporate Plan period, it is also assessing how the Key Performance Indicators (KPI) within its framework can be refined to a smaller number of key targets which measure outputs achieved. These will align with the key drivers of economic growth outlined in the NI Executive's Draft Economic Strategy (including stimulating innovation and creativity, improving skills, competing in the global economy, encouraging business growth and promoting employment). The revised KPIs will be introduced within Invest NI's 2011-14 Corporate Plan.

5.18 This new output-focused performance management framework being introduced within Invest NI's Corporate Plan is a welcome development. Invest NI also anticipates introducing a productivity related performance measure related to Gross Value Added per employee. However, as this requires changes to how data is captured from client companies, Invest NI will continue to measure the level of wages and salaries as an interim proxy measure. To meet a further recommendation of Barnett, DETI will assume responsibility for reporting on the performance of Invest NI from 2011-12.

Recommendation

In reporting performance on wages and salaries, Invest NI should also calculate cost per job (CPJ) as an indicator of value for money, to help illustrate whether the right balance is being struck between job quality and cost.

5.19 Invest NI is also considering measuring and reporting performance in respect of key strategic sectors on a portfolio basis (for example, Life and Health Sciences and ICT / Financial Services), with KPIs set at input, output and outcome levels. Whilst Invest NI has the capability to collect the relevant performance information in these areas, the time lag between offer of assistance and outcomes being achieved means that it will take a number of years to build up useful data. Whilst reporting on a portfolio basis will provide a relevant picture of overall performance within these sectors, it is still important that Invest NI continues to review individual projects to identify and learn from examples of good and poor practice.

Transform has the potential to improve significantly Invest NI's performance

5.20 Clearly, `Transform' represents a comprehensive change management programme, and as Table 17 summarises, it goes a long way to addressing the key corporate recommendations of the Barnett Report.

5.21 The success of `Transform' will ultimately be judged on the extent to which it delivers enhanced performance across the following key areas:

- higher performing investment projects, with increased investment leverage;
- improved job quality thereby resulting in increased productivity/Gross Value Added;
- a quicker appraisal and decision making process;
- increased customer satisfaction; and
- improved efficiencies leading to reduced operating costs.

Invest NI's revised performance measurement framework and its business scorecard, which will be introduced in 2011-12, will help it to measure whether 'Transform' is delivering the change envisaged. Any narrowing of the productivity gap between Northern Ireland and the rest of the UK would also be an indicator of the impact of `Transform'. However, we acknowledge that there are other important `influencers' in this regard (for example, national and global economic conditions) and Invest NI cannot be held solely responsible for achieving this objective.

Recommendation

In order to demonstrate the extent of improved performance it is important that, when setting its new targets, Invest NI establishes clearly defined baselines related to previous performance where such information is available.

Part Five:
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Table 17: Action taken under `Transform' to address key recommendations of the Barnett Report

Barnett recommendation	Action taken under `Transform'	Implementation Status at 31 March 2011
Rationalise Invest NI's current range of programmes.	Rationalised framework of assistance programmes developed and in place. (see paragraph 5.5)	**Achieved**
DETI, DEL and Invest NI to improve liaison arrangements.	Invest NI and DEL have developed a joint assured skills pilot programme, which is to be rolled out as a permanent programme. (see paragraph 5.6)	**Achieved**
Develop recommendations on optimisation of SFA until 2013.	Assessment matrix developed to rank and prioritise SFA projects against PSA objectives of productivity and employment. (see paragraph 5.8)	**Achieved**
Develop a new model for how Invest NI delivers its programmes and services to the NI business base including the service sector.	Recommendations for segmentation of NI business base and tiered solution for providing services and assistance to business completed. (see paragraphs 5.9 and 5.10)	**Achieved**
Determine how a Small Business Unit could fit with a new model to deliver services to the wider business base.	New customer model proposed, which will provide some degree of assistance to all businesses, but which does not involve creation of a formal Small Business Unit. (see paragraph 5.10)	**Achieved**
Invest NI to review organisational structure to deliver against proposal to service the wider business base.	Ongoing assessment of options for organisational design to support delivery of new business model. (see paragraph 5.10)	**Not Achieved**
Extend and simplify Invest NI's delegated authority limits.	New delegated authority framework agreed with DETI and DFP and in place. (see paragraph 5.12)	**Achieved**
Refine methodology for appraising innovation, R&D and SFA projects.	Recommendation developed and agreed by DETI. Ongoing engagement with DFP, with a view to introducing new arrangements in September 2011. (see paragraph 5.15)	**Not Achieved**
Develop recommendations on the ex-post assessment of value for money on projects involving financial assistance on a portfolio basis.	Recommendation approved by Invest NI Board. (see paragraph 5.19)	**Achieved**
Increase Invest NI's autonomy in budgetary management including end-of-year flexibility.	Recommendation cannot be implemented as it falls outside established Treasury guidelines. (see paragraph 5.3)	**Not Achieved**

Source: Invest NI

Appendices

Appendix 1: Examples of Corporate Plan targets achieved and not achieved by Invest NI, April 2002 to March 2005 (paragraph 2.16)

Target	Outcome
Achieve 4,500 new locally focused businesses	8,532 new locally focused businesses
Attract 60 externally owned knowledge-based (FDI) projects	71 new FDI knowledge-based businesses
Increase private sector investment in research and development by 25 per cent	Investment declined by 13 per cent
Increase employment in Invest NI larger client companies by 0.5 per cent	Employment reduced by 4.4 per cent
Increase export sales by Invest NI larger client companies by 30 per cent	Export sales increased by 6.7 per cent
Secure 420 new high growth business starts	302 new high growth business starts secured
Secure 120 new high growth business starts from the research base	61 new high growth business starts from the research base secured

Key:

Target Achieved

Target Not Achieved

Appendix 2: Examples of Operating Plan targets achieved and not achieved 2002-03 to 2004-05 (paragraph 2.18) and 2005-06 to 2007-08 (paragraph 2.22)

Targets Achieved and Not Achieved (2002-03 to 2004-05)

Period target was in place	Target	Actual Performance
2002-03 to 2004-05	500 companies to diversify into new markets	860
2002-03 to 2004-05	£22.5 million increase in profits from business improvement interventions	£31.8 million increase in profits
2002-03 to 2004-05	5,750 locally focused business start-ups	8,532 start-ups
2002-03 to 2004-05	38 new FDI projects with 3,500 jobs	38 new FDI projects with 3,821 jobs
2002-03 to 2003-04	£12.5 million of new business from business improvement interventions	£8.1 million of new business
2003-04 to 2004-05	£620 million of private sector investment levered in development projects by Invest NI client companies	£467 million of investment
2003-04 to 2004-05	40 global business start-ups	25 global business start-ups
2002-03 to 2004-05	120 research based spin-outs	66 research based spin-outs

Key:

Target Achieved

Target Not Achieved

Appendix 2: Examples of Operating Plan targets achieved and not achieved 2002-03 to 2004-05 (paragraph 2.18) and 2005-06 to 2007-08 (paragraph 2.22)

Targets Achieved and Not Achieved (2005-06 to 2007-08)

