



Northern Ireland Audit Office

Report by the Comptroller and Auditor General
for Northern Ireland



The Rural Development Programme

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The Rural Development Programme

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

J M Dowdall
Comptroller and Auditor General

Northern Ireland Audit Office
3 July 2000

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List of Abbreviations

ABSAGs	Area Based Strategy Action Groups
BDS	Business Development Services
CSP	Community Support Programme
DARD	Department of Agriculture and Rural Development
DFP	Department of Finance and Personnel
DOE	Department of the Environment
CRISP	Community Regeneration in Special Projects (DOE programme)
ESD	Economics and Statistics Division (within DARD)
EU	European Union
FSA	Foundation for Sport and the Arts
FTE	Full Time Equivalent
HMT	Her Majesty's Treasury
IFI	International Fund for Ireland
LAGs	Local Action Groups
LEDU	Local Enterprise Development Unit
NIAO	Northern Ireland Audit Office
NITB	Northern Ireland Tourist Board
NPC	Net Present Cost
NPV	Net Present Value
RCN	Rural Community Network
RDC	Rural Development Council
RDD	Rural Development Division
RDP	Rural Development Programme
SSPPR	Special Support Programme for Peace and Reconciliation
SWFDO	South West Fermanagh Development Organisation

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DARD : Rural Development Programme

Executive Summary

Background

1. In 1989, the Secretary of State appointed an Inter-Departmental Committee on Rural Development to advise on how best to tackle the social and economic problems in Northern Ireland's most deprived rural areas. Major difficulties experienced by these areas included:

- low income
- high unemployment
- depopulation and outward-migration of young people
- high dependence on agriculture
- low levels of manufacturing industry
- lack of inward investment
- deteriorating infrastructure and service provision.

2. The Inter-Departmental Committee proposed an integrated approach, involving central and local government working with voluntary and private interests, to promote and facilitate rural community development. In response, the Rural Development Programme was established in September 1991.

3. The Programme, which is administered by the Department of Agriculture and Rural Development (the Department), currently employs a three-tiered approach:

- **'animation'** and **'capacity-building'** - the establishment and organisation of community groups in deprived rural areas and the development of their business and project planning skills
- **'project implementation'** - the set-up and operation of viable regeneration projects
- **'area-based strategies'** - identifying and responding to local needs through implementation of area plans.

4. Over the nine-year period to March 1999, a total of £51 million was spent under the rural development initiative. This included substantial funding (some 60 per cent) from the European Union and the International Fund for Ireland.

The Rural Development Programme

5. The Department told NIAO that, with increasing pressures on agriculture, a new approach had been required to maintain the viability of small family farms and the more isolated rural communities. The approach adopted was to engage with a wide range of people in disadvantaged rural areas, building their confidence to work with Government and other partners, with a view to developing their social and economic potential. Much of the Programme's effort has been concentrated in the more remote rural areas and on communities who had no record of working with the public sector. Many of these communities were characterised by a lack of social cohesion, an absence of significant economic development, instability stemming from political uncertainty and a reluctance to engage with Government agencies.

6. The Department regards rural regeneration as a long-term project. It sees its work in dealing with disadvantaged communities as being at the leading edge of Government thinking on innovation and higher risk development. The Department has drawn attention to the substantial element of risk involved in negotiating the balance between the engagement of local people, project delivery, minimising bureaucracy and ensuring proper accountability in complicated local situations. The Department considers that the Programme was established within a particularly difficult social and political background and, for these reasons, feels it important that the findings and conclusions of the NIAO review are seen in this wider context.

7. Overall, the Department considers that substantial advances have been made under the Programme but acknowledges that many lessons have been learned.

The Northern Ireland Audit Office Examination

8. NIAO's examination focused on four main elements:

- **rural community development:** assessing the process of animation and capacity-building of community groups

- **the project appraisal process:** comprising a detailed examination of a selection of 15 economic regeneration projects
- **project monitoring and performance:** assessing the quality of the Department's project monitoring and control and reviewing the performance of the projects in the NIAO sample
- **the effectiveness of RDP:** focusing on the impact of the Programme in disadvantaged rural areas. This included a survey of a number of key stakeholders to obtain their views on the Programme.

The following paragraphs summarise the key findings of NIAO's examination.

Main Conclusions and Recommendations:

Overall Conclusion

9. The Rural Development Programme is an important vehicle in the drive towards the economic and social revitalisation of deprived rural areas in Northern Ireland. While considerable progress has been made, it is NIAO's view that the taxpayer has not received best value for money from every aspect of the programme. There are several key areas that the Department must address in order to improve the effectiveness of the programme:

- the need for a comprehensive management information system to facilitate the ongoing monitoring and evaluation of the economic and social performance of the programme and to demonstrate the value for money achieved
- the need for comprehensive and clearly documented procedures for the appraisal, monitoring and evaluation of regeneration projects
- rationalisation of the programme structure and delivery mechanisms
- the need to increase the level of private sector investment in regeneration projects
- ensure that all sections of the rural community are fully represented within the programme (paragraph 5.33).

On Rural Community Development (Part 2 of the Report)

10. The RDC has succeeded in establishing rural community group development in a number of areas where it had been underdeveloped or non-existent and has provided a wide range of support to rural communities since 1991. There is evidence, however, that some rural dwellers, such as farmers and the long-term unemployed, are not sufficiently represented within community groups. During the period to 1995, insufficient attention was paid to capacity-building and project development and this is borne out by the slower than anticipated progress of groups towards implementation of major projects (paragraph 2.29).

11. The lack of comprehensive performance measures, focusing on the impact of RDC's support rather than just levels of activity, has made it difficult for NIAO to assess the effectiveness of RDC's work within the programme. The lack of performance data, together with the shortcomings noted by NIAO in relation to RDC's planning and budgeting function, and the delay in the review of RDC's Financial Memorandum, highlight the weaknesses in the Department's monitoring and control of the work of the RDC. These are issues which both the Department and the RDC need to take steps to address (paragraph 2.30).

On Project Appraisal (Part 3 of the Report)

12. One of RDP's strategic priorities is to encourage the development of community-based regeneration projects, which may be economic or social in nature, or a combination of both elements. NIAO examined a selection of 15 *economic* regeneration projects, involving assistance of some £18.9 million. RDP stresses the need to achieve economic sustainability, the aim being to generate sufficient revenue to support both the project and its sponsor group in the long term (paragraphs 3.1 to 3.4).

13. Despite RDP having been in operation since 1991, NIAO found that the Department had not produced an Operating Manual for the programme. While, over the years, a range of procedures were introduced, this was done in an ad hoc manner. In 1998, following the commencement of NIAO's review and some seven years after the programme was established, the Department initiated the drafting of procedures manuals. In NIAO's view, the absence of comprehensive guidelines was a serious shortcoming which led to a number of weaknesses. Procedures manuals have now been drawn up for each of the main funding streams (paragraphs 3.9 and 3.10).

14. A poor standard of documentation was a common shortcoming in most of the projects examined by NIAO. Typically, the recording of the criteria and basis for recommendations and decisions was incomplete. Frequently, there was no record on file on the resolution of queries raised during the appraisal process. The Department must ensure that all decisions in relation to the approval or refusal of applications for grants are transparent and well-documented (paragraphs 3.11 and 3.12).

15. In NIAO's view, the scrutiny process applied by the Department, prior to 1997, lacked structure and depth and resulted in a less than adequate challenge to project business plans. These shortcomings could have been addressed by the Department at an earlier stage, for example, through contacts with those Departments which had a greater level of expertise in selective financial assistance schemes, in order to learn from their experiences. The Department said that the structure and content of appraisal improved from 1997 (paragraphs 3.13 to 3.16).

Project Marketing

16. In six of the 15 projects examined, there was insufficient, or no, research at all, by the groups in relation to market potential. In 8 of the projects, no marketing plan had been prepared. The absence of a marketing assessment within the business plan precludes a proper appraisal of viability. With new projects being heavily dependent on securing a market share in order to achieve viability, the failure by the Department to insist on the preparation and approval of a comprehensive marketing plan was a significant failing (paragraphs 3.18 to 3.20).

Project Management

17. In 13 of the 15 sample projects, management requirements had not been fully addressed. The absence of a comprehensive assessment of management undermined the prospects of achieving viability. NIAO recognises that community groups, in overseeing regeneration projects, demonstrate a substantial and ongoing commitment. This has been a crucial factor in the development of the rural regeneration programme. However, if the benefits of such commitment are to be maximised, it is essential that the Department ensures that community groups are fully equipped to manage regeneration projects (paragraphs 3.21 to 3.23).

Financial Appraisal

18. In 11 of the 15 projects examined, there was little or no evidence of the basis on which the financial projections in the groups' business plans had been produced. In most cases, this had resulted in either over-optimistic or unsubstantiated estimates of profitability. As a result, these projects were identified as 'high risk' during appraisal. However, in none of these cases was it made clear on file on what basis assistance was being provided and how the identified risks were being addressed. The Department said that there is now a requirement within the appraisal process to prepare detailed assumptions in support of financial projections (paragraphs 3.24 to 3.26).

Economic Appraisal

19. Contrary to Treasury guidelines, no economic appraisals - aimed at identifying the most cost-effective option for each project - were undertaken for projects assisted during the period from 1991 to 1995. Because no economic appraisals were carried out prior to 1995, there is no proper assurance that the 11 projects within the sample assisted during this period represented the best use of limited resources (paragraph 3.28).

20. For the four remaining projects in the sample, appraised between 1995 and 1997, economic appraisals *were* prepared, *but retrospectively* (ie after the projects' business plans had already been completed). NIAO noted a number of deficiencies in these appraisals, which raised questions as to whether the Department can have made a well-informed judgement that the four projects concerned represented a cost-effective use of taxpayers' money (paragraph 3.31).

Additionality

21. There was little evidence of efforts to lever-in private sector funding from outside of the community groups themselves. Indeed, in only three of the 15 projects were other private sector funds secured. This amounted to £97,000, some 6 per cent of the total investment in the three projects concerned. In NIAO's opinion, the Department should consider setting an annual performance target for the average level of private sector funding to be secured in RDP economic development projects (paragraphs 3.33 and 3.34).

General Conclusions - Project Appraisal

22. The nature and incidence of the weaknesses detected by NIAO in the Department's appraisal process give cause for concern. A pattern has emerged in which the appraisal process either failed to detect the main risks involved in projects, or to properly address those risks. Indeed, in a number of cases, it appeared to NIAO that the appraisal process had little bearing on the Department's decision as to whether or not to provide assistance (paragraph 3.38).

23. NIAO acknowledges the innovative nature of the programme and that the Department has been working in disadvantaged areas from a very low level of previous activity. However, in NIAO's opinion, many of the shortcomings in the appraisal process arose because the Department's selective financial assistance scheme was not implemented in a planned and structured fashion. While NIAO welcomes the improvements to the appraisal process since 1997, there are still some areas where further improvements could be made (paragraph 3.39).

On Project Monitoring and Performance (Part 4 of the Report)

Performance Indicators

24. No formally agreed performance indicators, either quantitative or qualitative, had been set for individual projects. In NIAO's view, it is essential that agreed performance indicators are set in place, as part of the offer conditions, in order to enable the progress and effectiveness of projects to be measured. The Department has said that setting performance indicators for the commercial aspects of projects is now part of the economic appraisal and that indicators are now included in letters of offer (paragraphs 4.1 to 4.4).

Financial Control

25. In seven of the 11 projects which had been trading for over a year, serious shortcomings were identified in financial control. When weaknesses were identified, the Department commissioned reviews by consultants to establish the nature and extent of the problems and the action required to address them. The Department told NIAO that, as a result of the consultancy reviews, improvements in control procedures had been instigated in the projects concerned (paragraph 4.8).

26. NIAO has concerns regarding the widespread incidence of financial control weaknesses and the risk to public funds that has resulted. That such fundamental weaknesses were present in so many of the projects reviewed, raises serious doubts as to the adequacy of the Department's project implementation and monitoring procedures. While NIAO acknowledges the challenges faced by community groups in managing projects on a voluntary basis, the fact remains that the Department has a responsibility to ensure that effective financial controls are established before a project commences trading (paragraph 4.9).

Project Management

27. In 10 of the 15 projects examined, concerns were expressed variously by the Department, consultants and community groups regarding the quality of management in projects. There are a number of factors which may have contributed to the problems associated with these projects. In NIAO's opinion, however, the management difficulties experienced largely result from management needs not being properly identified and addressed at appraisal. The weaknesses highlighted also reflect on the adequacy of the community group training programmes (paragraphs 4.10 to 4.12).

Project Marketing

28. There was inadequate provision for marketing in the majority of projects within the NIAO sample. In view of the importance of effective marketing to the long-term success of new projects, NIAO considers that the Department should consider introducing, as a condition of assistance, a requirement that a dedicated marketing budget be ring-fenced within every economic regeneration project (paragraphs 4.13 and 4.14).

Trading Performance

29. Of the 11 projects which had been trading for more than one year at the date of NIAO's review, all had fallen short of their projected performance. In each case, the project had experienced some form of difficulty, such as lower than anticipated turnover or operating at a loss (before grant). Of the eight projects in NIAO's sample that had secured an IFI loan, seven have experienced difficulty in meeting repayment obligations and have been granted a moratorium on the repayment of interest. Interest of some £111,000, which had accrued during the moratorium period, has been waived (paragraphs 4.15 to 4.18).

30. In seven projects, additional funding, over and above the initial offer of assistance, had been required. Fifteen separate offers of additional assistance totalling £1.94 million were made available, in sums ranging between £18,000 and £800,000. In three other projects, requests for additional funding had been rejected. Approximately half of the additional funding was required for completion of the capital elements of projects, with the remaining monies being used by groups to fund running costs (paragraph 4.19).

General Conclusions - Project Monitoring and Effectiveness

31. While there are benefits to the various communities involved, overall, most of the projects have experienced difficulties, with the result that the benefits, to date, have been much less than anticipated. NIAO acknowledges that RDP projects operate through a substantial degree of voluntary commitment and that they are competing in a difficult environment. However, in NIAO's opinion, a pattern has emerged which calls into question the extent to which the Department has met its responsibilities in ensuring that community groups were sufficiently prepared to successfully manage major regeneration projects. NIAO also believes that the review illustrates how the failure of the appraisal process to detect and/or properly respond to many of the shortcomings in project business plans has adversely impacted on trading performance (paragraph 4.25).

