

Performance Measurement



For
Local Authority
Economic Development

Phase 1 Report



Chief Economic Development Officers' Society



County Surveyors' Society

Foreword

Local Authorities play a key role in economic development both directly through the provision of specific services and by using resources in ways that support the development of the economy.

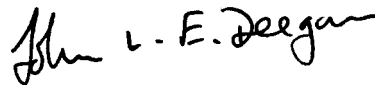
In order to achieve their objectives, they have recognised the benefits of working in partnership with business support and voluntary organisations. However, relatively little attention has hitherto been paid to evaluating the results of this activity across local authorities.

The requirements of Best Value and Comprehensive Performance Assessment have sharpened the need for economic development as a service area to demonstrate its efficiency and effectiveness.

This report is the outcome of a joint project between the Chief Economic Development Officers Society and the County Surveyors Society and represents a major step forward in the development of performance measurement and benchmarking techniques.



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Executive Summary

Introduction

Over the past three years, the Chief Economic Development Officers' Society [CEDOS] has taken a lead in developing a system of performance measurement for local authority economic development activity.

CEDOS initially produced an outline set of performance and quality of life indicators as a starting point and persuaded the Local Government Association and the Audit Commission to become involved in the process. The Commission agreed to set up and coordinate a national performance indicators working group to take this forward.

In 2002, with the benefit of funding from the County Surveyors Society [CSS], CEDOS initiated the current project, phase 1 of which, has involved:

- ❑ participating in and supporting the process of developing a national set of contextual and performance indicators for economic development;
- ❑ carrying out research into rural indicators and key areas of measurement for performance indicators; and
- ❑ developing a CEDOS benchmarking framework for key areas of economic development based on a survey of CEDOS members.

Developing Indicators For Economic Regeneration

Key Performance Indicators are needed which enable comparison between different local authorities but which reflect the widespread, serious concern about the danger of performance measurement taking up a disproportionate amount of staff time. They should be:

- ❑ few in number
- ❑ easy to collect
- ❑ easy to understand
- ❑ effective measures of performance
- ❑ adequate to define the results of economic development activities
- ❑ directly related to the outcomes of local authorities' actions.

Key principles and overall points that should underpin economic development indicators are:

- ❑ the importance of being able to select indicators relevant to local circumstances, priorities and mix of services.
- ❑ broad indicators of local economic health are too susceptible to external influence to be a reliable guide to the impact of local actions
- ❑ quality of services and in particular customer satisfaction being essential components.

- ❑ pilot research is needed to provide operational experience before a final set of robust indicators can properly emerge.
- ❑ where possible, local authority economic development indicators should link in with relevant ones used by the RDAs.
- ❑ economic development is a long-term activity and successful outcomes can take a long time to achieve.
- ❑ with all indicators involving the measurement of costs, there must be clear guidance on what is to be included.
- ❑ in measuring job creation/retention there should be consideration of direct, indirect and induced jobs and the use of multipliers.
- ❑ consideration needs to be given to measuring indirect as well as direct results of local authority actions and outcomes arising from partnership working.
- ❑ enquiries may be of differing levels of significance, which can affect the time authorities choose to spend on them.
- ❑ care will need to be taken to avoid double or triple counting for example with performance indicators for business start-up, inward investment and workspace provision.

CEDOS has played a major part in developing and refining indicators for economic regeneration through its participation in the national Working Group, coordinated by the Audit Commission and also involving the Local Government Association, the Improvement and Development Agency, Institute of Economic Development, the Neighbourhood Renewal Unit and a range of individual local authority representatives.

Substantial progress has been made with the acceptance of the key under-pinning principles and changes being made to many of the initially proposed indicators in the light of CEDOS' views. The full list of indicators is set out in the main report.

The Audit Commission and the Economic Regeneration PI Working Group agreed with CEDOS' view that the draft indicators should be the subject of a pilot phase. This will take place over a two-year period from April 2003 and will include a significant representation of CEDOS members.

Measuring Costs

Measuring cost-effectiveness is a key part of Best Value but work on quantifying PIs has tended to concentrate on the measurement of outcomes. CEDOS has redressed the balance by focusing specifically on the measurement of costs and the practicality of doing so at a detailed economic development activity level.

Best value inspections - A review of Audit Commission inspection reports indicates that the approach has been to use the most recent CIPFA statistics and make comparisons with other relevant councils and sometimes with other indicators such as unemployment. Sometimes questionable judgements on the cost-effectiveness of services have been made.