Period target was in place	Target	Actual Performance
2005-06 to 2007-08	To secure £488 million of investment by indigenous companies	£606.8 million
2005-06 to 2007-08	£75 million of total investment in innovation and R&D	£86.3 million of investment in innovation and R&D
2005-06 to 2007-08	45 FDI projects promoting 5,650 new jobs and £98 million of additional annual wages	52 FDI projects 6,154 jobs promoted £122 million additional annual wages
2005-06 to 2007-08	500 companies to become new first time exporters	611 new first time exporters
2005-06 to 2007-08	£216.5 million in annual salaries to be secured through support to indigenous companies	£178.64 million of salaries secured.
2006-07 and 2007-08	To secure £795 million of investment from support foreign owned companies	£696 million.
2006-07 and 2007-08	200 export focused business start-ups	178
2005-06 to 2007-08	36 global business start-ups	31

Key:

Target Achieved

Target Not Achieved

Appendix 3: Examples of significant over-performance against targets in first two Corporate Plan periods (paragraph 2.25)

Period	Target	Performance
2002-03 to 2004-05	4,500 new locally focused business starts	8,532 (90 per cent over-performance)*
2005-06 to 2007-08	1,500 people, process and innovation improvements in client companies, 300 of which to be skills related	3,658, 2185 of which were skills related (144 % and 628% over-performance)
	100 client companies to participate in R&D for the first time	246 (146 % over-performance)

Key:

Target Achieved

Target Not Achieved

* Whilst this target could clearly be regarded as insufficiently challenging, Invest NI did, in this instance, set a much more stretching target (10,000 business starts) for the next Corporate Plan period.

Appendix 4: Examples of insufficiently challenging Operating Plan target setting (paragraph 2.25)

2003-04

- In 2003-04, there were 1377 business interventions against a target of 1000. However, in 2004-05, the target was reduced to 680, and performance achieved was 1,137. There was therefore considerable over-performance against this target for two successive years (38 per cent and 67 per cent). Had Invest NI set the 2004-05 target in line with the previous year's performance, which would have required no improvement in performance, it would have failed to achieve it.

- £7 million of additional research funding was levered against a target of £1.5 million. Despite this, the 2004-05 target was only revised upwards to £3.9 million. Actual 2004-05 performance was £7.9 million, meaning that there was considerable over-performance against this target for two successive years (366 per cent and 102 per cent).

2003-04 and 2004-05

- In both 2002-03 and 2003-04, 126 emerging technologies were demonstrated against a target of 100. However, the target remained unchanged at 100 in 2005-06 when 416 technologies were actually demonstrated. The ease with which the 2005-06 target was achieved (316 per cent over-performance) reduces its value as a performance measure.

2006-07

- Some £155.3 million of investment by indigenous companies was achieved against a target of £129.2 million. The target for 2007-08 was set at £127.3 million (lower than the previous year's performance), but £340 million of investment was achieved (166 per cent over-performance).

Appendix 5: Selective Financial Assistance (SFA) (paragraph 3.5)

Background

1. Selective Financial Assistance (SFA), has been Invest NI's primary programme for supporting business formation and expansion for both local and externally owned firms, with £519 million of expenditure being allocated to client companies between 2002 and 2011 (48 per cent of Invest NI's total programme spend). SFA has resulted in the promotion of at least 34,000[25] new jobs, the safeguarding of at least 15,500 jobs and estimated investment by supported companies of almost £4 billion.

Whilst SFA has a strong job creation record, outcomes in terms of productivity and growth have been less favourable

2. An evaluation completed for DETI in 2004 concluded that:

   - between 1998 and 2004, SFA[26] had impacted positively on promoting employment, but its effectiveness in assisting growth amongst recipients was less certain; and
   - full additionality was low (8.5 per cent), and a high proportion of SFA projects would have achieved similar outcomes without assistance. However, SFA had enabled these to proceed quicker.

3. Barnett reaffirmed that SFA had produced favourable employment outcomes in Northern Ireland (with the highest level of new jobs promoted per capita in the UK between 2002-03 and 2007-08). However, Barnett found no evidence that SFA had facilitated productivity growth, due to a heavy weighting of Foreign Direct Investment (FDI) business formation support towards call centre jobs which offered lower salaries, and did little to boost overall productivity in Northern Ireland.

4. Analysis shows that only 10,500 (38 per cent) of the 28,000 jobs promoted by Invest NI under the SFA programme between 2002-03 and 2007-08 were created and fully additional. Furthermore, research by the Economic Research Institute of Northern Ireland indicated that net job creation within Invest NI's client companies between 2001 and 2007 was only 3.7 per cent, due primarily to high job losses within FDI projects.

5. Our benchmarking exercise also suggested that there was scope for improving SFA additionality levels, that the cost per job promoted by Invest NI was comparatively high, and that Invest NI had performed below the comparator Scottish and Irish agencies in levering indigenous and foreign investment.

25 This does not include jobs promoted and safeguarded by indigenous companies between 2002-03 and 2004-05 (see paragraph 1.3).
26 Evaluation commissioned by DETI on effectiveness of SFA which covered the period 1998 – 2004.

Appendix 5: Selective Financial Assistance (SFA) (paragraph 3.5)

Invest NI has taken steps to improve the impact of SFA

6. Invest NI has taken a number of steps to address the issues raised by the evaluation and Barnett to improve outcomes of SFA in areas such as productivity, job quality, R&D and additionality:

- within the 2008-11 Corporate Plan, a much higher emphasis had been placed on productivity, job quality and R&D - demonstrated by a Public Service Agreement target introduced in 2008-09 which measures the percentage of jobs above the Northern Ireland Private Sector Median;
- for SFA projects over £250,000, a Resource Allocation Matrix has been used at an early stage in the appraisal process since 2007, to estimate the full range of potential economic benefits and to prioritise expenditure decisions;
- an on-line SFA Casework Toolkit has been developed to help Client Executives appraise more robustly at an early stage the likely value of promoted projects. This tests productivity, skills and wages, with pre-defined thresholds for passing these;
- caseworks for projects greater than £50,000 are now subject to a panel assessment, aimed at providing a greater challenge function;
- Client Executives have been instructed to challenge companies seeking assistance for mobile projects more rigorously on actual evidence of alternative location options; and
- within Invest NI's 'Transform' programme, a project to consider how SFA (until 2013) can be optimised has resulted in the development of a matrix which assesses the degree to which proposed projects address the PSA targets for productivity and employment.

7. Whilst the effectiveness of these measures has not yet been formally assessed, limited analysis does suggest an improved performance in terms of SFA job quality between 2008-09 and 2009-10 (average company salaries increased by 7.7 per cent - FDI salaries increased by 29 per cent whilst indigenous salaries actually reduced by 10 per cent). However, more detailed ongoing scrutiny is required to arrive at definitive conclusions. In terms of additionality, following the 2004 DETI evaluation, Invest NI issued new advice and guidance to relevant staff aimed at improving performance in this area. To date there has been no formal updated estimate of SFA additionality levels, but DETI has produced initial terms of reference for an updated evaluation of the programme, and this is scheduled for completion in December 2012.

Invest NI has not yet established alternative strategies to SFA to promote economic development after 2013

8. SFA operates within the European Commission's Regional Aid Guidelines, under which Northern Ireland has been almost alone in the UK as being eligible to utilise assistance at levels between 30 per cent and 50 per cent of total project costs. However from January 2011 this fell to between 10 per cent and 35 per cent and, post 2013, Invest NI may be unable to offer investment or employment related support to large companies.