32. The fact that so many of the projects examined by NIAO had experienced financial difficulties, and required additional funding and/or deferral of IFI loan repayments, raises an important issue as to the Department's 'exit strategy'. It is clear that the Department faces difficult choices as to the extent to which liability for the ongoing support of many of the regeneration projects should continue to rest with the taxpayer (paragraph 4.26).

On the Effectiveness of RDP (Part 5 of the Report)

33. NIAO encountered considerable difficulty in terms of the quantity and quality of the Department's performance data. The information available tended to be indicators of activity rather than measures of the actual benefits accruing to rural communities. NIAO also noted several concerns as to the completeness and accuracy of performance data being gathered (paragraph 5.3).

34. In NIAO's view, the Department has been slow to put in place, a comprehensive management information system that would provide the regular flow of key information necessary for an ongoing monitoring and assessment of the economic and social performance of the programme. The Department should address this as a matter of urgency (paragraph 5.5).

Animation and Capacity-Building

35. With some 450 community groups overall having become involved in rural development, including 178 new groups and many with cross-community objectives, it seems likely that RDP has made a considerable impact within many of Northern Ireland's rural communities (paragraph 5.7).

Networks and Partnerships

36. A major strength of the programme has been the extent to which it has succeeded in developing rural community networks and partnerships within rural areas. This has brought various public, private, voluntary and community-based bodies together, to tackle rural deprivation through a range of structures. In addition, a wide range of partnerships have been developed by community groups and networks with central government Departments and Agencies, District Councils and private sector bodies. The closer liaison and linkages resulting from these partnerships have improved the level of community access to public and private sector bodies, enhanced the flow of information and facilitated the development of multi-sectoral plans. By involving local people in the decision-making process, the public sector has also become more accountable to local interests. Overall, the programme has succeeded in increasing participation at a voluntary level within rural communities. An April 1999 consultancy review commissioned by the Department, estimated the economic value of volunteering within the programme at some £500,000 per annum (paragraphs 5.11 to 5.14).

Area-Based Strategies

37. Area-based strategy partnerships, introduced under the 1994-99 Strategy, represent examples of the innovative partnerships and broader networking taking place within the programme. A series of reviews commissioned by the Department on five of the area-based schemes reported that the strategy was effectively reflecting local needs, strengthening existing networks and partnerships and offering a multi-sectoral approach to regeneration (paragraphs 5.15 to 5.17).

Employment Created

38. At December 1998, some 244 jobs had been created and another 18 existing jobs safeguarded, by regeneration projects. This has had a positive impact within rural areas. However, NIAO noted that:

- no information was held to facilitate an assessment of the quality and likely impact of the jobs supported - for example, whether jobs were full or part-time, casual or seasonal; the degree of social inclusion (such as gender, religion, age and disability); the numbers of employees resident in the target area and/or a disadvantaged area; and previous employment status
- there has been no analysis of the durability of employment created. However, NIAO noted that, of the 244 jobs created, some 103.5 jobs have subsequently been safeguarded through further offers of assistance (paragraphs 5.20 and 5.21).

The Department's offers of assistance do not include a requirement for groups to provide employment data. In NIAO's view, this might usefully be included as a condition of offer of assistance, with a clear prescription of the level and type of detail required (paragraph 5.22).

Cost per Job

39. NIAO found that the average cost per job ranged from a low of £44,690 to a high of £699,415. The overall average cost per job was £102,886 with five of the projects having a cost per job in excess of £200,000. The Department told NIAO that RDP was not set up primarily as a job creation exercise and that it engaged in community economic projects where, by and large, the private sector would not do so. The Department said that, in some instances, projects were as much to do with building the capacity and confidence of the community as with providing jobs. They do not consider it valid to make comparisons between RDP and other public sector programmes which are more specifically aimed at job creation. In the Department's view, the cost per job under RDP was balanced by the positive social, environmental and political impacts of the projects (paragraphs 5.23 to 5.25).

40. NIAO considers that the creation of new, durable employment must always be an important objective of any major project that is aimed at the social and economic regeneration of a deprived area. Indeed, the Department has reported jobs created as "main impacts" of RDP. In NIAO's view, the job creation impact of the programme has been expensive (paragraph 5.26).

Trading Performance

41. While there has been an increase in the level of private enterprise within many communities, NIAO's findings point strongly towards a lack of sustainable growth in many of the projects examined. Given that these projects are intended to underpin the economic and social revitalisation of the communities in which they are located, NIAO concludes that the Department has, at best, enjoyed only limited success in this regard (paragraph 5.28).

Survey of Representative Bodies

42. NIAO undertook an independent postal survey of a number of the main representative bodies involved with rural regeneration to gauge their opinions on the structure and delivery of the programme and their perceptions of its main strengths and weaknesses. The survey results support the view that the programme has succeeded in engaging many local communities in the regeneration process and that both the Department and RDC are providing valuable support. However, there is a very strong message that the delivery mechanisms need to be re-structured and that some aspects of support - such as guidance and training - need to be improved. The results of the survey also suggest that there is a need for structural rationalisation and a greater co-ordination between bodies involved in the programme. As well as improving delivery, in NIAO's opinion, significant savings in administrative costs could also result (paragraphs 5.31 and 5.32).

Part 1: Background

Introduction

1.1 The Rural Development Programme (RDP) was established in September 1991 as a means of tackling the social and economic problems in Northern Ireland's most deprived rural areas. The Programme is administered by the Department of Agriculture and Rural Development (the Department).

RDP Strategy

1.2 Although RDP was established in September 1991, the Department did not formulate a set of strategic objectives until March 1993, some eighteen months later. It was not until January 1995, more than three years after the establishment of the programme, that the Department published a formal strategy for RDP.

1.3 In seeking to establish the immediate effectiveness of a major new programme, it is good practice to have in place, at the date of launch, a comprehensive strategy that communicates clearly, to all stakeholders, a clear vision of the objectives of the programme, the means by which they are to be delivered and the structures for monitoring, control and evaluation.

Principal Strategic Aim

1.4 Under the Department's 'Rural Development Strategy 1994-1999', the principal aim of RDP is:

"to stimulate the economic and social revitalisation of the most disadvantaged rural areas of Northern Ireland through partnership between the public, private and voluntary sectors".

RDP Current Strategic Objectives

1.5 The strategy document lists three priorities, each supported by a set of key objectives, as set out in Figure 1:

RDP Strategic Priorities and Objectives 1994-99

Figure 1

Strategic Priorities	Key Objectives
Rural Community Development	<ul style="list-style-type: none"> to promote and support locally-based community animation/action programmes to develop leadership and business managerial capacity in rural community groups to establish networks promoting greater integration of local development plans.
Area-Based Strategies	<ul style="list-style-type: none"> to draw up local area strategies identifying and responding to local needs to provide a positive framework for socio-economic development by individual rural communities to support the provision of infrastructure essential for growth in the rural economy to better focus the application of statutory and other services including health and personal social services, to the needs of rural dwellers and communities.
Community-Based Regeneration Projects	<ul style="list-style-type: none"> to assist rural communities to formulate plans and undertake measures for the economic and social revival of their own localities to promote sustainable diversification of the rural economy to encourage the growth of private enterprise in rural areas.

Source : DARD

Areas of Support

1.6 When RDP was established, five main areas of deprivation were identified as being most in need:

- West Fermanagh
- The Sperrins
- The Western Shore of Lough Neagh
- South Armagh and South Down
- The Glens of Antrim and Rathlin Island

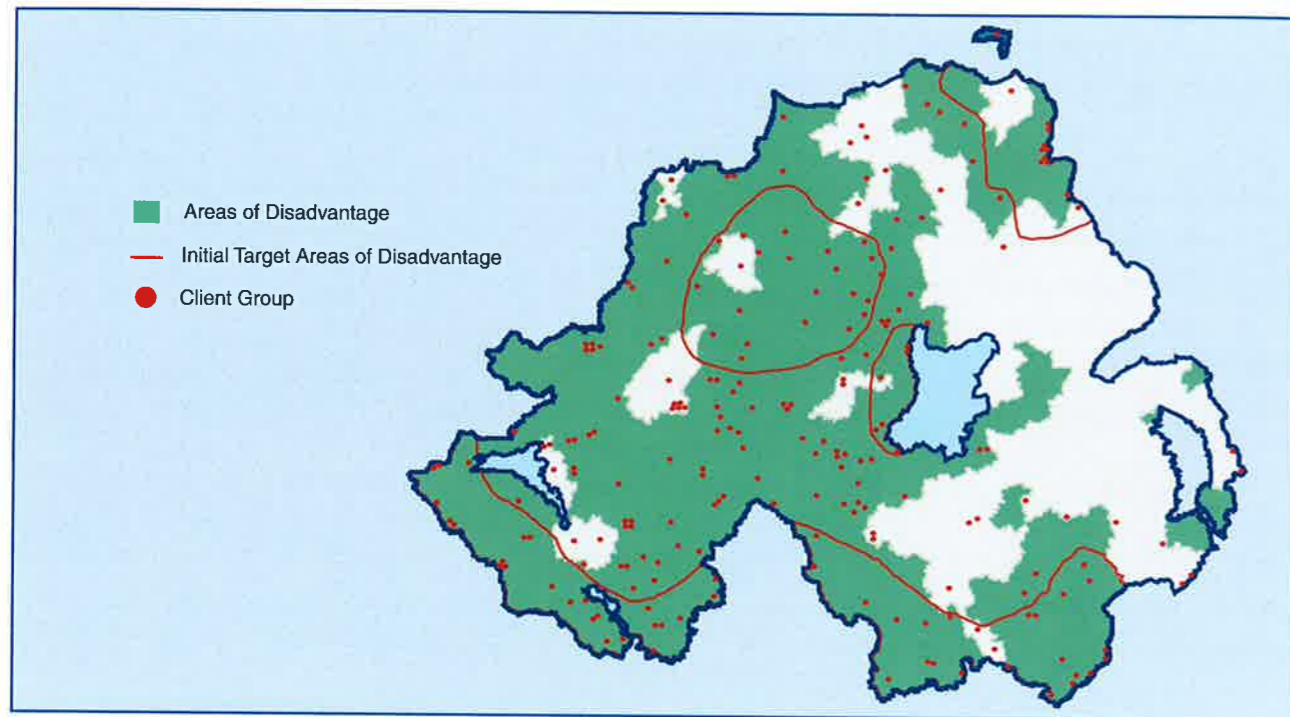
However, as pockets of deprivation¹ exist throughout Northern Ireland, the programme has extended beyond these areas. Figure 2 shows the five initial target areas, the extent of those areas classified

¹ The index of deprivation is based on a range of factors including employment levels, housing standards, transport availability and access to amenities.

as having an above average level of deprivation and the locations of the main community groups engaged in the programme. Some 85 per cent of the groups shown are located in 'deprived' areas.

Figure 2

Location of RDP Target Areas and Main Community Groups



Source: RDC

Organisation and Delivery of RDP

1.7 RDP is delivered through a combination of public and private sector bodies. The main bodies involved are:

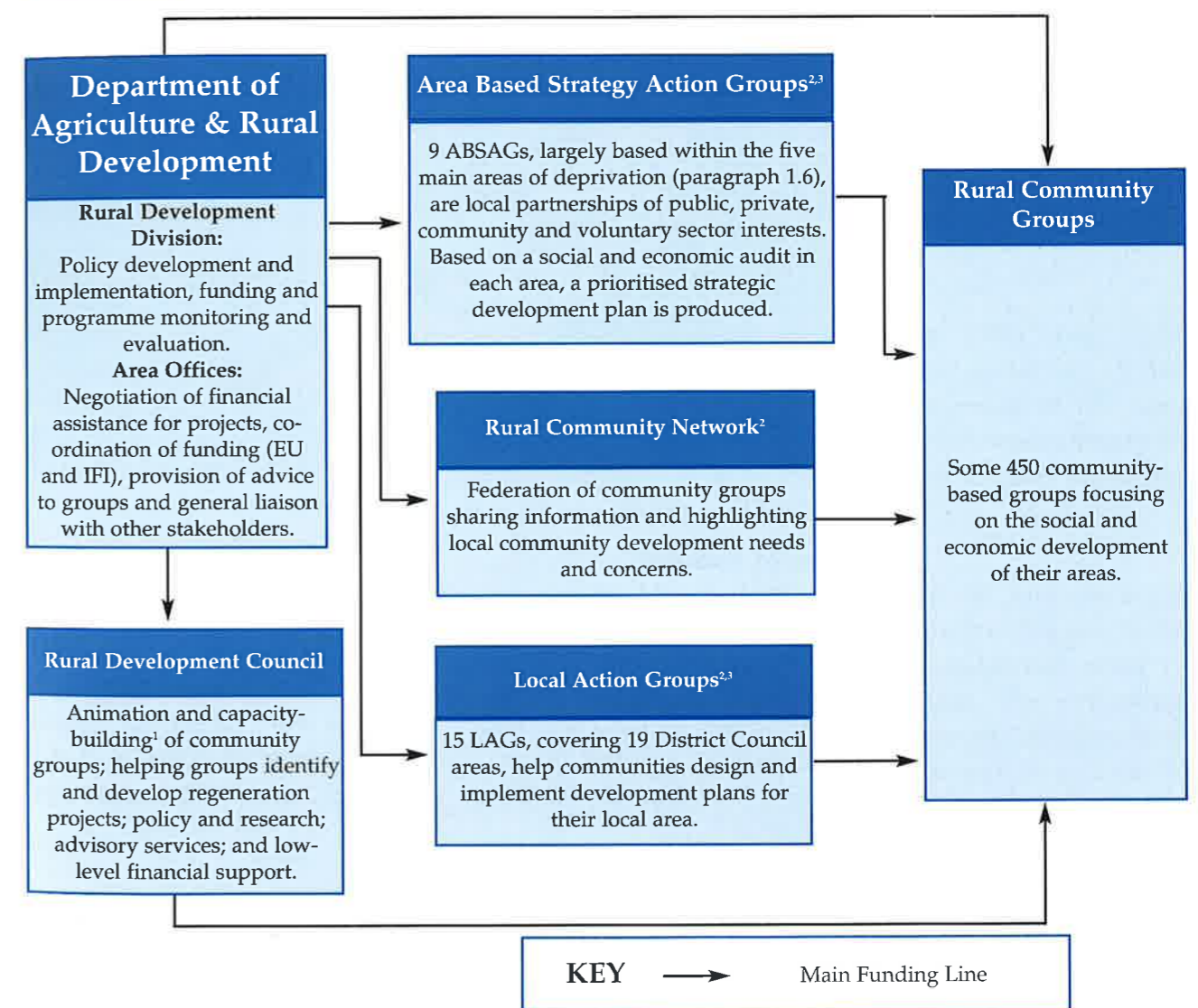
- **DARD's Rural Development Division** - formed in February 1991, comprising a headquarters unit at Belfast, with three area offices at Ballymena, Omagh and Newry. Staffing rose from nine at formation to 36 in 1999
- **the Rural Development Council (RDC)** - established in September 1991 as a private company, limited by guarantee and funded by the Department. The RDC is based at Cookstown
- **the Rural Community Network** - established in 1991 and based at Cookstown, the network represents some 265 affiliate groups
- **Area-based Organisations** - since 1995, 24 organisations have been created to co-ordinate area-based strategic development plans

- **Rural Communities, Groups and Associations** - comprising some 450 separate groups within the designated rural areas of Northern Ireland.