The Best Value Accounting Code of Practice [BVACOP] introduced by the Chartered Institute of Public Finance and Accounting [CIPFA] in 2000, makes it easier to compare like with like in the measurement of overall economic development service costs. With later amendments, it is endorsed by Government as the recognised standard for all local authorities.

For Service Expenditure Analysis [SEA], local Government services are grouped into broad headings, with divisions and sub-divisions. Economic development is one of six divisions under planning & development services.

The total cost principle - SEA analysis requires the identification of the total cost of delivering a service i.e. all costs associated with the service/activity, wherever in the management structure they arise. The total cost principle is that all overheads, support services and service management costs should be fully recharged to individual services.

There is a mandatory requirement on local authorities to report on costs at the divisional level and hence on the overall costs of providing their economic development services. BVACOP states that authorities may wish to calculate total cost at lower levels of detail for their own purposes but points out that the lower the level of apportionment, the greater will be the difficulties of doing so accurately.

Staff costs are a major component of economic development or any other service. Even for 'Divisional' level cost assessment, staff time recording systems, though an additional burden, need to be seriously considered.

Cost measurement in practice - BVACOP is comparatively new and still evolving. Amongst CEDOS members the practice of apportioning overheads to individual economic development activities varies but there are significant concerns about the reliability of doing so - *"the more detailed the analysis, the greater the reliance on apportionment and the more unreliable it becomes"*.

Implications for cost-effectiveness performance indicators - For a local authority's economic development service as a whole, the assessment of costs is reasonably reliable. However, the measurement of cost-effectiveness requires overall outcomes to be measured with confidence and reliability. Recent research indicates the difficulty of achieving this.

With more detailed performance indicators being developed, the trend is for cost-effectiveness measurement to be extended to individual activities, in particular inward investment and business support. For this, calculating total costs becomes increasingly questionable as the greater level of service detail results in greater reliance on apportionment and the time/cost involved in providing the data.

Local authorities will need to consider very carefully the validity of attempting to use cost-effectiveness as a measure of performance for individual aspects of their economic development service, in particular where problems of costing are compounded by the time lag before outcomes are achieved.

Measuring The Creation And Safeguarding Of Jobs

The creation of new jobs and the safeguarding of existing jobs is a key objective of most local authority economic development strategies. As a key performance indicator measurement needs to be as realistic and accurate as possible.

The focus is often on jobs that are created and/or safeguarded as a direct effect of, for example, inward investment activity or business support measures. In addition, there can be indirect and induced effects of interventions. Calculating these is difficult but desirable if the full impact of economic development actions is to be measured, requiring the use of employment multipliers.

Employment Multipliers are subject to variation by economic sector and the geographic area being covered. Ideally their calculation will result from survey data but often multipliers derived from research carried out elsewhere have to be used. In doing so, the use of recent research is important.

Recent research has been carried out in Scotland at the national and regional level. In England and Wales, guidance has mostly focused on the local level, related mainly to the use of multipliers to evaluate the performance of regeneration programmes.

These sources have identified a range of possible employment multipliers that are set out in the main report. CEDOS members will need to make their own judgements having regard to the circumstances of their own particular areas and the nature of the jobs being created/safeguarded as a result of their policy interventions.

Key factors that need to be considered when using multipliers and assessing net jobs created/safeguarded are:

- ❑ *Leakage* – the incidence of employment effects occurring outside of the area.
- ❑ *Deadweight* - making allowance for job creation/safeguarding that would have taken place without local authority economic development action.
- ❑ *Displacement* - where jobs that are created or safeguarded displace jobs in other businesses in the area.
- ❑ *Substitution* - where a business that is assisted creates jobs that appear to be new jobs but which in practice replace jobs elsewhere in the business.

Assessment of deadweight will always be a matter for local judgement but some guidance on accounting for leakage; displacement/substitution has been given in reports prepared for SRB and other regeneration programmes. These have offered some ready reckoners, which could be used to generate percentage deductions for leakage and displacement/substitution.

Ideally each factor will be looked at individually but this can obviously be a difficult and time-consuming process. Research by the Scottish Executive suggests a simplified approach that is set out in detail in the main report.

In some circumstances, notably the provision of advance factory and workshop units and especially the provision of serviced industrial land, there may be a need to forecast likely job creation prior to the units being taken up and the land developed. For this, recent research on employment densities provides guidance for the appraisal of potential employment arising from land, property and economic development projects.

Measuring Outcomes Of Joint Working, Partnership And Indirect Actions

Measurement of outcomes is complex even where services are delivered directly by a local authority. Where they are strategic or indirect in their impact or are delivered through or in partnership with other organisations, it is particularly complex.