9. Invest NI is currently exploring a range of alternative aid options, including:

   - employment and investment aid for small and medium sized enterprises;
   - aid for newly created small enterprises;
   - aid for female entrepreneurship; and
   - environmental investment aid.

Appendix 6: Research and Development (R&D) programmes (see paragraph 3.9)

1. Our review focused on the three programmes which have accounted for 42 per cent of Invest NI's R&D budget between 2002-03 and 2009-10:

   - Centres of Excellence (£19.9 million)
   - Compete (£36 million)
   - START (£31.1 million)

Centres of excellence have achieved financial benefits, but a significant proportion of these have not been retained within Northern Ireland

2. Launched in 2002, Centres of Excellence (CoE) has involved establishing R&D centres to carry out leading edge, industrially exploitable and commercially focused research aimed at improving significantly the competitiveness of Northern Ireland industry. To date, Invest NI has assisted 22 CoE's, at levels of up to 50 per cent (University projects), and 35 per cent (Company projects).

3. An example of a CoE is the Randox Centre of Excellence in Proteomics (the study of proteins). Invest NI provided funding of £1.7 million between November 2002 and December 2005. The project has created 47 jobs and has annual income of £151,000. The centre has a number of patents pending for biomarkers (indicators of a medical condition) for breast and oesophageal cancers.

4. An evaluation[27] assessed programme outcomes for 18 centres established between 2002 and 2007 (8 University projects, and 10 Company projects). This found that the programme had raised overall R&D spend in Northern Ireland, and levered £4.57 of R&D investment for every £1 of grant, as well as creating an estimated 309 new jobs (mainly highly skilled). Additionality was high, at 73 per cent. In all key respects, the CoE programme out-performed its predecessor, the Technology Development Programme.

5. The evaluation also found that CoEs had realised £503 million of total additional income, £450 million of which had been generated by Company located centres. However, £288 million of this (64 per cent) related to Foreign Direct Investment-owned Centres, and the commercial benefits were therefore not retained within Northern Ireland. In line with DFP guidance at the time, these projects would have been appraised by Invest NI on the basis of National Economic Efficiency (i.e. benefits to the UK, and not on a Northern Ireland basis alone). The EU will not approve an aid measure which "excludes the possibility of exploitation of R&D in other Member States". However, this ruling does not prevent Invest NI from striving

27 Evaluation commissioned by Invest NI which assessed Centres of Excellence between 2002 and 2007.

to ensure that as much of the benefits from R&D as possible are retained in Northern Ireland. Furthermore, this stipulation only applies to EU Member States, and not to other key overseas investors such as the US, India and Canada.

6. Invest NI told us that apart from additional income these centres would be expected to retain and improve competitiveness through:

- increasing sales and profitability;
- opening new markets in the UK and overseas;
- gaining new business partnerships;
- attracting external finance;
- reducing costs; and
- assisting 'quicker to market' entry.

They also stated that wider economic benefits to the local economy would include linkages with Universities, skills development, knowledge transfers and encouraging foreign investment.

7. Invest NI also told us that the income generated by the programme is likely to be significantly greater, both from Centres in place at that time, and those subsequently established. In view of the large revenue streams generated by the Company Centres (over £450 million), we asked Invest NI whether the grant funding of almost £11 million was necessary. Invest NI told us that the Centres could not have been established without this support. We also asked Invest NI whether clawback arrangements should have been inserted to address such instances of significant return. Invest NI told us that the concept of repayable assistance runs contrary to the objective of supporting R&D projects which address clear market failure, and re-iterated the above benefits to the Northern Ireland economy.

Compete has delivered benefits to participant companies

8. Established in 1994, Compete was intended to encourage manufacturing businesses to develop innovative and high quality products and processes, and to increase the level and quality of `near-market R&D'. Support is provided through a two-phased grant, with Phase 1 involving project definition (a feasibility test), for which Invest NI contributes a maximum grant of 50 per cent (capped at £15,000). Phase 2 deals with project development, attracting maximum support of 40 per cent (capped at £250,000).

Appendix 6: Research and Development (R&D) programmes (see paragraph 3.9)

9. Compete has been subject to a number of reviews, all of which have been largely positive:

- an evaluation[28] of outcomes between 1998-99 and 2003-04 highlighted increased sales and prospective sales by participant companies, and found that Compete had increased overall R&D spend in Northern Ireland by 5 per cent; and

- in 2009, a Post Project Evaluation (PPE) of 65 Compete Phase 2 projects concluded that these had impacted positively on the Northern Ireland economy, had performed strongly in terms of increasing R&D spend, development of new and improved products, processes and services by participants, Gross Value Added and job creation, and additionality.

10. However, an evaluation completed in 2009 highlighted that the significant administrative burden placed on Compete participants may have limited the opportunities for achieving commercial benefits and discouraged participation in the programme. Reducing bureaucracy was one of the main objectives behind the establishment of Invest NI's new single R&D grant programme in 2009-10.

The wider impact of the START programme is unclear

11. START was launched in 1995, with the aim of increasing advanced stage research by companies either independently, or in partnership with Universities. To reflect specific market failure, assistance levels are up to 50 per cent of project costs.

12. An evaluation of the programme from[29] 2000 to 2006 assessed 30 projects supported by Invest NI at a cost of £23.1 million (average £770,000). This found that:

- START projects had been associated with 16 per cent of total Northern Ireland R&D expenditure (£62.3 million);

- deadweight for the programme was relatively low (13 per cent); and

- the programme was successful in terms of projects achieving technical objectives.

13. However, the evaluation highlighted low levels of participation, as well as a small number of companies receiving repeated funding. Invest NI told us that the START programme was a high value, large-scale R&D programme and, given the low numbers of businesses in Northern Ireland engaged in this area, high participation levels would not have been expected.

28 Evaluation commissioned by Invest NI assessed outcomes of the Compete programme between 1998-99 and 2003-04.
29 Evaluation commissioned by Invest NI reviewed 30 START projects supported between 2000 and 2006.

14. At the stage of this evaluation, actual programme benefits were not fully apparent as many START projects were ongoing. Whilst projects may have now delivered more significant benefits on reaching fuller maturity, these have not been quantified. The difficulties with assessing outcomes have been compounded because Post Project Evaluations of individual projects have been behind schedule, and because reports by participants outlining commercial benefits achieved have rarely been submitted to Invest NI. Invest NI has appointed consultants to address these issues.

Appendix 7: Start a Business Programme (SaBP) (paragraph 3.16)

SABp had high levels of deadweight

1. Launched in 2001, the Start a Business programme (SaBP) aimed to increase the numbers and viability of small businesses in Northern Ireland. It offered support including assessment, training, business planning support and an initial start-up grant. Total Invest NI spend on SaBP between 2002-03 and 2009-10 amounted to £27.7 million. Whilst an evaluation[30] completed in March 2006 found high participant satisfaction with SaBP, it also concluded that there were high levels of deadweight (between 74 per cent and 84 per cent) SaBP costs per additional job created were higher than the comparator Scottish programme and that SaBP was not meeting individual participants' needs and demands.