These main bodies are supported by a range of partnerships, the memberships of which include representatives from government agencies, District Councils and the private sector, as well as the community-based organisations themselves. The key structures in the delivery of the programme are set out in Figure 3:

Figure 3

RDP Key Delivery Structures



Source: DARD

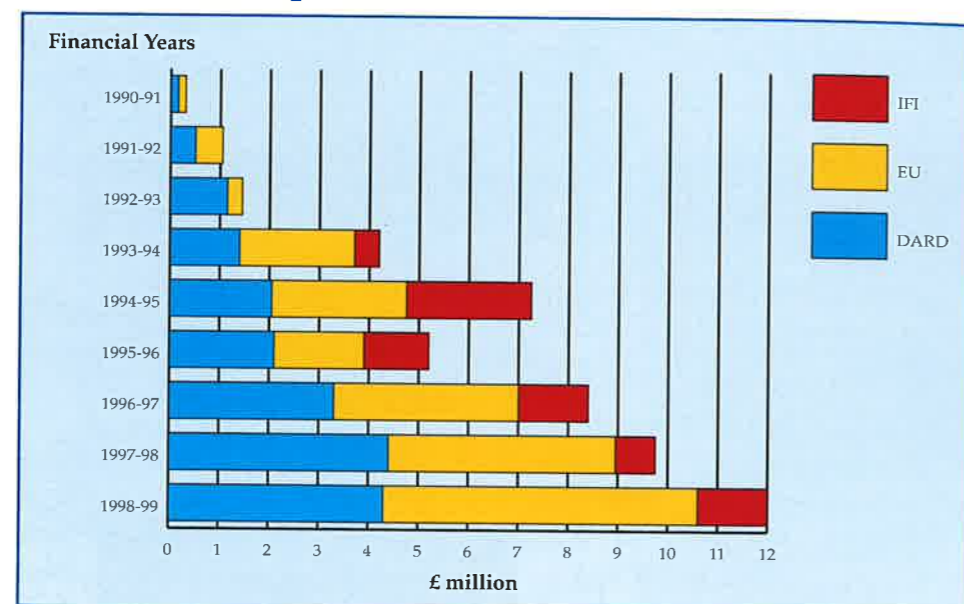
- Notes:
1. Animation means group formation. Capacity-building is a group's subsequent development.
 2. ABSAGs, LAGs and the Rural Community Network are autonomous bodies, grant-aided by the Department.
 3. Both ABSAGs and LAGs offer funding to private individuals and businesses as well as community groups.

RDP Expenditure and Funding

1.8 In the nine-year period to March 1999, RDP expenditure totalled some £51 million. This comprised £20 million provided by the Department, £23 million from the European Union (EU) and £8 million from the International Fund for Ireland (IFI). Over 88 per cent of expenditure was incurred in the five years to March 1999 - the financial build-up of the Programme is shown in Figure 4.

Figure 4

RDP Annual Expenditure, 1990-91 to 1998-99



Source: DARD

Sources of Funding

1.9 EU support comprises seven separate funding streams, and IFI assistance a further two streams. While all monies are targeted at rural development, each funding stream has distinct eligibility criteria relating to the type of development work or project which may be assisted and the geographical areas covered. Details of the composition of the EU and IFI programmes, since 1991, are set out at Appendix 1.

Analysis of Spend

1.10 Animation and capacity-building costs (including the cost of premises, equipment and training and fees for consultancy support) amounted to 7 per cent of total RDP expenditure over the period. The bulk of expenditure, however, - some 70 per cent (£35.5 million)

Figure 5

- comprised grant support to individual regeneration projects. Administration and delivery support costs of the programme accounted for 23 per cent of total expenditure. Details are set out in Figure 5.

Analysis of RDP Expenditure 1990-91 to 1998-99

	£ million	%
Programme Costs:		
Animation/Capacity-building	3.4	7
Major projects (>£50,000)	26.4	52
Minor projects	9.1	18
Administration/Delivery Support Costs	<u>11.8</u>	<u>23</u>
	50.7	100%

Source: DARD/NIAO

Note: Programme costs comprise all monies paid to community groups and area-based organisations. Administration/ delivery support includes both general administration costs and staff costs incurred in programme delivery.

Groups and Projects Assisted

1.11 Between September 1991 and March 1998, over 340 community groups were provided with financial assistance under RDP. This included the setting-up and development of 177 new groups, development of a further 54 groups which were already in existence and the establishment of contacts with around 110 other organisations and associations.

1.12 In the period to March 1999, a total of 68 projects were supported under RDP. This included 47 economic regeneration projects, receiving offers totalling £25 million assistance, with 11 receiving offers of assistance in excess of £1 million. The remaining 21 projects, which were not categorised as economic regeneration projects (for example, environmental and research schemes), received offers of £2.4 million assistance.

1.13 In providing assistance for economic regeneration projects, RDP stresses the need to achieve economic sustainability, the aim being to generate sufficient revenue to support both the project and its sponsor group in the long term.

Scope of NIAO Examination

1.14 NIAO's examination focused on four main elements:

- **rural community development (Part 2 of the Report):** assessing the process of animation and capacity-building of community groups, including the contribution of the Rural Development Council to this process
- **the project appraisal process (Part 3):** comprising a detailed examination of a selection of 15 economic regeneration projects²
- **project monitoring and performance (Part 4):** assessing the quality of the Department's project monitoring and control and reviewing the performance of the projects in the NIAO sample
- **the effectiveness of RDP (Part 5):** focusing on the impact of the Programme in disadvantaged rural areas. This included a survey of a number of key stakeholders to obtain their views on the Programme.

² NIAO's review of regeneration projects was confined to 'major' projects only (see Figure 1). Up to March 1998, RDP's total spend on minor projects had amounted to only £3.3 million.

Part 2: Rural Community Development

Introduction

2.1 Under RDP, community development is an essential prerequisite to the successful economic and social regeneration of deprived rural areas. The main organisation involved in stimulating community development has been the Rural Development Council (RDC).

2.2 RDC was established in September 1991 as a company limited by guarantee and funded by the Department. It is accountable to a 16-strong Board, drawn from a wide range of rural interests. Providing the interface between rural communities and the public sector, RDC's initial focus was on helping community groups to establish and to identify their priorities. That focus has since evolved, with a greater emphasis now placed on the development of viable projects, particularly those with employment potential.

Community Support Programme

2.3 Since 1991, one of RDC's main functions has been to administer the Community Support Programme (CSP), the aim of which is, "to promote and support locally-based community action programmes and develop leadership, business and managerial skills in rural community groups". Figure 6 illustrates the broad range of activities funded under CSP.

Figure 6

CSP Activities Assisted by RDC

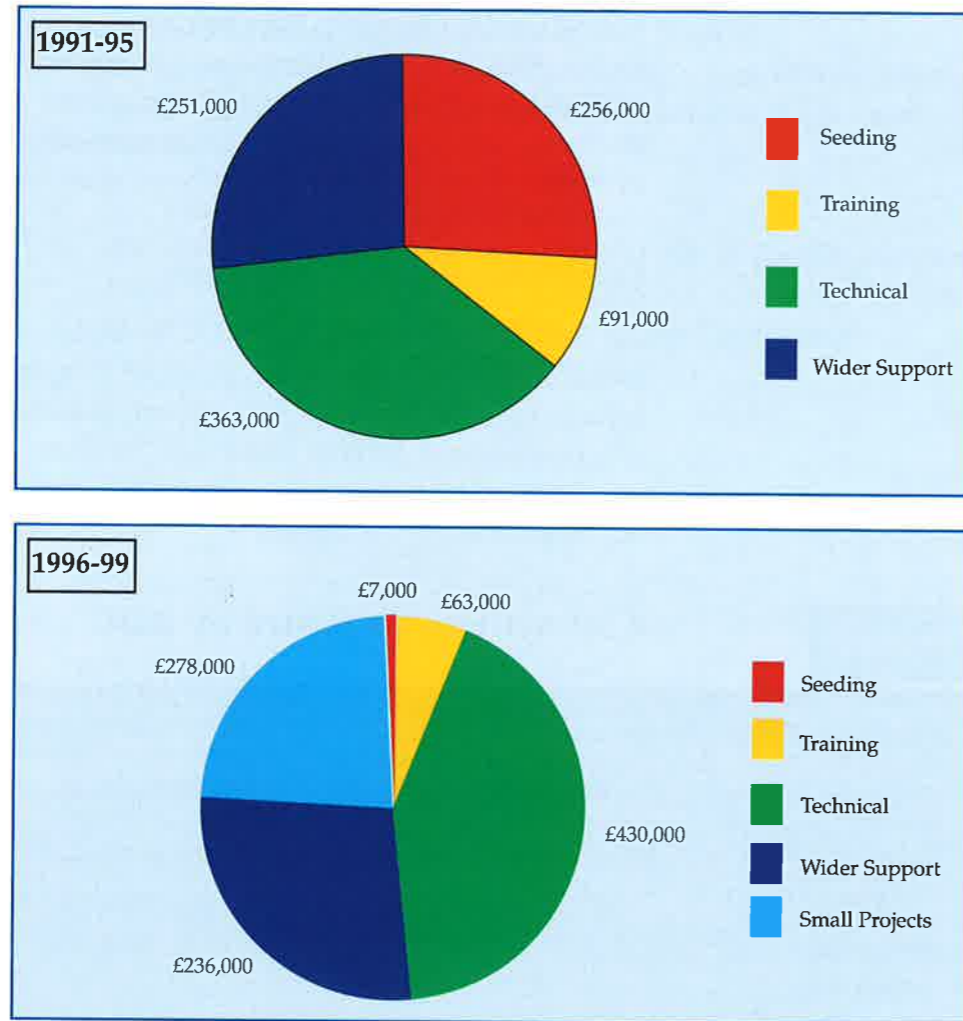
Grant Type	Eligible Activities and Costs
Seeding	Room Hire; Stationery and Postage; Purchase of Office Equipment; Cost of Organising Public Meetings; Office Refurbishment.
Training & Education	Course Fees and Expenses; Resource Material.
Technical Assistance	Consultancy Fees:- for Local Area Audits, Economic Appraisals, Feasibility Studies, Business Plans. Costs of purchasing statistical and other information and carrying out house-to-house interviewing. Travel and accommodation costs for visits to working projects.
Wider Support	Development needs of networks/partnerships, funding of group Development Officers and costs of research projects.
Project Start-up	Small projects (<£10,000) to establish small business and develop the infrastructure and environment.

Source: RDC

2.4 Between its establishment in September 1991 and March 1999, RDC provided some £2 million support under CSP. Figure 7 analyses the spend within each of the RDC's two strategy periods. In the second strategy period, between January 1996 and March 1999, the emphasis shifted from the seeding of new groups to increasing the project development and management capacity of existing groups. Also, the range of financial assistance broadened to include 'small projects', providing up to £10,000 assistance per project.

Figure 7

Community Support Programme Expenditure (£)



Source : RDC

Note : From 1991 to 1999, RDC also spent a further £3.2 million on the administration and delivery of CSP.

NIAO Findings

2.5 NIAO examined RDC's performance over the period 1991 to 1999, looking at strategic and operational planning, performance measurement, capacity-building of community groups and the measurement of social inclusion within groups. In reviewing performance, NIAO noted the March 1988 HM Treasury guide on "Policy Evaluation" which advised that all policy proposals with value for money implications should state what is to be achieved, by when, at what cost and how it is to be measured - ie evaluated. Findings are set out below.

RDC Strategy 1992-95

2.6 During its initial strategy period, from 1992 to 1995, RDC's primary aim was, "to promote and support rural community development, especially in the most disadvantaged rural areas of Northern Ireland". In order to achieve its aim, RDC primarily focused on:

- **animation** : the establishment and organisation of community groups within, or adjacent to, deprived rural areas
- **capacity-building** : the development of the group's business and project planning skills, which may lead to the implementation of a regeneration project.

Delays in Strategic and Operational Planning

2.7 While RDC launched its initial strategy in December 1991, some three months after its establishment, the Department's approval of the strategy was not received until March 1992. NIAO noted a number of delays in both the production of RDC's strategic and operational plans and their approval by the Department:

- RDC's first strategic plan was in operation before its precise role within the Rural Development Programme as a whole had been clarified by the Department and before the Programme's strategic framework had been formulated (paragraph 1.2)
- RDC issued two Operational Plans during its initial strategy period, for the periods June 1992 - August 1993 and September 1993 - March 1995. Neither plan received the Department's approval.

2.8 NIAO welcomes the formulation of both a Strategic Plan and Operating Plans, early in the life of RDC. In NIAO's opinion, it would have been good practice to have synchronised the introduction of the Strategic and Operational Plans and to have had them formally approved, on a timely basis, by the Department. Also, it would have been preferable to have revised the Operating Plans on an annual basis, to ensure that they reflected an up-to-date position. In NIAO's view, these shortcomings suggest a lack of cohesion between the Council and the Department and that there was a need for a greater degree of close monitoring and control, by the Department, over RDC's planning function.