For joint working, it can be argued that what matters is the outcomes attributable to partnerships as a whole. However, local authority economic development departments and units are under increasing pressure – both internally and externally – to measure the outcomes of their actions. With the importance of the strategic role of CEDOS member authorities and the continuing emphasis on partnership working, there is likely to be an increasing need to identify the share of outcomes attributable to strategic actions, indirect actions and joint/partnership actions.

Strategic actions include leadership, strategy formulation, research and intelligence, preparing cases for external assistance, advocacy, influencing and lobbying. These and other strategic actions often make a critical underpinning contribution to subsequent outcomes – some of which may be ‘achieved’ by direct actions of other authorities and agencies. There is a compelling case for recognising the contribution strategic actions make but the difficulties of measuring results are obvious.

Using other agencies to deliver initiatives - In some cases it may be an arms length company that is in effect a wholly owned subsidiary of the authority. In this case the 'indirect' actions are in reality direct ones. In other cases, authorities work through agencies to which they make a financial or other resource contribution. Here a case can be made for at least part of any successful outcomes being attributed to local authority intervention.

Joint and partnership actions - These can range from ad hoc joint working to formal partnership arrangements. The views of CEDOS and individual members who have made an input, the approaches taken in the Best Value Accounting Code of Practice, and those put forward in the Audit Commission's "*A Life's work*", and in guidance for the RDAs, all point to the desirability of attempting to attribute to individual partners outcomes resulting from partnership and joint working.

Approaches to measurement

For partnerships, joint actions and working through other agencies, broad alternative approaches are examined:

- inputs and outcomes dealt with only at the partnership level – no attempt to attribute outcomes to partners.
- individual partners make a claim on overall partnership outcomes.
- attempt to disaggregate outcomes and attribute to partners

The political context of local authority action, the need to avoid double counting, and the approach being recommended to RDAs [who are increasingly involved in economic development partnerships], mean that the superficially attractive options of dealing with outcomes at partnership level only or of allowing partners to lay claim to overall partnership outcomes, both have significant disbenefits.

Despite the difficulties, local authorities are likely to see an increasing need to follow the RDA approach and seek to disaggregate partnership outcomes and attribute them to individual partners. A similar approach can be used for services delivered through other agencies. The limitations of measurement need recognising and suitable health warnings given. Figures need supplementing with a descriptive assessment of the value of the local authority input supported as appropriate by statements from other partners etc.

For indirect strategic actions, in many cases the descriptive/supporting statements approach may well be the only practical one except where measurement of resulting external funding can be reasonably ascribed to those actions.

Rural Indicators

There is concern that the work on economic regeneration performance indicators being coordinated by the Audit Commission does not give sufficient attention to the distinctive characteristics and circumstances of rural areas. CEDOS has examined indicators, both contextual and performance, from a rural perspective and in the context of the headline indicators set out in the Government's Rural White Paper "*Our Countryside: the future, a fair deal for rural England*".

Defining rural areas

Any assessment of rural circumstances will depend not only on the indicators chosen but also on an adequate definition of rurality, for which researchers and policy makers have used a wide variety of approaches. At a national level, the definitions of rural are being revised in a government-wide project led by the Countryside Agency. Despite the limitations, the most practical approach at present is to use the local authority districts and wards defined as rural in the Countryside Agency's 2002 State of the Countryside report and to reconsider the position in the light of the outcome of the national review.

Contextual indicators

Each of the contextual indicators put forward by the Audit Commission following discussion by the Economic Regeneration Performance Indicators Working Group are examined in detail from a rural perspective to identify whether they need expanding/adapting and whether there are any gaps that require additional indicators to be put forward to meet rural circumstances.

The following conclusions are drawn:

Economic activity rates – % of people of working age in employment is an appropriate indicator.

Unemployment – An appropriate package of indicators is - unemployment rates [claimant count and ILO definition], long-term unemployed [one year], unemployment rate [monthly snapshot to exclude the effect of seasonality as much as possible], impact of seasonality [percentage increase in the unemployment rate in the low season compared to high season]

Income and earnings - % of low-income households, average earnings for males and females. This indicator is important not only to monitor increasing opportunities to quality employment but more broadly as an indicator of rural poverty and disadvantage, when correlated with factors such as housing affordability.

Household poverty - % of children under 16 living in low-income households in wards, % of population of working age who are claiming key benefits. These together with income and earnings data should provide an appropriate indicator set to assess rural poverty.

Economic activity and productivity - GDP/GVA per capita comparisons and changes are likely to remain a key indicator of economic performance of rural areas but their use for small areas needs to be accompanied by a significant 'health warning'.