2. It is also unclear whether some of SaBP's specific objectives were achieved:

Programme Objective	Concerns
Business survival rate of 70 per cent over three years	As no rolling 3-year evaluation was undertaken, it is unclear whether a 70 per cent survival rate over three years was achieved. However, in 2004, 14 per cent of new SaBP start-ups had not survived their first 12 months, and this increased steadily to 31.6 per cent in 2009.
Assist newly established start-ups become generators of employment and wealth through enhancing business survival and growth	We were unable to find any analysis of the extent to which the programme facilitated growth among participant firms.
Assist a proportion of new starts to become Invest NI client companies following completion of SaBP	Invest NI told us that it did not have any data on the number of SaBP participants who became Invest NI clients.

Initial performance of the SaBP's successor, Enterprise Development Programme has been disappointing

3. Having assessed the findings of the evaluation, Invest NI re-launched SaBP as Enterprise Development Programme (EDP) in March 2009. EDP encompasses two strands:

- Go For It (GFI) supports initial business concepts (Invest NI support from March 2009 to October 2010 £286,0000); and

- the second strand assists actual start ups. To reduce the high deadweight associated with SaBP, Invest NI withdrew the grant element of support (Invest NI support from May 2009 to October 2010 - £2.9 million).

30 Evaluation of SaBP (2001 to 2005)

Given the quantum of funding involved, we focused on the second strand.

4. Research commissioned by Invest NI focused on outcomes achieved between April 2009 and July 2010, by 250 EDP supported businesses which had achieved Business Plan Approval (BPA) status. This indicated that the overall graduation from BPA status to actual start-up was 68 per cent, viewed as being a “reasonable” performance. Within the first year however, some 20 per cent of the start-ups had already ceased trading.

5. More positively, the research highlighted the important role which EDP was playing in the current economic climate in supporting participants who may otherwise be unemployed. The research also indicated that whilst growth amongst start-ups had been disappointing, there were indications which suggested potential for improved future performance in this area.

6. This research identified a number of concerns over the early outcomes of EDP in respect of the potential financial vulnerability of start-ups, low levels of turnover and growth, employment creation, salary levels and exporting. Whilst deadweight was high (approximately 80 per cent), the removal of the grant paid to start-ups under SaBP had helped reduce the financial consequences of this.

7. Overall, the research concluded that there were prospects for achieving good value for money from the EDP start-up strand, but that the VFM position was not significantly better than SaBP.

8. To assist better measurement of the performance of the programme, our benchmarking exercise identified scope for enhancing Invest NI’s target for business start-ups to measure both the proportion of businesses surviving their first year, and the proportion demonstrating growth.

Appendix 8: Company Development Programme (CDP) and Business Improvement Training Programme (BITP) (paragraph 3.17)

CDP had high levels of deadweight

1. The Company Development Programme (CDP) was designed to assist companies improve competitiveness and performance through workforce training of both management and employees. The Programme commenced in 1991, and was re-launched as the Business Improvement Training Programme (BITP) in late 2005. Total spend on CDP and BITP between April 2002 and March 2011 was £75.8 million.

2. An evaluation of CDP[31] (1995-96 to 2003-04) reported concerns over the low levels of grant funding directed towards small firms. It also identified high levels of deadweight, with 63 per cent of firms reporting that without CDP, they would have undertaken the same training themselves. Only 8 per cent of recipients claimed they would not have undertaken any training without CDP assistance. However, the programme had achieved benefits in terms of the number of training units delivered and National Vocational Qualifications (mainly levels 2 and 3) achieved, and by improvements in technical skills reported by participant firms.

3. Barnett concluded that CDP had been predominantly directed towards medium and larger companies, which would be expected to have provided training without resorting to government assistance, and questioned how transferable the improved skills reported by recipient companies were to the wider economy.

An evaluation of CDP's replacement programme (BITP) found scope for enhancing performance in a number of areas

4. An evaluation which assessed BITP from October 2005 to March 2010 found that whilst there had been progress in implementing recommendations from the CDP evaluation, there was still scope for improvement in some areas:

   - development of a Return on Investment calculation;
   - an absence of real time tracking of costs, benefits and impacts; and
   - Post Project Evaluations only being completed for some supported projects, and not containing information required to provide a detailed analysis of impacts.

5. The evaluation also concluded that:

   - performance targets needed to be developed to measure the extent to which BITP helped companies increase productivity, rather than simply measuring the numbers of cases funded; and

31 Evaluation commissioned by Invest NI (2004).

- BITP support had not yet been refocused to SME's as recommended by both the first evaluation and Barnett.

6. More positively, the evaluation found evidence that BITP was being directed towards delivering improvements in participant companies' competitiveness, rather than simply being used as an employment subsidy as may have been the case with CDP. There had also been a significant improvement in additionality and reduction in deadweight compared to CDP. However, there was still scope for further progress, as 35 per cent of respondents would have gone ahead with part of the training without BITP support.

7. Overall, the evaluation concluded that

- evidence of the need for ongoing government support for company training was patchy;
- BITP had the potential to be effective, but that the information to demonstrate benefits needed to be sufficiently improved to provide a stronger evidence base; and
- Invest NI should continue to support companies in skill development where this was linked to growth, particularly those focused on R&D and exporting, subject to a number of recommendations for improvement.

8. Invest NI compiles an Action Plan outlining measures being taken to address the key conclusions and recommendations from evaluations of its programmes. Invest NI has taken the following steps regarding the BITP evaluation:

- in response to developing a Return on Investment, Invest NI in collaboration with DEL has established an economic appraisal framework to assess and monitor value and impact of support for company skills projects. This will also partly address the issue of tracking costs, benefits and impacts, and will be introduced as part of a revised BITP scheme; and
- the new scheme will also address the other issues raised by the evaluation, with the exception of the need to re-focus support to SME's. Because it is not possible to simplify the application and operation of BITP, a separate SME focused programme, is being developed with implementation from January 2012.

Appendix 9: Trade and Export Programmes (see paragraph 3.20)

The performance of Invest NI's key trade and exports programmes has not yet been fully evaluated

1. `Passport to Export', the main element of Invest NI's trade assistance programmes, provides a suite of interventions aimed at assisting locally based companies to grow their export markets. These include advice, consultancy and supporting attendance at trade missions and exhibitions. Between April 2002 and March 2011, total spend on the main elements of the programme was £35.8 million.

2. Invest NI has measured performance of its export interventions through two Operating Plan targets related to the number of first time exporters and number of companies entering new markets. Although Invest NI has mainly performed well against these targets between 2002-03 and 2009-10, there are concerns that these have not been set at sufficiently challenging levels. For example, the annual target for new first time exporters was set at a lower level than performance achieved in the previous year on four occasions in this period, and for the target for companies entering new markets, on five occasions.

3. An evaluation examined the rationale for, and performance of, Invest NI's suite of trade interventions between April 2006 and March 2010. Overall, this concluded that the programme had provided value for money, with positive benefits in terms of Gross Value Added and increasing participants' turnover. However, it also identified significant gaps in management information for the Programme, particularly associated with the measurement of benefits ultimately achieved by client companies.