RDC Performance under 'Initial' Strategy

2.9 RDC has a 'Financial Memorandum' which sets out the arrangements and conditions for its funding by the Department, including their respective responsibilities for the management and control of expenditure. Inter alia, this requires RDC, through its strategic plan, to clearly state its targets and performance indicators and to have the means to assess its performance. The Department is required to ensure that RDC complies with the conditions set out in the Memorandum.

2.10 By the end of the initial strategy period in December 1995, RDC had assisted in the animation of 170 new groups and, overall, had provided a total of 344 client groups with some form of financial assistance. NIAO noted, however, that there were no performance targets for RDC's initial strategy period against which to assess its success in meeting objectives. Consequently, it is difficult to draw conclusions as to the effectiveness of RDC's animation role in the period. However, it is clear that RDC succeeded in establishing rural community group development in a number of areas where it had been underdeveloped or non-existent.

2.11 As regards RDC's capacity-building role, aimed at strengthening and developing autonomous local community groups, again NIAO found little performance data on which to assess effectiveness. RDC's Strategic and Operational Plans should have included clear, measurable and time-bounded performance targets.

Other Reviews of RDC Performance, 1992-95

2.12 NIAO examined the findings of three separate reviews of RDC's performance in the initial strategy period, carried out between May 1994 and June 1995:

- an internal review by RDC's Chief Executive in May 1994
- a review, in July 1994, by consultants commissioned by RDC
- a June 1995 review by Business Development Services (BDS) of the Department of Finance and Personnel, commissioned by the Department.

The main findings of these reviews were as follows:

At the Strategic Level :

- RDC's strategy was ill-defined and lacked a clear vision of what was to be achieved at the end of the strategy period and how it contributed to the aims of the Rural Development Programme
- RDC's strategy did not address the timescale for development of the animation and capacity-building phases
- RDC's strategy lacked a formal statement of priorities and main objectives linked with resources, time-bounded targets and performance indicators.

At the Operational Level :

- RDC's annual Operational plans were not linked to the Strategic Plan's stated objectives and expected outcomes
- management information systems needed to be improved to facilitate performance monitoring and assessment
- the needs of different groups, eg. small farmers and long-term unemployed, were not adequately addressed
- RDC's Development Officers lacked the business skills required to take groups through the capacity building phase to a local development plan and also lacked clear management direction
- RDC's resources were too thinly spread relative to the number of client groups.

2.13 Overall, the reviews concluded that insufficient emphasis had been directed towards the production of local development business plans - that is, group capacity-building and project development.

RDC Strategy 1995-99

Strategic and Operational Planning, 1995-99

2.14 The Department is responsible for the review and approval of RDC's strategic and operational plans, including the allocation of an annual budget. Even though a number of shortcomings in RDC's

planning function during the initial strategy period had been highlighted by the reviews in 1994-95 (paragraph 2.12), NIAO again noted a number of weaknesses, both in RDC's planning function and the Department's monitoring and control, in the second strategy period:

- although RDC launched its Strategic Plan 1995-99 in December 1995, it only received approval from the Department in March 1996
- no Operational Plans were produced in respect of the 1995-96 and 1996-97 financial years. RDC's budgets for these years were not approved by the Department until February 1996 and March 1997 respectively
- the Operational Plan for 1997-98 was not submitted to the Department until August 1997. It was approved by the Department in late February 1998, one month prior to the end of the period covered
- the Department's approval to the Operational Plan for 1998-99 was not finally secured until December 1998.

2.15 In the light of the above weaknesses, it is clear that, as in the first strategy period, both RDC and the Department failed to fulfil their responsibilities under RDC's Financial Memorandum (paragraph 2.9). **NIAO also noted that the Financial Memorandum, initially issued in April 1993, had not been reviewed after its first three years of operation as recommended by best practice.³** In March 1999, some six years after issue, the Department told NIAO that this matter was now being addressed.

2.16 **In NIAO's view, RDC's planning function during the second strategy period was not managed on a structured and timely basis. This is particularly disappointing given that earlier reviews drew attention to a number of shortcomings in this area. It is also clear that the Department's monitoring and control of the RDC's planning and budgeting function was not wholly effective. It was not good practice for the Department to provide funding to RDC's programme of activities for long periods before these activities had been approved and budgets agreed and, for two years, in the absence of an Operational Plan. NIAO recognises the need for the Department to satisfy itself on all aspects of RDC's annual budgets and operational plans before giving**

approval. However, if financial control and approval procedures are to be meaningful, the Department must ensure that there is a timely submission and endorsement of RDC's plans and budgets. The Department should also ensure that the review of RDC's Financial Memorandum is completed as a matter of urgency.

Capacity Building of Community Groups

2.17 Under RDC's 1995-99 strategy, the focus of the programme shifted, to place a greater emphasis on the development of regeneration projects. Accordingly, RDC's primary aim changed to:

"the RDC will assist local communities in disadvantaged rural areas to develop quality projects that will create sustainable employment."

RDC's approach was to help groups identify and develop regeneration project ideas and plans and ensure that they acquired the skills necessary to implement and manage those projects.

2.18 NIAO examined four key areas of RDC activity - formal training; 'technical' assistance; the introduction of a portfolio approach (which concentrated RDC's efforts on selected groups); and financial support for 'small projects'.

Training of Community Groups

2.19 Between the establishment of RDC in 1991 and December 1998, almost 1,450 persons had undergone formal training at some 300 separate courses, 200 of which focused on leadership and enterprise. In addition, RDC project managers provided informal training through 'hands-on' support to community groups. NIAO sought to assess the effectiveness of RDC's programme of training but found little performance information readily available, for example, on the content of courses, their duration, or feedback from course participants on the usefulness and quality of tuition.

The Role of Education and Training Report

2.20 In September 1998, the Department published the results of a study into *"The Role of Education and Training"* within rural development. The aim of the study was to identify training and development needs and to develop a framework for delivery.

³ A Guide for Government Departments and the Smaller NDPBs, September 1994, issued by the Northern Ireland Chief Executives' Forum.

2.21 As part of the study, the views of a sample of 35 groups were analysed. Comments by those groups on the provision of training highlighted the following:

- On the Provision of Training & Development:**
- training provision to groups was severely fragmented, resulting in both an overlap and absence of provision
 - together with the lack of a competence framework, this had made the task of identifying appropriate training haphazard
 - groups needed help to identify the most appropriate support training
 - training was of variable quality - in part, this reflected the different methods of provision (eg formal training course or distance learning), but groups also referred to their lack of input to the design of courses, courses being too academic in approach, a mindset on the part of some providers that they 'knew best', and a lack of knowledge among groups as to training options
 - some training, while acceptable in terms of quality, was not seen by some groups as relevant to their needs.

In response, the study advocated the need for support to be tailored to the needs of groups and to be effectively brokered into the groups. Overall, the study recommended five actions to improve the development of groups - the creation of a competence framework, preparation of guidance manuals on group development, creation of some 10 to 15 group case studies for reference, the setting up of a brokerage facility for learning provision and the provision of a mentoring facility for groups. The Department told NIAO that implementation of the recommendations is underway.

Technical Assistance

2.22 Since 1991, almost half of RDC's support - some £0.79 million - has been provided through technical assistance. The range of activity has primarily involved funding the cost to groups of engaging consultants to determine community needs through local area audits (now undertaken in-house), to carry out economic appraisals and feasibility studies and to produce business plans for regeneration projects. NIAO noted that there has been a considerable degree of activity in this area - for example, in 1998-99 consultants were engaged to prepare 24 feasibility studies and 11

project business plans. In NIAO's view, one of the ways to judge the extent to which RDC's technical assistance has achieved its objectives is through examination of the quality and success of the projects that have resulted. This is considered in depth in Parts 3 and 4 of this report.

Portfolio Groups

2.23 With the focus of support moving to groups wishing to pursue a specific development project, RDC adopted a portfolio approach. The portfolio centred on 45 community groups, this being the maximum number to which RDC felt it could effectively provide in-depth support over a given period. The groups selected were those considered most capable of bringing forward successful project proposals and included groups at different stages of development. The rationale was that RDC's capacity-building would create a 'pool' of community groups, each with a development plan, that could be handed over to the Department to co-ordinate a financial assistance package.

2.24 RDC aimed for an average of 15 projects each year to secure major funding. As the more advanced groups progressed to project implementation stage, new groups would replace them on the portfolio. NIAO examined the progress made under the strategy, focusing on the initial portfolio groups. Of the original 45 groups, a total of 18 had secured funding by November 1998, (the end of the third year) as shown in Figure 8. Of the other 27 groups, 12 are no longer undertaking a major project and 15 remain on the portfolio with the aim of developing a major project in due course.

Figure 8

Progress of Groups in the Initial RDC Portfolio

	Number of Groups
Undertaking a major project:	
Through DARD	15
Other Programme (DoE CRISP)	<u>3</u>
	18
Not undertaking a major project:	
No longer pursuing a major project	5
Involvement with wider grouping/network	3
Groups ceasing to function	1
Disagreement within Group on way forward	<u>3</u>
	12
Continuing to develop a major project	15

Source : RDC

2.25 In discussions with RDC, NIAO noted that progress through the portfolio has been slower than anticipated, with a number of groups experiencing difficulties in shaping and planning a viable project. **Overall, while a number of projects have successfully secured funding packages, 60 per cent of groups in the original portfolio have not yet progressed to a major regeneration project as anticipated.**

Small Projects

2.26 The RDC provides 'small' grants (of up to £10,000) to help communities improve the facilities and the environment in their local area or to establish small businesses. In addition, the scheme also aims to test the capacity of community groups to undertake a larger regeneration project. Since their introduction in 1996, some £280,000 has been provided to small projects. By March 1999, the scheme had given rise to five new businesses, with six and a half (full-time equivalent) jobs, as well as some temporary construction jobs. **NIAO recognises that the handling of a small project by groups can be a very useful developmental tool in the progression towards a major regeneration project.**

Social Inclusion

2.27 As well as developing the administrative and management capabilities of community groups, RDC also aims to develop the degree of social inclusion within groups. In both its 1997-98 and 1998-99 Operational Plans, RDC included targets for the numbers of groups within which it aimed to improve the balance of committee membership relating to gender, religion, socio-economic status, age and disability. NIAO sought to examine the extent to which these targets had been achieved and, also, the extent to which all client groups reflected the balance of their communities as a whole. RDC told NIAO that this information was not available, but that arrangements are now being put in place to capture and assess this information.

2.28 **RDC must ensure that it has sufficient information systems in place to be able to assess the extent to which it has achieved its operational objectives.** NIAO recognises that not everyone within a community may wish to become an active member of a community group. However, since RDP is most likely to be successful where it has the support of the whole of the rural communities in which it is active, it is important that RDC and the Department take steps to ensure as far as possible that groups are truly representative and that projects represent the result of broad and effective consultation within the community.

Overall Conclusions

2.29 The RDC has succeeded in establishing rural community group development in a number of areas where it had been underdeveloped or non-existent and has provided a wide range of support to rural communities since 1991. There is evidence, however, that some rural dwellers, such as farmers and the long-term unemployed, are not sufficiently represented within community groups. During the period to 1995, insufficient attention was paid to capacity-building and project development and this is borne out by the slower than anticipated progress of groups towards implementation of major projects.

2.30 The lack of comprehensive performance measures, focusing on the impact of RDC's support rather than just levels of activity, has made it difficult for NIAO to assess the effectiveness of RDC's work within the programme. The lack of performance data, together with the shortcomings noted by NIAO in relation to RDC's planning and budgeting function, and the delay in the review of RDC's Financial Memorandum, highlight the weaknesses in the Department's monitoring and control of the work of the RDC. These are issues which both the Department and RDC need to take steps to address.

Part 3: Project Assessment

Introduction

3.1 One of RDP's strategic priorities is to encourage the development of community-based regeneration projects. Seen as an essential element in the successful revival of deprived rural areas, regeneration projects may be economic or social in nature, or a combination of both elements. Projects may be supported through a mix of funding, primarily involving the Department, IFI and EU. More recently, District Councils⁴ have also been providing financial support. Community groups themselves are required to make a contribution to the project, now normally some 5 per cent of total investment costs. Raising this sum can pose a significant challenge to voluntary groups and a number have been unable to achieve their target.

NIAO Selection of Projects

3.2 NIAO examined a selection of 15 economic regeneration projects. NIAO concentrated on economic regeneration projects, as these accounted for the overwhelming majority (some 90 per cent) of total major project-based funding during the period under review. In providing assistance for such projects, RDP stresses the need to achieve *economic sustainability*, the aim being to generate sufficient revenue to support both the project and its sponsor group in the long term.

3.3 In order to form a view as to how the Department's administration of the scheme had developed over the period, a range of cases with offer dates between February 1993 and March 1996 were examined. The projects involved cases from each of the Department's three Area Offices, in Ballymena, Omagh and Newry. While NIAO's selection of projects was not statistically-based, NIAO considers it to be broadly representative of the projects supported by the Department during the period.

