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*Der hais,*

## **DEFERRAL OF VALUE FOR MONEY STUDY ON REGIONAL SELECTIVE ASSISTANCE (RSA)**

In my forward programme of value for money examinations for 2002-03, I included plans to begin a study on Regional Selective Assistance in Wales. As you know, under this scheme, the Assembly Government provides grants for commercial projects that create or safeguard jobs in the assisted areas of Wales. The National Audit Office Wales has now completed its preliminary work and it is clear that recent developments in Wales would make the outcome more useful if we deferred the study until it was clear how the changes were working out. The changes concern the Assembly's review of appraisal criteria and the introduction of the Assembly Investment Grant. I give more information about the developments below together with the work programme of the newly established Economic Research Unit of the National Assembly.

### **Review of RSA appraisal criteria**

The Assembly is currently reviewing its criteria for appraising RSA grant applications, and plans to develop by the end of this year a more sophisticated system for assessing the quality of jobs created or safeguarded by project proposals. A later study would enable the NAO to examine the initial operation of the new criteria.

### **The introduction of the Assembly Investment Grant (AIG)**

In April 2002, the Assembly introduced the Assembly Investment Grant for smaller projects seeking grant of up to £50,000, with an assessment process that is shorter and simpler than that for RSA. The scheme has been very popular in its first year and Assembly officials regard it as successful in widening RSA-type grants to smaller businesses. However, it is too early to assess the effectiveness of AIG, and a later study would allow us to evaluate data over a longer period and give a better insight into the effectiveness of the scheme compared with its Scottish and English equivalents, and with RSA.

### **Evaluation work by the Economic Research Unit of the National Assembly**

The recently established Economic Research Unit has a programme of studies running to 2005-06, several of which may be relevant to an assessment of RSA and would broaden the evidence available for a full-scale VFM study. These include:

- comparing the cost of job-creating activities (2003-04);
- responsiveness of the labour market in the South Wales Valleys to job creation (2003-04);

- overall approach towards inward investment in Wales (2003-04); and
- options for delivering financial support to business (2004-05). This would be an assessment from first principles of the relative merits of grants, loans and equity investments.

There are also some developments in this area concerning both England and Great Britain, and I give details in the Appendix to this letter.

All in all, therefore, I think that to report now would miss out on important developments in a changing scene. But we will, of course, keep the position under review and report later, when we can give the Audit Committee a full analysis.

If these are points that you would like to discuss, I will be glad to do so.

*Yours sincerely,*  
*John Bourn*

**JOHN BOURN**

**Management information**

The Department of Trade and Industry will soon terminate SAMIS, the current database of RSA projects that covers the whole of Great Britain. SAMIS is old and inflexible, and the Assembly already uses its own ad hoc system for providing management information to officials and to the Economic Development and Transport Committee. The Department is not planning to replace SAMIS, and consequently Wales and Scotland will have to develop their own systems. A later study would allow us to examine the operation of the new system and how well it addresses the needs of the Assembly.

**National Audit Office report on regional grants in England**

In June 2003 the Comptroller and Auditor General published a report on regional grants in England, some copies of which are now enclosed. It covers many of the issues that would be included in a Wales-only study, reflecting the fact that the scheme operates throughout Great Britain, with few major differences between the economic regions. Our preliminary work indicates that, whilst there are some differences in Welsh strategic priorities, scheme criteria for smaller projects, and administrative details, the main conclusions and recommendations of the report (summarised in the Annex ) would apply equally to Wales at this time.

**Evaluation of the grants approved between 1996 and 2000**

Every five years the Department of Trade and Industry commissions an external evaluation of the RSA programme, covering all grants approved in England, Wales and Scotland over a five-year period. The *Regional Grants in England* report is based on the most recent available data, which covers the period to the end of 1995. It records the main results of the evaluation and suggests that the process be reviewed to improve the scope of the exercise and the assessment of factors such as displacement (the degree to which RSA simply displaces economic activity from one area to another) and non-additionality (the extent to which RSA funds activity that would have taken place without the grant).

The next evaluation is due in 2004-05, and will cover the five-year period to the end of 2000 (the timing of the evaluation allows projects approved towards the end of the period to be completed so that the full effect of the projects can be assessed). By waiting until the next evaluation is available, it will be possible not only to review more recent data but also to comment on any improvements arising from the process review recommended in the Comptroller and Auditor General's report.

## ANNEX A

### **Summary of the conclusions and recommendations of the Comptroller and Auditor General's report, *The Department of Trade and Industry: Regional Grants in England***

#### **Conclusions**

Regional grants have led to a greater number of additional jobs in disadvantaged areas, but probably fewer jobs and at a higher cost than the latest evaluation had estimated.

#### **Recommendations**

The report recommended that the Department of Trade and Industry should:

- seek to set out more specifically the market failings in the Assisted Areas which investment support aims to address and consider whether there are any conflicts implied by the job creation and productivity objectives;
- clarify the extent of economic change required in the Assisted Areas, and define the measure by which the success of any regional grants may be judged;
- consider more active marketing of investment support schemes in line with regional economic and productivity improvement strategies;
- review the scope to improve on the levels of net additionality of the current schemes – for example, by exploring greater use of qualifying criteria related to the Department's development strategies;
- make sure that staff dealing with regional grants receive adequate training and understand the current scheme objective and apply best practice in administering schemes; and
- review the evaluation process addressing the following points: it should reflect the complete range of objectives for regional grants with specific attention to improvements in productivity; reconsider the treatment of non-additionality and displacement to make sure all important elements are addressed; factor in the administrative costs of both Department and applicants; and form a view on net national benefits as well as those to Assisted Areas.