4. To maximise future performance of its trade interventions, the evaluation considered that Invest NI should:

   - increase the uptake of exporting by Northern Ireland businesses (only 5 per cent of the NI business base uses Invest NI's exports services);
   - enhance support for exporting to emerging sectors and markets;
   - improve targeting of the Programme to enhance its effectiveness;
   - review the structure of the suite of interventions with a view to simplifying these; and
   - assess the scope for achieving better value, possibly by recouping more of the Programme delivery costs from participants.

5. The evaluation also highlighted the need for greater co-ordination between Invest NI and other public bodies which provide export interventions (including InterTradeIreland, Enterprise NI, local

authorities and the Chamber of Commerce) to avoid duplication and develop complimentary interventions and partnership working.

6. To address these findings, the evaluation recommended that Invest NI should:

- continue to support the Programme, subject to an economic appraisal assessing the entire suite of interventions;
- continue to develop linkages with other local export promotion bodies to identify the potential scale of export assistance needed in Northern Ireland, and assess existing provision;
- increase its focus on delivering the higher `added value' interventions such as trade missions and exhibitions;
- strive for a greater presence in key markets in the Far East and Latin America;
- continue to review its costing structure and ensure that it is maximising the potential for revenue generation; and
- take steps to enhance the management information gathered on the performance of the programme.

7. Whilst Invest NI has developed a plan which outlines actions to address the evaluations' recommendations, many of these are still at a relatively early implementation stage.

Appendix 10: Findings of Northern Ireland Assembly Research and Library Services (NIARLS) and the Barnett Report on benchmarking Invest NI's performance (see paragraph 4.3)

NIARLS Analysis (restricted to 2006-07 only)

1. Main Findings

- **Invest NI spends more per capita than the UK average for economic development agencies:** In 2006-07, Invest NI's per capita spend was £69, compared to an overall average of £64 for the 12 comparator agencies examined. Barnett also concluded that Invest NI's spend has been high compared to other UK development agencies. A key factor behind this has been Northern Ireland's special status under EU state aid rules, whereby (unlike the rest of the UK), the entire region is eligible for SFA.

- **Invest NI performed on a par with the English Regional Development Authorities in terms of job creation, and created more business start ups:** For jobs created per capita, Invest NI matched the English RDA average (0.002), but was substantially below the best performing RDA (ONE North East - 0.005). Invest NI supported more business start-ups per capita (0.002) than all the English RDA's (where performance ranged from 0.00005 to 0.001). However, NIARLS concluded that this may have been attributable to a strong entrepreneurial culture already present in the English regions, which reduced the need for assisting start-ups because the impetus already existed.

- **Invest NI performed on a par with Scottish Enterprise in terms of business start ups, but the lack of comparable data made it difficult to benchmark FDI job creation:** Invest NI performed equally with Scottish Enterprise in terms of business start-ups (both had 0.002 per capita). Whilst the raw data suggested that Invest NI out-performed Scottish Enterprise in terms of Foreign Direct Investment (FDI) jobs (0.0015 per capita compared to 0.0003), differences in the way the data is gathered rendered the comparison largely meaningless. For example, Invest NI included all FDI jobs, whilst Scottish Enterprise only reported high value sector jobs.

- **Meaningful benchmarking with Enterprise Ireland was not feasible:** NIARLS identified significant differences between the respective operational strategies of Invest NI and Enterprise Ireland, attributing this to the regional economic context the agencies were working within. The review also concluded that Enterprise Ireland's targets for sales were more ambitious and developed than Invest NI's.

2. Whilst NIARLS found that Invest NI's performance for business start-ups hugely exceeded Enterprise Ireland's for 2006-07, this was viewed as largely meaningless. This is because Invest NI included all business start-ups whilst Enterprise Ireland exclusively targets, and only reports, high-value business formation. Overall, given the variance in strategic focus between the two agencies, NIARLS concluded that few comparator measures existed between the two regions.

The Barnett Report

Invest NI promoted more jobs per capita than other UK regions, but significantly fewer than the Republic of Ireland

3. Between 2002-03 and 2007-08, Barnett concluded that more new Foreign Direct Investment (FDI) jobs per capita were promoted in Northern Ireland (4,600 per million population) than any other UK region (Wales was the second highest performing region with 4,000 jobs). Whilst this was a strong performance, it is likely to have been assisted to some degree by Invest NI's ability to offer higher levels of financial assistance than the other UK economic development agencies, due to Northern Ireland's special regional aid status. Indeed, Barnett reported that Invest NI had by far the highest proportionate spend on Selective Financial Assistance (SFA) in 2005-06 and in 2008-09, spent up to 66 per cent more on economic development than the UK average.

4. Whilst superior to the rest of the UK, Invest NI's per capita performance for FDI job creation lagged some way behind the Republic of Ireland, where over 13,000 jobs per million population were created between 2002-03 and 2007-08.

Cost per job promoted by Invest NI was high

5. Barnett reported the average cost per job promoted by Invest NI between 2002-03 and 2007-08 as being:

Type of project	FDI (£)	Indigenous / local (£)
New projects - new jobs only	9,700	10,500
Expansions - new jobs only	7,800	10,100
Expansions – safeguarded jobs only	8,000	1,700
Expanisons – new and safeguarded jobs	10,000	6,700

Whilst Barnett concluded that these costs were high, it did not provide any direct comparable data for other economic development agencies to support this view.

Invest NI promoted fewer FDI projects and jobs per £ million assistance than the UK average

6. Barnett assessed Invest NI's performance against 8 of the English RDA's and the Scottish and Welsh national agencies for the number of FDI projects and jobs secured per £ million assistance between 2002-03 and 2007-08:

Appendix 10: Findings of Northern Ireland Assembly Research and Library Services (NIARLS) and the Barnett Report on benchmarking Invest NI's performance (see paragraph 4.3)

- Projects per £ million assistance – Invest NI ranked 7th of the 11 agencies, with an average project cost of £1 million. Whilst this was superior to Wales and Scotland, which secured 0.6 and 0.5 projects per £million, it was notably below the North West and West Midlands, which secured 2.1 and 2.2 projects per £ million.

- Jobs per £million assistance – Invest NI ranked 9th of 11, securing 123 jobs per £ million of SFA. Scotland and Wales who were ranked 7th and 8th performed better (135 and 143 jobs per £million assistance respectively). The 6th highest performing region (South West) performed significantly better, attracting 229 jobs per £ million.

The relatively few jobs secured per £ million assistance by Invest NI appears to support Barnett's conclusion that cost of Invest NI's FDI jobs have been high. However, again, this is likely to have been partly attributable to Invest NI being able to offer higher rates of assistance than other UK regions.

R&D spend has traditionally been lower in Northern Ireland compared to the UK and overseas, but the gap with the UK has narrowed in recent years

7. Whilst Invest NI is not solely responsible for the overall level of research and development (R&D) undertaken by Northern Ireland businesses, its activities impact significantly on this. Barnett concluded that R&D expenditure in Northern Ireland remained low at 0.5 per cent of Gross Added Value (GVA), compared with 1.3 per cent in the UK and 1.2 per cent in the Republic of Ireland. In Scandinavian countries, which have put R&D and innovation at the forefront of their economic development strategies, spend has been significantly higher – 2.5 per cent and 3 per cent of GVA in Finland and Sweden respectively. However, in this respect it is important to note that Invest NI has had to address a situation where R&D spend by businesses in Northern Ireland has historically been comparatively low. Furthermore, the Barnett analysis was based on 2004 data and the latest available shows that the gap between Northern Ireland and the UK has narrowed notably – in Northern Ireland, R&D spend amounted to 1.1 per cent of GVA compared to 1.2 per cent in the UK in 2009.