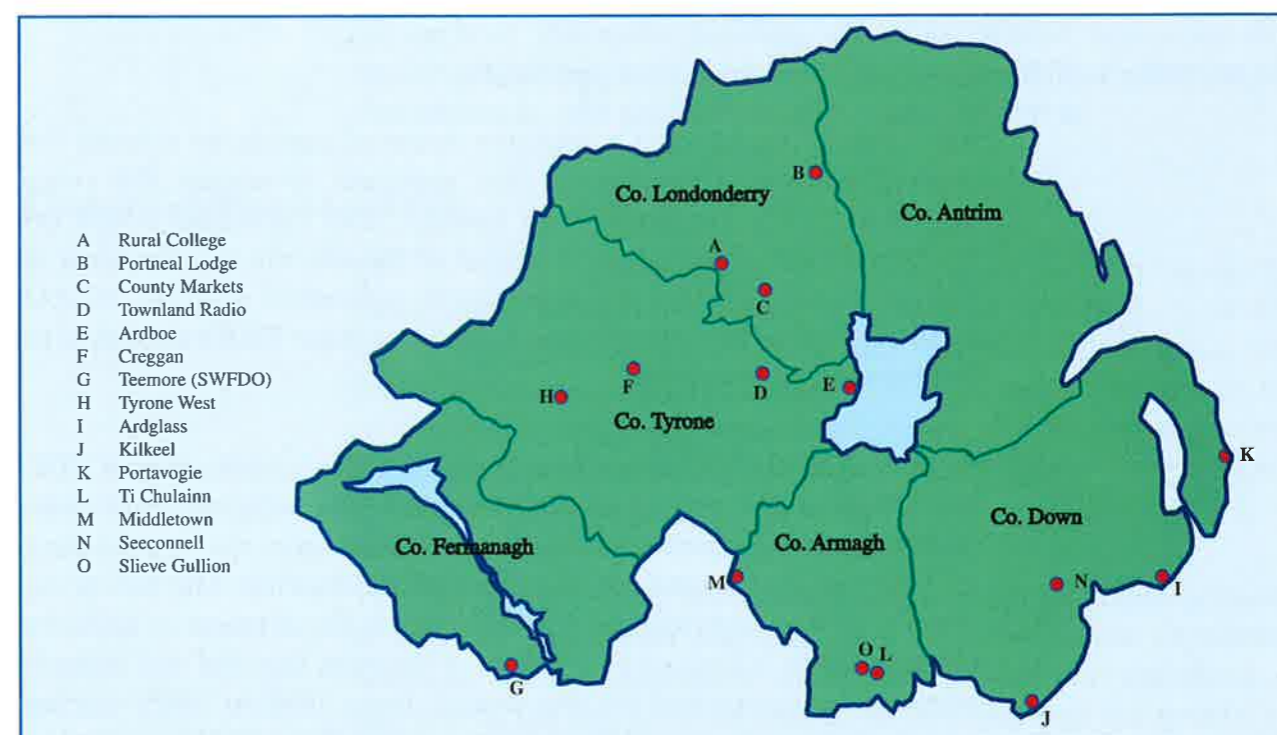
3.4 Of the 15 cases selected, 14 commenced trading, although three of these were in the early stages of operation at the date of NIAO's review. Two of the 14 cases subsequently ceased trading. NIAO's selection included each of the 11 projects involving support

⁴ Some projects also receive part-funding from the Millennium Fund and National Lottery. However, these sources of funding fall outside the scope of the NIAO review.

in excess of £1 million. Overall, NIAO's sample cases amounted to £18.9 million assistance, some 69 per cent of the total support provided to major projects up to March 1999. The names and locations of the sample projects are detailed at Figure 9. A short summary of each of the 15 projects selected is set out at Appendix 2.

Figure 9

Locations of Projects Examined by NIAO



Source : DARD

NIAO Findings

3.5 The Committee of Public Accounts has examined a number of selective financial assistance schemes in Northern Ireland and has reported a range of important lessons in the course of their work. With these in mind, NIAO reviewed the quality of the Department's appraisals in the 15 projects selected for examination. The review identified several areas of concern in the Department's establishment of the scheme and its project appraisal process. Findings are set out as follows:

- the absence of approval to the Department's selective financial assistance scheme (paragraphs 3.6 to 3.8)
- the absence of formal guidance procedures (3.9 and 3.10)
- poor documentation standards (3.11 and 3.12)

- the inadequacy of the Department's appraisal process (3.13 to 3.16)
- the poor standard of appraisal in a high proportion of projects examined:
 - viability (3.17 to 3.26)
 - economic efficiency (3.27 to 3.31)
 - additionality (3.32 to 3.34)
- inadequacies in Letters of Offer (3.35 to 3.37).

Department of Finance and Personnel Approval

3.6 When introducing a selective financial assistance scheme for capital projects, Departments are required to obtain the prior approval of the Department of Finance and Personnel (DFP) on matters such as the scope and format of the scheme and the level of delegated authority for the approval of individual projects. **NIAO found that the Department had failed to obtain DFP's approval to the scheme as required.**

3.7 In August 1995, some four years after the introduction of RDP, the Department raised with DFP that the scheme had been operating in the absence of specific guidance on project assessment and appraisal and without any delegated authority. The following month, DFP gave delegated authority to the Department to approve projects up to a limit of £1 million. However, this did not include retrospective approval for the period from 1991 to 1995, during which all projects should have been submitted for DFP approval.

3.8 **The Department's failure to obtain DFP approval prior to introduction of the scheme constituted a breach of normal control procedures. DFP and the Department must take the appropriate steps to ensure that, in future, new schemes are properly approved, as required, in advance of their introduction and that appropriate authorisation procedures for major projects are adhered to.**

Guidance Procedures

3.9 It is accepted good practice that, when introducing a selective financial assistance scheme, a fully comprehensive set of procedures is established and codified in an Operating Manual. This would encompass aspects such as project appraisal, monitoring and evaluation with detailed checklists of procedures to be applied. The aim of the manual is to ensure that high standards of administration are consistently and uniformly applied.

3.10 Despite RDP having been in operation since 1991, NIAO found that the Department had not produced an Operating Manual for the programme. While, over the years, a range of procedures were introduced, this was done in an ad hoc manner. In 1998, following the commencement of NIAO's review and some seven years after the programme was established, the Department initiated the drafting of procedures manuals. In NIAO's view, the absence of comprehensive guidelines was a serious shortcoming which led to many of the weaknesses identified below. Procedures manuals have now been drawn up for each of the main funding streams. NIAO welcomes this improvement but considers that the documentation of appraisal procedures is still not sufficiently comprehensive.

Documentation Standards

3.11 A poor standard of documentation was a common shortcoming in most of the projects examined by NIAO. Typically, the recording of the criteria and basis for recommendations and decisions was incomplete. Frequently, there was no record on file on the resolution of queries raised during the appraisal process. While standards varied between the Department's three regional offices, weaknesses were noted in each.

3.12 **In NIAO's view, the shortcomings in documentation result, at least in part, from the lack of a comprehensive Operating Manual. The Department must ensure that all decisions in relation to the approval or refusal of applications for grants are transparent and well-documented.**

Project Appraisal

3.13 It is a basic requirement of Government financial assistance schemes that all projects applying for support should be subjected to a detailed appraisal process, aimed at ensuring that the assistance will be cost-effective. Normally, the project appraisal process will address three main criteria:

- **viability** - will the project earn sufficient profits to be self-sustaining
- **economic efficiency** - will the project strengthen the economy
- **additionality** - is government's contribution the minimum necessary to bring about the developments.

NIAO examined the structure of the Department's appraisal process and reviewed how effectively it had been applied in assessing the viability, economic efficiency and additionality of the 15 projects in NIAO's sample.

The Structure of DARD's Appraisal Process

3.14 NIAO noted a wide range of concerns regarding the structure of the Department's appraisal process. Over the period 1991 to 1999, the Department's approach to appraisal took a number of forms:

(i) 1991 to 1995

Contrary to HM Treasury guidelines, no economic appraisals - aimed at identifying the most cost-effective option for each project - were undertaken for projects assisted during this period. Instead, groups moved directly to producing business plans for given projects. The business plans, compiled by consultants on behalf of community groups, were submitted for review to the Department's Regional Offices. With procedures not having been documented, the Department's appraisal process within Regional Offices was ad hoc in nature and conducted by staff without an appraisal background and with no formal training for the tasks involved.

On completion of their review, Regional Offices submitted projects to Rural Development Division (RDD) where further scrutiny was undertaken, including a review by the Department's Economics and Statistics Division (ESD). As ESD's role and responsibilities were not clearly defined, their scrutiny tended to be ad hoc in nature and lacking in impact - matters raised by ESD frequently did not result in any action being taken. NIAO noted that, in correspondence with RDD in December 1995, ESD commented that because they had assumed that DFP saw the appraisals of all projects, ESD had not considered it necessary to satisfy themselves that any weaknesses identified were addressed before proposals were submitted for funding approval.

On completion of the appraisal process, projects were submitted for funding approval. Eleven of NIAO's sample of 15 projects were approved by the Department during this period.

(ii) 1995 and 1996

In late 1995, RDD issued instructions to their Regional Offices that economic appraisals (by consultants) were to be carried out on all projects, completed to standards laid down in HM Treasury guidelines. It is accepted good practice that the economic appraisal - including the detailed consideration of options - be carried out prior to selection of a project and the drawing up of a project business plan. However, because a number of projects were 'in the pipeline', with business plans already prepared, the economic appraisals during this period were carried out *after*, rather than before, production of the business plans.

The remaining four projects within NIAO's sample were approved for assistance during this period.

(iii) Post-1996

From 1997, economic appraisals have been required prior to project selection and production of business plans. In April 1997, a Service Level Agreement was signed between ESD and RDD, setting out the roles, obligations and operational requirements of both parties in relation to project appraisal. In mid-1997, ESD told RDD that there remained uncertainty, both within Regional Offices and among consultants engaged by community groups, as to what should be included within economic appraisals. ESD issued general guidance as to the contents of economic appraisals and business plans.

3.15 In NIAO's view, the scrutiny process applied by the Department, prior to 1997, lacked structure and depth and resulted in a less than adequate challenge to project business plans. These shortcomings could have been addressed by the Department at an earlier stage, for example, through contacts with those Departments which had a greater level of expertise in selective financial assistance schemes, in order to learn from their experiences. In NIAO's opinion, this is the type of area where DFP could consider taking a more active role in ensuring that best practice is disseminated to Departments on a comprehensive and timely basis.

3.16 While the structure and content of appraisal appears to have improved from 1997 (based on discussions with the Department, as the projects examined by NIAO had all been appraised prior to 1997), NIAO notes that:

- documentation of appraisal procedures is still not sufficiently comprehensive (paragraph 3.10)
- the Department's appraisal team does not include any professional accountants. The inclusion of an accountant with commercial experience may further strengthen the appraisal (and the monitoring and evaluation) process
- there is no independent review within the Department - such as a casework review committee - to challenge the findings of the Department's appraisal process
- ESD continues to identify problems with the quality of economic appraisals and business plans carried out by consultants on behalf of community groups. The Department said that during the assessment of appraisals, deficiencies are highlighted by ESD and subsequently addressed by consultants before the economic appraisal is approved. It is important that the Department continues to seek improvements in the standard of appraisals submitted by consultants, thereby reducing the need for corrective action.

In NIAO's opinion, these are matters that the Department should seek to address.

Project Viability

3.17 A viable project is one which, having received financial assistance on a once-and-for-all basis, is expected to earn sufficient profits to be self-sustaining without continuing subsidies other than those available as of right to all enterprises. Typically, an appraisal of viability should include a detailed assessment of the marketing, management and financial aspects of the project. NIAO examined the business plans for each of the 15 sample projects and noted a number of areas of concern.

Marketing Appraisal

3.18 In all projects involving commercial trading, an assessment of market potential should be carried out by the group as an integral part of compiling the business plan and determining, as far as possible, the prospects for self-sustainability. In six projects (Cases A to C, E, H and O) there was insufficient, or no, research at all, by the groups in relation to market potential. Furthermore, the absence of this key information had no apparent impact on the appraisal process. For example, in Case H:

CASE H: Tyrone West Farm Machinery Ring Funding £ 119,000 Offer April 1994

1. The project involved the establishment of a Farm Machinery Ring, which was to provide a mechanism for matching surplus machinery on some farms with a shortage on others. Despite this being the first such venture in Ireland, no market research was carried out. Consequently, the likely level of uptake for the project was not properly assessed.
2. The Farm Machinery Ring operated for two years as a pilot project but largely failed to meet its original objectives, in particular that of self-sustainability. The project ceased operations and has not been re-activated.

NIAO would have expected the lack of marketing assessment in the six cases to have been raised during the appraisal process and to have resulted in remedial action - the commissioning of a full and proper marketing assessment in each case - prior to any offer of assistance being made.

3.19 NIAO noted that in 8 of the 15 projects (Cases A to F, H, and O) no marketing plan had been prepared.

3.20 The absence of a marketing assessment within the business plan precludes a proper appraisal of viability. Despite this shortcoming, assistance was provided to the projects concerned. With new projects being heavily dependent on securing a market share in order to achieve viability, the failure by the Department to insist on the preparation and approval of a comprehensive marketing plan was a significant failing - NIAO noted that a number of the projects have encountered trading difficulties (see Part 4 of this Report). The Department has acknowledged that, in a number of projects there was insufficient analysis of marketing opportunities but said that, since NIAO's fieldwork, it is now normal practice to include an appropriate marketing assessment within the economic appraisal.

Management Appraisal

3.21 A detailed assessment of the management requirements of a project is an important element within both the business plan and its appraisal. In community-based projects, NIAO would expect the assessment to encompass the managerial strengths and weaknesses of the community group itself (which would act as a management Board for the project) and an in-depth consideration of the job specifications and skills requirements for those staff operating the project.

3.22 In 13 of the 15 sample projects (all but Cases J and N), these criteria had not been fully addressed:

- no reference to group management was made in two projects, or to operational management in seven projects
- in ten projects, group management was insufficiently dealt with - for example, in one case, while a short biography was provided on group membership, there was no assessment of their capability to manage and control the project
- in five projects, there was insufficient consideration of operational management requirements for the project - for example, on the level of experience and qualifications necessary.

3.23 The absence of a comprehensive assessment of management both within the business plan and the appraisal was a significant weakness which undermined the prospects of achieving viability. Despite this shortcoming, assistance was provided to the projects concerned. In its review of sample projects, NIAO noted shortcomings in the management capabilities of a number of community groups and projects - details are set out in Part 4 of this Report. NIAO recognises that community groups, in overseeing regeneration projects, demonstrate a substantial and ongoing commitment. This has been a crucial factor in the development of the rural regeneration programme. However, if the benefits of such commitment are to be maximised, it is essential that the Department ensures that community groups are fully equipped to manage regeneration projects.

Financial Appraisal

3.24 In 11 (Cases A to F, H and L to O) of the 15 projects examined, there was little or no evidence of the basis on which the financial projections in the groups' business plans had been produced. In most cases, this had resulted in either over-optimistic or unsubstantiated estimates of profitability. As a result, these projects were identified as 'high risk' during appraisal. **However, in none of these cases was it made clear on file on what basis assistance was being provided and how the identified risks were being addressed.** The Department said that there is now a requirement within the appraisal process to prepare detailed assumptions in support of financial projections.