Housing affordability - An important indicator for rural areas with a range of approaches to measurement being used. This continues to be a developing field on which further work is needed.

Local jobs - The package of indicators developed by the Economic Regeneration Working Group - total number of local jobs by sector, % that are full-time, and annual change in number of local jobs - needs to be added to using data on self-employment. The issue of quality of jobs needs further examining.

Business health - total number of VAT registered businesses in the area per 10000 population, % change in the number of VAT registered businesses over the year. In addition, data needs to cover business survival rates [where available] and dependence on size and types of firms. Indicators need to be examined in association with research into business needs and characteristics, in particular those of rural micro-businesses.

Population – total number of people living in the local authority area categorised by gender, ethnicity & age bands, population density, % change in total population by age bands. With the addition of examining population change by age structure, the package of population indicators are appropriate for rural areas.

Workforce skills – % of adults with literacy and numeracy skills at or above level 1, % of population of working age qualified to NVQ levels 2, 3 and 4 or equivalents, % of the workforce with no qualifications. Further development is needed to examine skill levels in small and micro-businesses.

Deprivation: The Index of Multiple Deprivation 2000, though a step forward, is inadequate as an indicator of rural deprivation, for which an area-based approach has significant limitations. Accessibility to key services, employment, training and communications technology are critical for which some limited statistical measures are available. More work is needed to identify an effective composite approach to measuring rural deprivation.

Market town prosperity - The health of market towns is vital to the economic regeneration of rural areas. The development of appropriate indicators by the Countryside Agency is awaited. The detailed indicators developed by the Economic Regeneration PI Working Group are useful as contextual rather than true performance indicators.

Countryside environment – A comprehensive indicator set cannot be put forward as yet. The significance of the environment to rural economic regeneration means this is a priority area for research and development.

Rural performance indicators

Although CEDOS still has some reservations about individual indicators, overall they are appropriate for rural areas. The essential requirements are:

- to apply rural proofing to the indicators to ensure that rural areas get fair and equitable treatment.
- acceptance of the principle of the rural premium to ensure that the additional cost of service delivery that can be required in rural areas is recognised.

CEDOS Benchmarking

Benchmarking helps organisations to improve their services through comparing their performance and learning from others. In 2002, CEDOS decided to begin putting in place a national economic development benchmarking service initially covering business support, inward investment, land and property and training & employment.

To identify a set of performance indicators for benchmarking, a questionnaire survey was carried out asking CEDOS members to indicate which performance indicators they supported and to rank them in order of importance. There was a high response rate and a widespread desire to participate in the process

The survey identified a set of indicators that have broad support, are manageable in number and can form a solid foundation for CEDOS benchmarking. They are:

Business support

- Number of enquiries for advice and information
- Number of businesses assisted
- Number of business start-ups supported
- Number of jobs created/safeguarded
- Customer satisfaction

Inward investment

- Number of enquiries
- Number of investments
- Number of companies assisted
- Number of jobs created/safeguarded
- Cost per job
- Customer satisfaction

Land and property

- Brownfield land reclaimed
- Workspace occupancy rate
- Leverage of external funding
- Number of Jobs created/safeguarded in business units
- Cost per job/per sq. metre of floorspace

Training and employment

- Adults in employment gaining qualifications
- Unemployed people going into employment/full time education
- Cost per participant
- Customer satisfaction

During phase 2, further work will be undertaken to refine the indicators, clarify definitions and decide what contextual information needs to be collected and used to enable comparability. CEDOS will take a practical approach, ensuring the process is manageable and cost-effective and focusing on the purpose of benchmarking, which is not to achieve perfect comparisons but to improve services.

To maximise the accuracy and comparability of benchmarking data, CEDOS will produce a detailed guide to the indicators, measurement and data collection. It will facilitate contact between members, identify and disseminate good practice.

CEDOS benchmarking will parallel the pilot phase of the indicators developed by the Economic Regeneration PI Working Group chaired by the Audit Commission. A number of CEDOS members have agreed to be involved in this 2-year pilot. It is important that the two processes continue to complement and inform each other.

Next Steps

In the next phase of the project (already underway), CEDOS will continue to develop performance measurement for local authority economic development services by:

- continuing to participate in and support the work of developing a national set of performance and contextual indicators for economic regeneration
- developing a standard benchmarking process for collecting and using information on key areas of economic development.
- collecting and analysing of a first set of performance statistics.

The full report is also available in Adobe Acrobat® (pdf) format. To request a copy, send an e-mail to orders@aequalis.co.uk with the words 'Performance Management' in the subject line. Please also include your name and the name of the authority / organisation on whose behalf you are placing the order.



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