Appendix 11: NIAO criteria for selecting UK and Republic of Ireland agencies for benchmarking exercise (see paragraph 4.4)

Rationale / selection criteria	Comparable Agencies
Comparison by context – To compare Invest NI's performance with other economic development agencies operating in similar socio economic circumstances.	• One North East • International Business Wales
Comparison by theme – To compare Invest NI's performance with other economic development agencies which focus on similar themes, activities and objectives.	• Advantage West Midlands • North West Development Agency • Enterprise Ireland & IDA Ireland • Scottish Enterprise & Scottish Development International

We identified six areas for benchmarking based on Invest NI's strategic objectives and the availability of comparable data for the other Agencies:

- operational and administration costs;
- employment activity;
- export activity;
- inward investment;
- business creation; and
- research and development (R&D) activity.

Appendix 12: Key findings from NIAO benchmarking exercise on Invest NI performance (see paragraph 4.5)

Invest NI's administration costs compare favourably to Scottish and Republic of Ireland agencies, but meaningful comparison with the English RDA's was not appropriate

1. The efficiency of an economic development agency in managing its resources is an important value for money indicator. In seeking to compare Invest NI's operational and administrative costs against the most suitable comparators, we concluded that it was only appropriate to benchmark Invest NI with Scotland (using Scottish Enterprise and Scottish Development International (SDI) as a single comparator for 2009-10) and Republic of Ireland (through the combined activities and costs of Industrial Development Agency Ireland and Enterprise Ireland for 2009). Our analysis indicated that:

   - the cost per capita of Invest NI's full operational programme (£111) was in line with Ireland (£109), but higher than Scotland (£77);
   - Invest NI's total spend per job created (£58,200) was lower than Ireland (£65,900) and Scotland (£72,400); and
   - Invest NI administration costs per job created (£10,300) were also lower compared to Scotland (£16,200) and Republic of Ireland (£15,750).

2. Whilst this suggests that Invest NI's administration costs compare favourably to the Scottish and Irish agencies, comparison was limited to one year only and did not provide any insight into performance against the English RDA's.

Recommendation

Invest NI should use our administration costs benchmarking data to carry out performance measurement and benchmarking in this area.

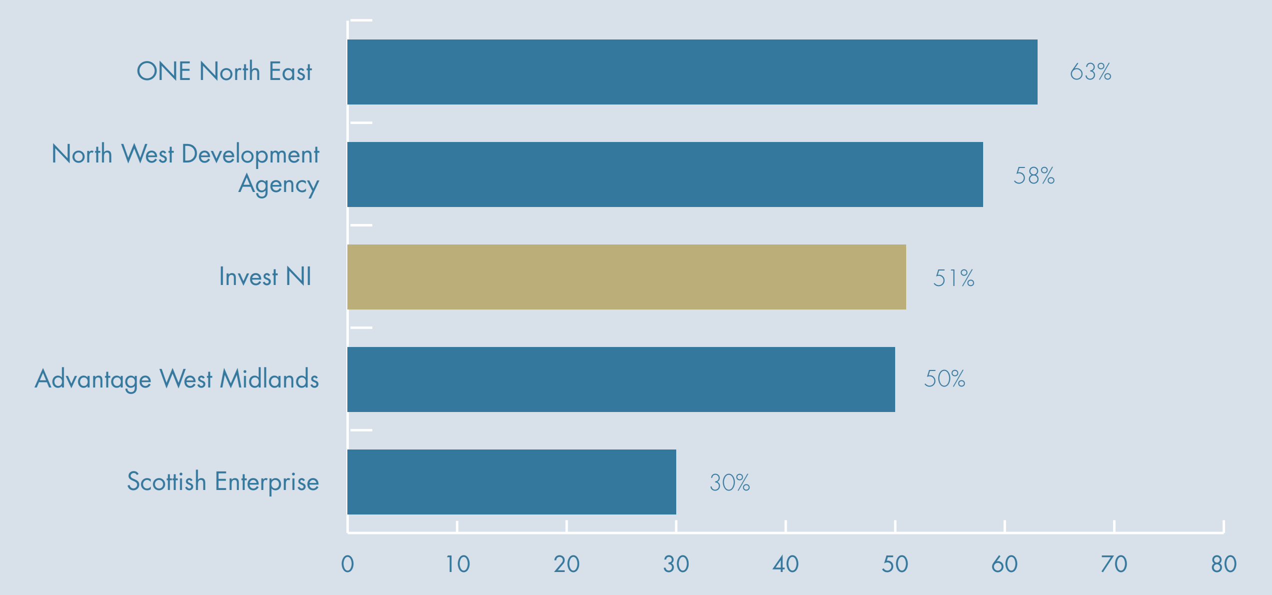
Invest NI has performed strongly in encouraging export activity

3. We benchmarked Invest NI's performance in supporting export activity with Enterprise Ireland and Scottish Development International for companies becoming first time exporters and those moving into new export markets. Between April 2004 and March 2008, Invest NI supported an annual average of 594 companies in this respect, compared to 746 for Scottish Development Investment in the same period and 578 companies assisted by Enterprise Ireland between 2003 and 2006. In the context of each regions business base, this could be regarded as a positive performance by Invest NI. Furthermore, in the third Corporate Plan period Invest NI's performance improved, with an annual average of 798 companies becoming first time exporters or moving into new markets.

There is scope for Invest NI to improve the additionality of its job creation activities

4. Additionality (establishing the minimum assistance necessary to ensure a project proceeds in the nature, scale, timing or location proposed) is an important aspect of securing value for money in economic development. Between April 2002 and March 2008, we estimated that the weighted average additionality for jobs created and safeguarded by Invest NI was 51 per cent. The Table below compares this performance against the other Agencies[32]:

Invest NI's job creation additionality performance compared to other agencies



Source: Invest NI and comparator agencies

5. Within our comparison there are some variables in terms of datasets and time periods, and the analysis of Invest NI's additionality is now somewhat dated. Furthermore, this analysis contains no allowance for projects which would have occurred anyway without assistance, having been speeded up. It should also be noted that ONE North East additionality score includes partial additionality. The performance of Scottish Development International and International Business Wales (two of the higher performing agencies with additionality of 60 per cent and 75 per cent respectively) may have been assisted by their heavy focus on new inward investment projects, which are more likely to have higher additionality rates. For this reason they have been excluded from the above comparison. Whilst Invest NI's current additionality levels may be higher than recorded in the table above, this will only be apparent when the results of the updated evaluation of SFA are known.

32 Whilst data for Invest NI related to the full period between 2002-03 and 2007-08, data for the other Agencies relates to varying time-spans between 2002-03 and 2008-09. Data for Scottish Enterprise is subject to a margin of error of +/- 3.2%.