3.25 Of the 11 cases noted in paragraph 3.24, ten have commenced trading. A number of these have encountered viability problems, including:

CASE A : Rural College Funding £ 2.36 million Initial Offer September 1993

1. The project is an educational and conference facility aimed mainly at those engaged in rural development activity. Prior to approval of the project, serious concerns were expressed regarding its viability. Consultants employed by the Department to review the Business Plan found that the project, without continuing support, would not be financially viable. Further, even a marginal failure to achieve sales forecasts would threaten viability.
2. The Department's Economic and Statistics Division considered that:
"If other providers of such facilities and training are considered, few, if any, are able to survive without government funding each year ... Furthermore, when the types of potential participants in the proposed College programmes are taken into account, their willingness or ability to pay market rates for such programmes is unlikely. This would tend to suggest that the likelihood of the project being able to exist is very low, after the current grant toward the running costs of the College is provided".
3. The project has encountered viability problems since trading began and has required significant additional revenue funding - some £0.8 million to March 1999.

CASE O : Slieve Gullion Tourism Centre Funding £1.0 million Initial Offer March 1993

1. Funding was approved despite the fact that the appraisal had identified viability as being based on assumptions which concluded that the project was only marginally capable of being sustainable on an ongoing basis. The appraisal identified that the project carried a high degree of risk and was dependent on achieving visitor numbers which were difficult to determine in an unproven tourism facility (restaurant and education facilities in a forest park).
2. A review of the project's financial projections by the Department's consultants in April 1995 (some 25 months after the offer of assistance and 15 months after construction had started) highlighted the tenuousness of the forecast visitor numbers:
"the project is located in an area where the tourism track record is negligible ie the Forest Park reported only 7,000 visitors in 1992. Projections for the first three years are based on only achieving 15,000 visitors. Typically 30,000 tourist visitors are required for a viable entity; it is only due to extending the facility use to educational purposes that in any sense a project realising viability can be considered".
3. The project, which began trading in September 1995 has encountered difficulties with a loss in the year-ended August 1998 of some £60,000. This compares with a forecast profit of £9,036.

3.26 Where major risks have been identified during appraisal, it is essential that these are properly addressed. The Department's case files should fully document the reasons why funding is being provided and clearly show what safeguards have been introduced in order to address the risks identified.

Economic Appraisal of Projects

3.27 Under HM Treasury guidelines, all projects should have been subjected to an economic appraisal. This provides a framework for examining the alternative use of resources in order to arrive at well-informed expenditure decisions. The appraisal examines needs and objectives and identifies alternative courses of action, comparing their relative merits. Fundamentally, economic appraisal aims to maximise value for money from any proposed expenditure.

3.28 Because no economic appraisals were carried out prior to 1995 (paragraph 3.14(i)), **there is no proper assurance that the 11 projects within the sample, assisted during this period, represented the best use of limited resources.** The available evidence suggests, however, that even in the absence of a detailed economic appraisal, there were reservations as to the economic benefits in some of the cases. For example:

CASE A : Rural College	Funding £2.36 million	Initial Offer September 1993
<p>1. The Department's Economics and Statistics Division expressed surprise that assistance was given for such a project on the basis of economic benefit stating that:</p> <p><i>"3rd level educational institutions would only be too delighted to have an opportunity to include a diploma course in rural development to their range of provision ... the evolution of a new college would be a very expensive way to meet the training needs of those involved in rural development"</i>.</p>		
<p>2. Reservations were expressed about the project at a senior level within the Department:</p> <p><i>"I am somewhat sceptical about whether publicly funded capital expenditure on the scale being proposed for this venture is justified or desirable. ... I am still concerned the Rural College might require continued long-term funding to survive."</i></p> <p>The Officer also commented that the proposal to use student accommodation for tourists (as an additional income flow) would have a displacement effect on private sector providers.</p>		

Despite the serious reservations expressed in this case, assistance was provided.

Definition of Needs and Objectives

3.29 Treasury guidelines require that, for each project, a set of objectives should be defined and, where possible, quantified in such a way that it can be subsequently established whether, and to what extent, they have been achieved. Further, the objectives should be clearly linked to the group's identified needs.

3.30 NIAO found that, in nine (Cases A to D, F, G, L, N and O) of the projects examined, objectives were not clearly stated, prioritised and quantified in measurable terms. Also, in six of these nine projects (Cases A to D, F and L) the way in which the project would meet the areas of need identified within the community was not clearly demonstrated. For example:

CASE B : Portneal Lodge	Funding £0.82 million	Initial Offer March 1994
<p>1. As regards benefit to the community, ESD observed that:</p> <p><i>"the project itself does not appear to create much direct employment and [our] main reservation about the value of supporting the project financially is that ... it may not benefit the community to any great extent"</i>.</p>		
<p>2. Notwithstanding these reservations, the project was assisted.</p>		

3.31 In the four sample projects (Cases J, K, L and M) appraised by the Department between 1995 and 1997, economic appraisals were prepared for community groups by consultants, *but retrospectively* ie after the projects' business plans had already been completed (see paragraph 3.14 (ii)). In each case, the actual project that had already been selected was confirmed as the least costly option. The consultants who completed the economic appraisals in three of these projects (Cases J, K and M) were the same consultants who had earlier prepared the community groups' business plans for the projects. **In NIAO's view, the carrying out of the appraisals in retrospect in these three cases may have limited their objectivity.** NIAO noted a number of areas of concern within each of the four economic appraisals, including:

Selection of Options
<p>1. The range of options was rather limited. Ideally, an economic appraisal should cost at least three options to ensure an adequate range of alternatives. NIAO noted, however, that:</p> <ul style="list-style-type: none"> • in three of the projects (Cases J, K, M) only two options were costed in each case • in three of the projects (Cases J, K, L) the individual elements of each option were not costed separately. As a result, it was not possible to identify the better value for money elements, within options. Doing so allows for the replacement of poorer value sub-options with better alternatives • for each of the four projects a 'do nothing' option was selected as the base case. However, given that there was no existing provision to appraise (apart from an element of Case K), a more appropriate base case would have been a 'do minimum' option, representing a minimum level of provision which would meet the objectives of the project.

Costings

2. The economic appraisal analyses the net costs/ benefits of the project, discounted⁵ over the economic life of the project. The result is a 'net present value' (NPV) or 'net present cost' (NPC). A NPV represents a net benefit to the economy and an efficient use of resources. NIAO had reservations about elements of the costings used in each of the four economic assessments:

- the results of the assessments estimated each project as a *net cost* to the economy, rather than a benefit - **Case J** - (£462,000); **Case K** - (£842,000); **Case L** - (£1,069,000); **Case M** - (£1,197,000)
- in one of the projects (**Case L**) a more appropriate discount rate should have been used - 8% rather than 6% because the project involved commercially marketed outputs
- in two of the projects (**Cases K and M**), where an industrial undertaking was involved, a project lifespan of 10 years for costing the proposal, rather than the 25 years used, would have been more appropriate. Using the longer period can result in a more favourable result in the net present value calculation
- in **Case J** the capital cost excluded land acquisition. As a resource cost, this should have been included.

Risk and Uncertainty

3. In new projects, there are usually risks involved such as construction cost overruns and failure to achieve forecast sales or income levels. To assess the extent to which this may impact on the NPC and option selection, 'sensitivity analysis' should be carried out. In **Case J** no sensitivity analysis was carried out, while in **Case K** a relatively narrow sensitivity range of +/- 5 per cent was used - given the risks involved, a range of +/- 10 per cent would have been more appropriate.

Wider Benefits

4. Given that the option chosen for each of the four projects had a negative net present value (that is, a net present cost), the case to proceed had to be made on the grounds of the wider benefits associated with each project and the consideration of the unquantifiable benefits. However, such gains need to be substantiated in order to offset the loss shown by the NPC. In three of the four projects (**Cases J, K and L**) NIAO considered that the justification as presented was not convincing. For example:

- in **Cases K and L** the reasons for the particular weightings assigned to individual non-monetary criteria, and the basis of individual scores awarded, were not included. This raises doubts regarding the objectivity of the exercise
- in **Cases J, K and L**, the number, quality and average cost of jobs to be created was not quantified. Doing so can assist in determining the worth of a project.

Displacement

5. In three of the projects (**Cases J, K and L**), the potential displacement of existing businesses was not fully considered. In **Case J**, which included a tourism facility, NIAO noted comments from the NI Tourist Board that the Province's tourism market was saturated with visitor centres and that any new ones would result in displacement and a lesser opportunity to achieve viability

⁵ Calculation of the costs/benefits over the life of the project, converted to present value.

In NIAO's view, the deficiencies in these economic appraisals raise questions about whether the Department can have made a well-informed judgement that the four projects concerned represented a cost-effective use of taxpayers' money.

Additionality

3.32 Additionality is normally aimed at establishing that the assistance offered would give rise to developments that would be truly 'additional' to those which would take place without government intervention. The level of public funds assistance offered should be the minimum necessary for the project to go ahead in terms of the nature, scale, timing or location, or any combination of these. **NIAO found that in none of the cases selected had the additionality criterion been fully addressed on file by the Department.**

3.33 With all RDP projects being sponsored by community groups, NIAO recognises that public funds assistance will invariably make up the bulk of total investment in each case. There was little evidence, however, of efforts to lever-in other private sector funding from outside of the community groups themselves. Indeed, in only three projects (**Cases C, H and J**) were other private sector funds secured. This amounted to £97,000, some 6 per cent of the total investment in the three projects concerned.

3.34 In NIAO's view, the Department should have prepared a formal 'additionality statement' for each project, recording the basis on which it considered that the criterion had been met. *Inter alia*, this would have addressed the level of contribution from the community group itself and the private sector funding sought or secured from elsewhere. The Department has said additionality is now addressed in every economic appraisal. The Department should consider setting an annual performance target for the average level of private sector funding to be secured in RDP economic development projects. Given the difficulties of attracting such private sector funding, the targets will probably be quite low in a number of cases.

Letters of Offer

3.35 Letters of Offer comprise an important control in the management of financial assistance schemes. Constituting legally binding agreements between funder and recipient, they contain the

terms and conditions of assistance. Inter alia, this will normally include the aims and objectives of the project, details of the assistance offered and the qualifying criteria and conditions, and the arrangements for project monitoring and evaluation.

3.36 As a result of the mixed funding streams available under RDP, projects will receive a Letter of Offer from each of the bodies providing funding. This adds to the complexity of administering the scheme. In NIAO's view, the Department should consider seeking the agreement of all of the funding bodies for an arrangement whereby only one Letter of Offer, containing the terms and conditions applicable to each funding stream, is issued. The Department said that while it accepts that a single letter of offer would be ideal, it was unlikely that such an arrangement could be agreed with the various agencies involved because each will have its own specific needs and will take its own legal advice. Attempting to agree such an arrangement could involve much nugatory effort.

3.37 NIAO confirmed that Letters of Offer had been issued, as required, for each project examined. However, NIAO noted that:

- **Objectives** - the projects' aims and objectives had not been set out in Letters of Offer
- **Targets** - Letters of Offer did not contain any performance targets against which to measure the progress of projects. Groups were simply required to complete the capital projects.

Pre-determined objectives and targets form an important basis for project monitoring and, subsequently, evaluation of performance. The Department has said that project objectives, monitoring and evaluation are now covered in the Department's letter of offer.

Overall Conclusions

3.38 The nature and incidence of the weaknesses detected by NIAO in the Department's appraisal process give cause for concern. A pattern has emerged in which the appraisal process either failed to detect the main risks involved in projects, or to properly address those risks. Indeed, in a number of cases, it appeared to NIAO that the appraisal process had little bearing on

the Department's decision as to whether or not to provide assistance. As a result, the Department is unable to demonstrate that its support has been focused on those projects which are likely to be the most cost-effective and which properly address the needs of the communities involved.

3.39 NIAO acknowledges the innovative nature of the programme and that the Department has been working in disadvantaged areas from a very low level of previous activity. However, in NIAO's opinion, many of the shortcomings in the appraisal process arose because the Department's selective financial assistance scheme was not implemented in a planned and structured fashion. While NIAO welcomes the improvements to the appraisal process since 1997, there are still some areas where further improvements could be made.

Part 4: Project Monitoring and Performance

Introduction

4.1 NIAO examined the Department's project monitoring and evaluation procedures for the 15 projects in its sample. In addition, NIAO reviewed the implementation and trading performance of each project. Overall, the review revealed a number of areas of concern. Findings are set out below as follows:

Project Monitoring

- lack of information on project performance (paragraph 4.3 and 4.4)
- weaknesses in project monitoring (4.5 and 4.6)

Project Performance

- weaknesses in financial control (4.8 and 4.9)
- poor project management (4.10 to 4.12)
- inadequate marketing of projects (4.13 and 4.14)
- poor trading performance of projects (4.15 and 4.16)
- deferral of IFI loan repayments (4.17 and 4.18)
- the need for additional project funding (4.19 and 4.20)
- franchising of businesses (4.21 to 4.24).

Project Monitoring

Aim of Project Monitoring

4.2 The aim of project monitoring is to ensure that:

- public funds are not committed where conditions of assistance have not been met
- problems with projects are identified at the earliest possible stage, enabling appropriate action to be taken
- the results of monitoring are used to inform future appraisals.

Overall, NIAO found a number of weaknesses in the Department's monitoring of projects, both during and after the provision of funding. Details are set out below.

Performance Indicators

4.3 NIAO found that **no formally agreed performance indicators, either quantitative or qualitative, had been set for individual projects.** Consequently, the Letters of Offer of assistance - the binding agreement between the Department and the groups - did not stipulate any evaluative or performance criteria (paragraph 3.37).

4.4 **In NIAO's view, it is essential that agreed performance indicators are set in place, as part of the offer conditions, in order to enable the progress and effectiveness of projects to be measured.** While NIAO recognises that it may, on occasion, prove difficult to determine appropriate measures for the social benefits of assistance, no such difficulties should be experienced in respect of the commercially-based elements of economic regeneration projects. The Department has said that setting performance indicators for the commercial aspects of projects is now part of the economic appraisal and that indicators are now included in letters of offer.

Routine Monitoring

4.5 The Department told NIAO that it monitored projects through 'project monitoring team' meetings, where performance was assessed against the overall focus and targets in the business plan. Each team consisted of community representatives, funders and professionals who met monthly throughout the project development, implementation and early trading phases to monitor progress.

4.6 NIAO sought to assess the effectiveness of the Department's monitoring, for the cases in its sample. As a condition of financial assistance to groups, the Department has laid down monitoring procedures which, inter alia, require community groups to furnish project progress reports on a quarterly basis, together with annual reports, for the ten-year period following implementation. However, NIAO found that:

- in only two (Cases B and C) of the 14 projects implemented had progress reports been supplied on a regular basis. In the remaining cases, no progress reports at all had been received

- of the 11 cases which had been in operation for over a year, no annual reports or annual accounts had been received in seven cases, nor was there any record of attempts by the Department to obtain them. In the four cases where accounts and reports had been received, there was no indication that they had been subjected to scrutiny.

The Department should take immediate steps to ensure that timely and effective monitoring procedures are introduced immediately.

Project Performance

4.7 NIAO examined the operational and trading performance of the sample projects. While many had provided some form of benefit to the community, NIAO noted a number of areas of concern, with most of the projects, to a varying degree, experiencing difficulties. Of the 15 projects in NIAO's sample, 14 had commenced trading, with the implementation of the remaining project (Case M) in doubt due to major environmental difficulties. Three projects (Cases J, K and L) had been trading for less than one year at the date of NIAO's review and so offered limited scope for assessment; one project (Case D) went into receivership; and another, (Case H) which operated as a pilot project for two years, ceased operations after largely failing to meet its objectives. Details are set out below.

Financial Control

4.8 In seven (Cases A, B, E, G, I, N and O) of the 11 projects which had been trading for over a year, serious shortcomings were identified in financial control. When weaknesses were identified, the Department commissioned reviews by consultants to establish the nature and extent of the problems and the action required to address them. Extensive weaknesses in basic financial controls were identified, including:

CASE G : Teemore Funding £1.56 million Offer March 1993

1. A consultant's review of the project in early 1997 identified serious weaknesses in the internal financial control, including:

Control Accounts - as no control accounts were maintained it was difficult to establish the reliability of management information on bank balances, debtors and creditors

Financial Reporting - there were poor financial reporting systems, with inconsistencies in accounting periods and non-standard formats being used

Budgetary Control - the absence of a formal system of budgeting reduced management's ability to control the business, making it difficult for management and the Board to assess performance.

CASE N : Seeconnell Funding £1.97 million Initial Offer March 1993

1. An appraisal of the project's financial and organisational controls by consultants in September 1995 identified widespread weaknesses, including - an absence of internal order documentation for bar purchases, blank cheques being signed, no inventory system, no asset registers, insufficient segregation of duties, no bank reconciliations and a poor audit trail.

CASE O : Slieve Gullion Funding £1.0 million Initial Offer March 1993

1. Since trading began in September 1995, a series of financial reviews, both by the Department and their consultants, identified a number of weaknesses including:
 - the absence of a monthly bank reconciliation
 - no analysis of Petty Cash
 - absence of an up-to-date fixed asset register
 - no internal system of requisitioning and ordering with any employee able to order goods
 - payments made which did not match invoices
 - payment documentation not being stamped 'paid'
 - no evidence of management checks on books of account.

The Department said that, as a result of the consultancy reviews, improvements in control procedures had been instigated in the projects concerned.

4.9 NIAO has serious concerns regarding the widespread incidence of financial control weaknesses and the risk to public funds that has resulted. That such fundamental weaknesses were present in so many of the projects reviewed, raises serious doubts as to the adequacy of the Department's project implementation and monitoring procedures. While NIAO acknowledges the challenges faced by community groups in managing projects on a voluntary basis, the fact remains that the Department has a responsibility to ensure that effective financial controls are established before a project commences trading.

Project Management

4.10 In 10 (Cases A to C, E to G and L to O) of the 15 projects examined, concerns were expressed variously by the Department, consultants and community groups regarding the quality of management in projects. NIAO noted that, in most cases, the promoters (that is, the community groups) had little or no previous experience in the business area concerned, which in most cases was tourism-related. A number of concerns were also expressed as regards the calibre of some of the staff appointed by groups to manage projects.

CASE B : Portneal Lodge	Funding £0.82 million	Initial Offer March 1994
<p>1. The Department expressed concerns regarding the adequacy of management of the project, both by the community group and the management couple employed in the Lodge. Concerns identified included a lack of clear standards having been established for management of the Lodge, insufficient management reports being produced, poor control of costs and excessive use of casual staff. The community group decided to dispense with the services of the management couple.</p>		

CASE E : Ardboe	Funding £2.12 million	Initial Offer March 1993
<p>1. Concerns were expressed within the Department, in October 1992, regarding the expertise demonstrated by the Ardboe community group committee. While the group indicated that they intended to manage the project themselves without outside help, the Department considered that expertise within the group was not sufficient and that further business training would be required.</p> <p>2. Subsequently, evidence of extravagance and waste was highlighted to the extent that, at one point, the Department withheld grant payments because of excessive phone and electricity bills and concerns about travelling expenses. The Department told NIAO that its investigations resulted in a tightening of control and the dismissal of a member of the project's staff.</p> <p>3. In 1996, consultants reported a number of problems related to the management of the business, including that it was technically insolvent, the accounting system suffered from 'poor-housekeeping and a lack of accepted financial controls' and there was evidence of extravagance and overstaffing.</p>		

CASE G : Teemore	Funding £1.56 million	Offer March 1993
<p>1. In February 1995, an ex-chairperson of the group, in a letter of resignation, expressed serious misgivings about management of the project. This included concerns about the general manager's efficiency and effectiveness and, more seriously, allegations of the unauthorised use of project funds and the improper use, over several months, of project staff within a separate business owned by the general manager, while being paid by the Teemore project.</p> <p>2. The Department told NIAO that, in response, they met with the new chairperson and secretary of the group. Subsequently, the Department received a letter from the new chairperson in which all the directors of the group dissociated themselves from the comments in the ex-chairperson's February 1995 letter. The Department said that it was obliged to accept this as the group's position, but it did write back to the group to emphasise the need for it to review its activities.</p> <p>3. In March 1997, consultants severely criticised the managerial ability and conduct within the group, noting that the "reporting and interpretation of financial information by management is considered to be poor" and specifically questioning "the technical ability of the general manager to produce and interpret management accounts or other more complex accounting reports". Further, they identified that there was "no evidence to suggest that the [community group] has ever questioned the quality of management reporting which it receives from the general manager". The consultants considered that there was "an immediate need to introduce more professional financial/commercial management to protect funders and [project] directors".</p>		

CASE N : Seconnell	Funding £1.97 million	Initial Offer March 1993
<p>1. The project, which started trading in May 1995, experienced serious management difficulties which have significantly affected project viability:</p> <ul style="list-style-type: none"> • a management couple who were retained to oversee operational control of the project's inn and cottages had their contract terminated, in August 1995, due to their failure to manage the project successfully • lax management resulted in poor hygiene standards, bad stock rotation and low standards of service. At one stage, the Health and Safety Executive intended to serve the company with Statutory Notices for failure to comply with recommendations made in several letters during 1995-96. Bookings for the self-catering cottages also suffered from mismanagement - marketing of the cottages was through a specialist company which complained of bad communication from the project group, resulting in double-booking of cottages and the loss of potential customers • a consultant's review, in January 1996, reported that, although the business had potential, it had been held back by poor management. A further review, in December 1996, by different consultants reported that a viable business would exist if better management were in place. 		

4.11 The Department commented that it appears that some community groups simply were unable to afford the level of wages required to attract management teams with the appropriate financial and business skills. Yet the attraction of skilled management is fundamental to the viability of a project. It is also apparent in the above case studies that, within community groups, there was a lack of the necessary skills and experience to properly oversee projects as a management Board.

4.12 NIAO recognises that there are a number of factors which may have contributed to the problems associated with these projects. Notwithstanding, in NIAO's opinion, the management difficulties experienced largely result from management needs not being properly identified and addressed at appraisal (paragraph 3.21 to 3.23). The weaknesses highlighted also reflect on the adequacy of the community group training programmes (paragraphs 2.19 to 2.21).

Project Marketing

4.13 There was inadequate provision for marketing in the majority of projects within the NIAO sample (paragraphs 3.18 to 3.20). In four (Cases B, C, F and O) of the 11 projects which had started trading, there was clear evidence that poor marketing had affected viability. For example, in Cases B and F:

CASE B : Portneal Lodge Funding £0.82 million Initial Offer March 1994

1. The Fishing Lodge was always expected to be heavily dependent on overseas visitors for its viability. However, marketing has been poor and occupancy levels low. While various minutes from project monitoring meetings in 1995 and 1996 considered that, with improved marketing, the project could be self-sustaining, no budget had been allocated to marketing. In correspondence with the Group in November 1996, the Department pointed out that no overall marketing strategy had been produced:

"The principles of good marketing have never been applied and subsequently marketing has been weak. The management couple's input to marketing has been unsatisfactory. Much of the business generated has come from the efforts of Community Group members ... In particular the angling market for which the Lodge was designed (and the reason funding was made available) has been very poorly targeted".

2. In May 1998, the group told the Department that there was now very little funding available for marketing, even though there were significant periods in the year when the Lodge was being under-utilised.

CASE F : Creggan Funding £1.42 million Initial Offer February 1993

1. A consultant's review in November 1995 commented that the business plan had projected over-optimistic visitor numbers, noting that the project was not located within a recognised tourist area and that there had been "an inadequate provision for marketing". The consultant saw the lack of an adequate marketing budget as the "largest contributory factor prohibiting the success" of the project.

4.14 In view of the importance of effective marketing to the long-term success of new projects, NIAO considers that the Department should consider introducing, as a condition of assistance, a requirement that a dedicated marketing budget be ring-fenced within every economic regeneration project.

Trading Performance

4.15 Of the 11 projects which had been trading for more than one year at the date of NIAO's review (paragraph 4.7), all had fallen short of their projected performance. In each case, the project had experienced some form of difficulty, such as:

- lower than anticipated turnover
- operating at a loss (before grant).

A summary of the trading performance of each of these 11 projects, together with a review of progress in the remaining four projects (Cases J, K, L and M), is set out at Appendix 3.

4.16 Three other areas of concern were noted by NIAO - difficulties in meeting IFI loan repayments, the provision of additional project funding and the franchising of some elements of certain projects.

IFI Loans

4.17 Of the 14 projects in NIAO's sample that had commenced trading, eight secured an IFI loan. Repayment of interest is due nine months after the issue of loans. However, in seven of the eight cases (Cases A, E, F, G, I, N and O), the IFI granted a moratorium on the repayment of interest. In four of these cases (Cases A, E, N and O) the moratorium was further extended by up to 18 months.

4.18 Details of the IFI loan position at June 1999 for each of the eight projects is set out at Figure 10. In Case K, repayments were not yet due at the time of NIAO's review. In three cases, no principal or interest has been repaid. In the remaining cases, only limited amounts have been repaid. Interest of £111,047, which had accrued during the moratorium period, has been waived. NIAO noted that, with the exception of one project, no scheduling of repayments of principal has been established.

Figure 10

IFI Loans to Sample Projects - Position at June 1999

Project	Loan Amount £	Principal Repaid £	Interest Due £	Interest Repaid £	Interest Waived £	Interest Outstanding £
Case A	144,061	-	19,879	-	18,544	1,335
Case E	255,426	5,000	35,789	5,989	22,448	7,352
Case F	198,000	-	27,305	1,300	8,958	17,047
Case G	269,341	79,927	33,709	7,974	13,373	12,362
Case I	133,870	3,870	17,127	4,571	12,178	378
Case K	221,500	-	-	-	-	-
Case N	104,800	-	14,523	-	14,523	-
Case O	151,806	-	21,023	-	21,023	-
Totals	1,478,804	88,797	169,355	19,834	111,047	38,474

Source: DARD

It is clear that seven of the eight projects have experienced difficulty in meeting repayment obligations.

Additional Funding

4.19 In seven (Cases A, B, E, F, I, N and O) of the 14 projects that had commenced trading, additional funding, over and above the initial offer of assistance, had been required. In three other projects

(Cases C, D and H) requests for additional funding had been rejected. In the period to March 1999, 15 separate offers of additional assistance totalling £1.94 million were made available to the seven projects, in sums ranging between £18,000 and £800,000. Approximately half of the additional funding was required for completion of the capital elements of projects, with the remaining monies being used by groups to fund running costs. Details are set out in Figure 11 and the following examples:

Figure 11

Additional Funding Provided to NIAO Sample Projects

Case	No. of Additional Offers	Total Offered (£)		Totals (£)
		Capital	Revenue	
A : Rural College	5	256,383	800,000	1,056,383
B : Portneal Lodge	1	18,400	-	18,400
E : Ardboe	2	208,958	-	208,958
F : Creggan	2	126,500	-	126,500
I : Ardglass	1	235,600	-	235,600
N : Seeconnell	2	126,000	100,000	226,000
O : Slieve Gullion	2	-	70,775	70,775
Totals	15	971,841	970,775	1,942,616

Source: DARD

CASE A : Rural College Funding £1.7 million Initial Offer September 1993

- To March 1999, the College received five separate offers of additional funding, totalling some **£1.06 million**. This included three offers, in 1995 and 1996, of additional capital funding totalling some £256,000 to provide an additional accommodation chalet, video-conferencing equipment, and additional site works (an entrance road, car park and external lighting) and, in 1997, two offers of revenue support - £200,000 to reduce the bank overdraft and a £600,000 subvention for the cost of running educational courses.

CASE N : Seeconnell Funding £1.97 million Initial Offer March 1993

- Additional funding of £126,000 was provided in February 1995 to complete the project's Equestrian Centre (initially costing £394,000). Despite the additional funding, the Equestrian Centre remained unfinished and, by March 1999, was still not operational.

4.20 That such a significant proportion of the cases examined by NIAO had required substantial sums of further assistance, either to complete the capital investment or to counter trading difficulties, strongly suggests that the appraisals of the initial

projects were deficient. The Department told NIAO that, in most cases, additional funding resulted from unforeseen infrastructure costs, locational difficulties and the long lead-time from project approval to implementation. The Department agreed that, while costs were determined by professional advisors at the outset, projects were appraised and approved with insufficient contingency built into funding packages to address these factors.