Appendix 12: Key findings from NIAO benchmarking exercise on Invest NI performance (see paragraph 4.5)

Invest NI's cost per job has been comparatively high

6. In terms of assistance paid, we estimate that the cost per net job (CPJ)[33] created within Invest NI's client companies between 2005-06 and 2007-08 was £23,300 (£17,500 for indigenous firms and £25,900 for FDI). When benchmarked against the other UK agencies which had comparable data, this showed that:

   - **All jobs** – Invest NI's CPJ (£23,300) was significantly higher than NWDA (£9,100), One North East (ONE) (£12,800) and Advantage West Midlands (AWM) (£12,900)[34];
   - **Indigenous jobs** – Invest NI's CPJ (£17,500) was considerably higher than Scottish Enterprise (£8,300 to £11,300) but lower than jobs created by Scottish Development International's export activities (£19,100); and
   - **FDI jobs** – Invest NI's CPJ (£25,900) was higher than jobs created by Scottish Development International's inward investment activities (£18,800).

7. It was only possible to benchmark Invest NI with the Republic of Ireland EDA's in terms of overall jobs created and safeguarded, without any allowance made for the respective additionality rates. For indigenous jobs, this showed that Invest NI's CPJ (£8,900 for 2005-06 to 2007-08) was lower than Enterprise Ireland (£9,700 between 2002 and 2008). For Foreign Direct Investment jobs, Invest NI's average CPJ of £11,800 between 2002-03 and 2007-08 was the same as IDA Ireland (January 2002 to December 2008).

8. We also measured the numbers of projects and jobs secured per £ million assistance between 2002 and 2008. The Table below shows, whilst the Irish and Scottish Agencies offered an average of £1 million to each inward investment project, Invest NI's average offer was almost £2 million. IDA Ireland also secured 81 per cent more jobs per £ million assistance than Invest NI (job data for Scottish Enterprise was unavailable).

33 Involves making an allowance to reflect the proportion of promoted jobs actually created, and to reflect additionality.
34 Data for the English RDA's was for the period 2002-03 to 2006-07.

Inward investment projects and jobs created / safeguarded per £ million assistance 2002 to 2008 (Invest NI, IDA Ireland and Scottish Enterprise)

	Invest NI	IDA Ireland	Scottish Enterprise
Period covered	**2002-03 to 2007-08**	**2002 to 2008**	**2002-03 to 2006-07**
Number of inward investment projects offered assistance per £m assistance	0.46	1.05	0.99
Number of jobs created / safeguarded per £m assistance	81	147	n/a

Source: Invest NI, IDA Ireland and Scottish Enterprise

9. Overall, analysis in this area supports Barnett's view that whilst Invest NI has a successful job creation record, the cost of jobs has been high in comparison to other UK Agencies . These findings must be viewed in the context of Northern Ireland being an area of relative economic disadvantage, and having enjoyed special Regional Aid status, which has enabled Invest NI to offer higher rates of assistance to attract inward investment

10. From January 2011, the proportion of state-aid assistance available to Northern Ireland fell from between 30 per cent and 50 per cent of total project costs to 10 per cent and 35 per cent. Given this, it would be reasonable to assume that Invest NI will be able to demonstrate a future reduction in terms of cost per job.

Limited benchmarking of job quality showed that Scottish Development International slightly out-performed Invest NI

11. It was only possible to benchmark Invest NI in terms of job quality against Scottish Development International. Between April 2002 and March 2008, new Foreign Direct Investment (FDI) jobs promoted by Invest NI had salaries which were an average 11 per cent above the Northern Ireland Private Sector Median (NIPSM). Scottish Development International slightly outperformed Invest NI, with its FDI jobs in broadly the same period having salaries which were an average of 15 per cent higher than those for non-assisted Scottish jobs. Invest NI told us that this comparison is not valid because Invest NI clients were included in the comparator group, whereas Scottish Development International clients were not.

12. Whilst this was a limited comparison, it does indicate that Invest NI was slightly out-performed by the Scottish agency in respect of FDI job quality over a sustained period. This lends some weight to Barnett's view that Selective Financial Assistance had not facilitated productivity growth

Appendix 12: Key findings from NIAO benchmarking exercise on Invest NI performance (see paragraph 4.5)

in Northern Ireland. However, in Invest NI's third Corporate Plan period its performance for job quality improved.

The Scottish and Republic of Ireland agencies have out-performed Invest NI in terms of levering indigenous and foreign investment

13. Our analysis showed that Invest NI had been out-performed by agencies in Scotland and the Republic of Ireland in terms of investment levered from both indigenous and FDI supported firms. Although the figures below suggest a very high level of performance by the Republic of Ireland agencies, this is likely to have been assisted by the effects of the Tax Consolidation Act (1997), under which foreign investors are offered a low rate of Corporation Tax. In addition, this performance may also be over-estimated in that data is based on a methodology which attributes 100 per cent of client company outcomes to agency assistance, regardless of the degree of assistance provided.

- **Indigenous investment** - Invest NI attracted £2.74 of indigenous investment for every £1 of assistance between April 2002 and March 2008, lower than Scottish Enterprise (£4.47 in the same period) and much lower than Enterprise Ireland (£147.29 in 2008); and

- **FDI investment -** With leverage of £3.79 per £1 assistance, Invest NI was slightly lower than Scottish Enterprise (£4) and considerably lower than IDA Ireland (£31.59). However, IDA Ireland's performance is likely to have been assisted by the Tax Consolidation Act (1997) which offers a low rate of Corporation Tax in the Republic of Ireland, and by the fact that it appears to attribute 100 per cent of client company outcomes to agency assistance, irrespective of the degree of assistance provided.

14. Whilst comparison with the Republic of Ireland agencies is heavily qualified, our benchmarking with the Scottish Agencies suggests scope for Invest NI securing higher performing indigenous and FDI projects.

Invest NI's target for business creation could be enhanced

15. It was not possible to benchmark the cost of business start-ups, due to a lack of comparative data. However, we did note that whilst most agencies' targets in this area have simply measured the number of start-ups, Advantage West Midlands has measured the number of businesses created and demonstrating growth after 12 months.

Recommendation

Invest NI's existing target for business start-ups could be enhanced by also measuring the number who survive the first year and the proportion demonstrating growth.

16. Although Invest NI does not measure growth amongst overall business start-ups, it does report performance related to global start-up companies[35] and export start-ups[36]. Between April 2004 and March 2009, Invest NI assisted 65 global start-ups (98 per cent of its target for that period). A similar Enterprise Ireland programme (to assist international high potential start ups) assisted 105 start-ups annually in 2005 and 2006 (108 per cent of target). Invest NI did not achieve its target for export start-ups between April 2004 and March 2009, with the 368 offers of assistance issued representing 91 per cent of target.

The impact of R&D projects supported by Invest NI has been poor, but the leverage obtained from Invest NI assistance has increased in recent years

17. Between April 2005 and March 2008, Invest NI achieved 117 per cent of its target relating to new companies engaging in "any" type of R&D (246 companies compared to the target of 210). Conversely, Enterprise Ireland's targets have measured the number of companies involved in "meaningful R&D (>€100,000 annually) and "substantial" R&D (>€2 million annually). Between 2005 and 2007, 617 Enterprise Ireland companies were engaged in "meaningful" R&D (101 per cent of target) and 42 in "substantial" R&D. Analysis by Invest NI suggests that it supported 57 projects which met Enterprise Ireland's criteria for "meaningful" R&D activity and 4 satisfying the "substantial" criteria, amounting to 9 per cent and 9.5 per cent of performance achieved by Enterprise Ireland. This suggests that, during this period, high value R&D activity in Northern Ireland has trailed that of the Republic of Ireland.

Recommendation

Invest NI should introduce a supplementary target for R&D to measure and report the level of high value R&D projects assisted. Whilst this should be as challenging as possible, it will be influenced by the current limited base of large businesses in Northern Ireland.

18. Between April 2002 and March 2008, Invest NI offered £158 million of assistance towards R&D projects with an estimated value of £429 million, achieving a cost benefit ratio of 1:2.7. Scottish Enterprise achieved a higher cost benefit ratio between 2003-04 and 2007-08 (1:4.6), when it offered £40.4 million assistance to "large" R&D projects which had a total value of £187.3 million. As Scottish Enterprise only collates data for large R&D projects, it is possible that

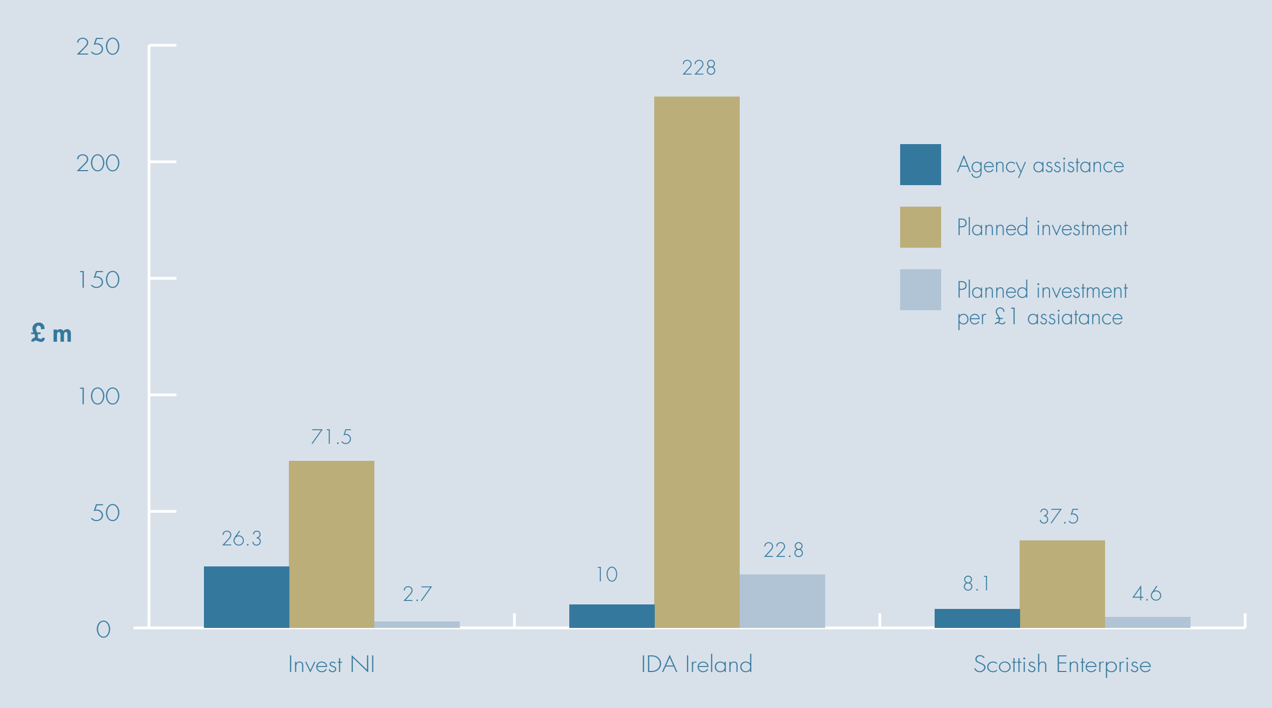
35 Companies with the potential to trade globally from their inception or existing companies to trade globally for the first time.
36 Businesses with the growth potential to develop markets outside of Northern Ireland.

Appendix 12: Key findings from NIAO benchmarking exercise on Invest NI performance (see paragraph 4.5)

its comparative performance with Invest NI could be over-stated. The information available in respect of IDA Ireland shows that between 2004 and 2006 it paid £30.1 million of R&D grants for projects which had planned investment of £684 million, thereby suggesting a cost benefit ratio of 1;22.8[37].

19. The Table below shows that, on average, Invest NI offered two to three times as much assistance annually, but received a smaller return. However, in view of a strengthened performance in terms of client investment in R&D between April 2008 and March 2011, it is likely that Invest NI's leverage has improved.

Average annual value of agency assistance and planned investment in R&D



*to ensure meaningful comparison, figures for all agencies have been converted to August 2010 prices.

Source: Invest NI, IDA Ireland and Scottish Enterprise

20. Whilst our analysis points to a poor R&D performance by Invest NI, important contextual issues must be borne in mind:

- research activity is often located near a university department with a recognised specialism in the area being examined. Northern Ireland has 2 universities compared to 14 in Scotland and 7 in the Republic of Ireland;

37 To ensure meaningful comparison, figures for all agencies in this comparison have been converted to reflect August 2010 prices.

- the high performance in Ireland may be partly attributable to the activities of Science Foundation Ireland which allocated €170 million of R&D grants in 2009 alone, in addition to IDA Ireland support;

- Invest NI has had to tackle a legacy of low R&D investment by Northern Ireland businesses in comparison to the rest of the UK and the Republic of Ireland;

- Invest NI considerably increased the proportion of its spend on R&D assistance in its third Corporate Plan period. Between April 2008 and March 2011, Invest NI spent £108.5 million (annual average £36.2 million) on R&D, compared to £99.3 million between April 2002 and March 2008 (annual average £16.6 million). Furthermore, investment in R&D by Invest NI client companies has increased dramatically from £86.3 million in the second Corporate Plan period to £327 million in the third period.

Appendix 13: Summary of Transform themes and projects (see paragraph 5.3)

Theme	Projects
Customer focus - Customer Management	• Simplification and clarification of product offering to businesses • Identify wider customer base including the services sector capable of increasing innovation and export growth and develop a tiered portfolio of support around this • Enhance customer experience
Customer focus - Products and Services	• Rationalisation of assistance programmes • Optimising SFA to improve productivity and provide the best return to the economy • Developing a new model for skills provision tailored to the specific need of companies
Customer focus - Organisational design	• Determine appropriate organisational structure (aligned to customer base model)
People - People Development	• Refine Vision and Values • Develop improved performance management framework that links to goals and values
Processes - Processes and systems	• Simplify and streamline end-to-end processes that impact on customers • Introduce process to facilitate better management of major projects • Review end-to-end processes for managing customer relationships
Processes - Governance & Financial Flexibility	• Develop more appropriate methodology to appraise investment in R&D / innovation and SFA • Achieve greater autonomy in managing budgets (including end-of-year flexibility) • Increase and simplify current delegated authority limits across Invest NI and between DETI and DFP
Performance - Reporting and Communication	• Develop new reporting framework to improve tracking and monitoring of KPIs linked to Programme for Government • Review communication of performance and the impact on all key stakeholders, and make recommendations for improvement • Determine methodology to evaluate effectiveness and value for money from financial assistance on a portfolio basis

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