Franchising of Businesses

4.21 Another consequence of the trading difficulties experienced by the community groups is that five of the projects in NIAO's sample have franchised parts of their business to the private sector:

Figure 12

Project Elements Franchised

Case	Effective Date	Annual Rental (£)
A : Rural College : Restaurant	3/98	3,000
E : Ardboe : Cold Store	8/97	140,000
F : Creggan : Restaurant	10/96	12,000
N : Seeconnell : Hotel, restaurant and conference room	4/98	10,000 ⁽¹⁾
	4/98	12,000
O : Slieve Gullion : Restaurant	2/98	2,000 ⁽²⁾

- Notes : (1) In addition, the group received a one-off payment of £43,000.
- (2) In Slieve Gullion, the franchise was for a period of 6 months only, following which the franchise was relinquished.
- (3) In two other projects, at Kilkeel and Portavogie (Cases J and K), the restaurants are to be franchised. These facilities are not yet operational.

4.22 It is clear that most projects have struggled to achieve viability, with many of the difficulties experienced rooted both in a lack of capacity within groups to successfully manage projects and the groups' inability to attract quality management. Franchising is one way in which at least some of the difficulties can be overcome. NIAO notes that in two more recent projects (Cases J and K), franchising of restaurant facilities has been built into the initial business plans.

4.23 While franchising may bring benefits in terms of running a business more efficiently and effectively, it does mark a departure from one of the mainstays of RDP - a move from profit-making

(for the benefit of the community) to profit-taking, for the benefit of individual entrepreneurs. Although the community group receives a franchise fee, the profits over and above that sum are lost to the community. This also raises a question as to the extent to which franchise agreements have sufficiently protected the taxpayers' investment - for example, whether each franchise includes a profit-sharing arrangement, so that the community group can share in the profits above a certain level. Franchising also removes, from the community, a considerable degree of control over the project. In NIAO's opinion, these are important issues.

4.24 The Department told NIAO that, in its opinion, franchising represents an acceptable management option for groups, introducing private sector experience, reducing commercial risks and guaranteeing a level of income for the group under a binding agreement. The Department also feels that franchising enhances project sustainability and long-term viability.

Overall Conclusions

4.25 The picture that emerges from the NIAO review is one of concern. While there are benefits to the various communities involved, overall, most of the projects have experienced difficulties, with the result that the benefits to date have been much less than anticipated. NIAO acknowledges that RDP projects operate through a substantial degree of voluntary commitment and that they are competing in a difficult environment. However, in NIAO's opinion, a pattern has emerged which calls into question the extent to which the Department has met its responsibilities in ensuring that community groups were sufficiently prepared to successfully manage major regeneration projects. NIAO also believes that the review illustrates how the failure of the appraisal process to detect and/or properly respond to many of the shortcomings in project business plans has adversely impacted on trading performance.

4.26 The fact that so many of the projects examined by NIAO had experienced financial difficulties, and required additional funding and/or deferral of IFI loan repayments, raises an important issue as to the Department's 'exit strategy'. It is clear that the Department faces difficult choices as to the extent to which liability for the ongoing support of many of the regeneration projects should continue to rest with the taxpayer.

Part 5: Effectiveness of the Rural Development Programme

Introduction

5.1 NIAO sought to assess the overall effectiveness of RDP and its impact on rural communities. The assessment focused on the extent to which RDP had achieved its primary aims and objectives (paragraphs 1.4 and 1.5) as regards:

- rural community development
- area-based strategies
- community-based regeneration projects.

In each case, NIAO sought to determine the main social and economic impacts deriving from the Programme.

5.2 NIAO also carried out an independent survey of a number of the main bodies ('ABSAGs', 'LAGs' and District Councils) involved in the promotion and development of rural community interests, in order to gauge their views on the strengths and weaknesses of RDP.

Performance Measurement

5.3 In seeking to form an opinion on the effectiveness of RDP, NIAO encountered considerable difficulty in terms of the quantity and quality of the Department's performance data. The information available tended to be indicators of activity rather than measures of the actual benefits accruing to rural communities. NIAO also noted several concerns as to the completeness and accuracy of performance data being gathered - for example, data on the employment performance of regeneration projects (see paragraphs 5.19 to 5.22).

5.4 While the Department had reported a number of the social benefits and impacts arising from the programme, there appeared to be little in the way of hard evidence or quantification (see paragraph 5.29). NIAO acknowledges that social impact can be difficult to measure. However, given that the social revitalisation of rural areas forms an important part of RDP's primary aim, it is incumbent upon the Department to ensure that it has an appropriate mechanism in place to assess progress.

5.5 In NIAO's view, the Department has been slow to put in place a comprehensive management information system that would provide the regular flow of key information necessary for an ongoing monitoring and assessment of the economic and social performance of the programme. The Department should address this as a matter of urgency.

Achievement of Strategic Objectives

(1) Rural Community Development

5.6 The community development element of the Department's strategy was aimed at the animation and capacity-building (paragraph 2.6) of community groups (by and large, the main areas of activity undertaken by the Rural Development Council⁶ (RDC) and covered in Part 2 of this report) and the establishment of networks and partnerships.

Animation and Capacity-Building

5.7 With some 450 community groups overall having become involved in rural development, including 178 new groups and many with cross-community objectives, **it seems likely that RDP has made a considerable impact within many of Northern Ireland's rural communities.**

5.8 However, there is evidence that the community animation process has not encompassed all rural dwellers to the extent hoped for, with the Department reporting that some groups, such as women, small farmers, the young and the long-term unemployed, are under-represented. NIAO also found that, although RDC had operational targets for improving the levels of social inclusion within groups in relation to gender, religion, socio-economic status, age and disability, little information was readily available on the extent to which these objectives had been achieved. RDC told NIAO it has now taken steps to address this situation (paragraph 2.27).

5.9 The main initiatives aimed at capacity-building were training courses for community group members, technical support (provided both in-house by RDC and by outside consultants), the RDC portfolio approach and support for small projects (paragraph 2.19). The Department has reported that, in the period to late 1998,

⁶ In 1996, primary responsibility for community group animation (for those groups outside of the RDC main portfolio) transferred to the Rural Community Network (RCN). NIAO's review did not include a detailed examination of RCN's activities.

over 1,450 people had participated in some 300 training courses. While it is clear, therefore, that a large number of community groups have engaged in this aspect of the programme, NIAO found little information on the extent and quality of the training provided. **NIAO's in-depth review of a sample of projects (Parts 3 and 4 of this Report) strongly suggested that the programme has had only limited success in providing community groups with the necessary skills to implement and manage major regeneration projects.**

5.10 The adoption of the portfolio approach, together with the opportunities for community groups to test their capacity through small projects, has resulted in more groups graduating through the capacity-building structure to secure funding for major projects. The rate of graduation has increased, particularly during 1998-99. It is, however, too early to judge the extent to which these portfolio groups have the skills necessary to successfully manage a major project and achieve long-term viability.

Networks and Partnerships

5.11 **A major strength of the programme has been the extent to which it has succeeded in developing rural community networks and partnerships within rural areas.** This has brought various public, private, voluntary and community-based bodies together, to tackle rural deprivation through a range of structures.

5.12 One of the primary networks supported under the programme has been the Rural Community Network (RCN). RCN is a voluntary organisation set up by community groups to articulate their views on issues of poverty and disadvantage and to seek greater support for community development. Organised through local groups, eight sub-regional networks (covering most of Northern Ireland) and a series of partnerships at local and regional level, RCN has helped to give rural communities the opportunity to play a part in planning their own future in a more sustainable and integrated manner.

5.13 In addition, a wide range of partnerships have been developed by community groups and networks with central government departments and agencies, District Councils and private sector bodies. **The closer liaison and linkages resulting from these partnerships have improved the level of community access to public and private sector bodies, enhanced the flow of**

information and facilitated the development of multi-sectoral plans. By involving local people in the decision-making process, the public sector has also become more accountable to local interests.

5.14 Overall, the programme has succeeded in increasing participation at a voluntary level within rural communities. An April 1999 consultancy review commissioned by the Department, estimated the economic value of volunteering within the programme at some £500,000 per annum. The Department has also reported a total of 39 jobs created under this part of the programme - largely the administrative staff of RDC and RCN. As such, these jobs are dependent on continuing public funds support.

(2) Area-Based Strategies

5.15 Two major types of area-based strategy partnerships were introduced under the RDP Strategy 1994-99 - ABSAGs and LAGs:

- **ABSAGs** - there are nine separate Area-Based Strategy Action Groups, located in areas of disadvantage in and around the five initial RDP target areas (paragraph 1.6). Each ABSAG is co-ordinated by a manager and has been allocated a budget (up to £1 million in seven ABSAGs and up to £0.7 million and £0.5 million in the other two cases) to cover administration expenses and the costs of small infrastructure, training and business projects.

There are several stages in the area-based approach. The Department, in conjunction with key stakeholders, identifies a discrete geographical area of disadvantage and brings together a core action group (ideally chaired by the Chief Executive of the local district council and including public and private sector representatives). The group oversees recruitment of a Strategy Manager and development of an area regeneration plan. Plans are presented to the Department for approval and also to co-ordinate inputs from the various public sector agencies.

- **LAGs**⁷ - there are 15 Local Action Groups, funded by the EU and the Department. Initiated primarily by District Councils, and organised in conjunction with community and private sector interests, the LAGs cover much of Northern Ireland. Their main objectives are to develop integrated

⁷ Although receiving funding through the Department, LAGs operate closely with District Councils. NIAO did not carry out a review of the LAGs' operations.

rural strategies, enhance training provision and access to the labour market for rural residents, create jobs in small businesses and increase tourism and leisure expenditure in rural areas.

Both groupings represent examples of the innovative partnerships and broader networking taking place within the programme.

ABSAGs

5.16 Initial progress has been slower than anticipated, with a total spend to March 1999 of £2.6 million (including £1 million administration costs) out of the then budget of up to £7.5 million. However, there have been a number of positive outcomes to date, including the formation of a number of micro-businesses, with 54 new jobs and 22 existing jobs safeguarded (as at December 1998). In addition, the posts of ABSAG managers and support staff (engaged on fixed-term contracts) are providing temporary employment for 12 people.

5.17 The Department commissioned progress reviews of five of the ABSAG schemes and also a series of wider reviews which included ABSAGs. Overall, the reviews supported the continuation of the ABSAG process beyond 1999, on the basis that it was effectively reflecting local needs, strengthening existing networks and partnerships and offered a multi-sectoral approach to regeneration. However, the reviews also highlighted a number of aspects that required attention, including:

- concerns as to the equity of each of the seven ABSAGs then in place having a £1 million budget - a flat rate budget takes no account of the relative population sizes or the nature and extent of need between ABSAG areas
- the potential for duplication of funding - for example, with LAGs and other government agencies such as LEDU and the NITB
- the lack of specific, pre-determined, measurable, time-bounded objectives
- the high administrative costs of delivery.

(3) Community-Based Regeneration Projects

5.18 Through its support to regeneration projects, the Department aimed to promote sustainable diversification of the rural economy and encourage the growth of private enterprise. In the period to

March 1999, the Department offered assistance to a total of 68 regeneration projects. In total, these projects accounted for just over half of the overall programme expenditure to March 1999 (paragraph 1.10). The overwhelming proportion of support (over 90 per cent) was given to 'economically-based' projects - those intended to be financially self-sustaining. Details are as follows:

Figure 13

Summary of Major Projects Assisted 1991 to 1999

Type of Project	No. of Projects	Assistance Offered (£ million)
Economic Regeneration	47	24.8
Non-economic	21	2.6

Source: DARD/NIAO

In assessing the overall impact of these projects on rural communities and the value for money achieved, NIAO concentrated on four key aspects - employment generated, cost per job, trading performance (for the economic regeneration projects) and the wider economic and social benefits achieved.

Employment Created

5.19 An important indicator of successful economic regeneration is the extent to which new, self-sustaining employment is created. **NIAO found that prior to 1997, the Department had not maintained a comprehensive record of the job creation impact of RDP.** Collation of employment data by the Department's three Regional Offices began in the latter part of 1997. Initially, because no guidance was issued on the methodology to be used, there were a number of inconsistencies between Offices on the way in which job data was classified. However, in August 1998, a common methodology was agreed and guidance issued.

5.20 NIAO examined the employment return for 31 December 1998, which recorded the numbers of jobs that had been created or safeguarded (and were still in existence at that date), together with the temporary employment (such as construction jobs) that had also been generated through the projects:

Figure 14

Jobs Created and Safeguarded by RDP Regeneration Projects, at December 1998

Permanent Jobs ¹	Temporary Jobs ⁴ (person year equivalents)	
	Created ²	Safeguarded ³
244	18	78.5

Source: DARD

- Notes: (1) Permanent jobs are expressed in terms of 'full time equivalents' (FTEs).
 (2) Jobs created are new jobs directly resulting from the programme.
 (3) Jobs safeguarded are those jobs which existed prior to the receipt of RDP assistance, but which were subsequently secured through that assistance.
 (4) The temporary jobs figure represents the total number of job years created.

5.21 NIAO analysed the employment data and noted that almost three-quarters (186.5 FTEs) of the new jobs had been created by just seven of the 47 economic regeneration projects, with 15 projects (at December 1998) not yet having reached the job creation stage. **Overall, NIAO welcomes the creation and safeguarding of employment by the programme as a positive impact within rural areas. However, NIAO also noted a number of areas of concern:**

- NIAO sought to validate the data in the return. However, for two of the Regional Offices, this was not possible as no records had been kept showing how the return had been compiled and the FTE jobs calculated
- no information was held by the Department that would facilitate an assessment of the quality and likely impact of the jobs supported - for example, whether jobs were full or part-time, casual or seasonal; the degree of social inclusion (such as gender, religion, age and disability); the numbers of employees resident in the target area and/or a disadvantaged area; and previous employment status. In its review of sample cases, NIAO noted some evidence of low job quality - in Case I, which had created two FTE jobs, the total wages bill in 1998 amounted to only £4,542. This suggests a very low level of economic impact
- there has been no analysis of the durability of employment created. However, NIAO noted some evidence in the course of its review that suggests a significant proportion of new jobs have experienced difficulty in achieving self-sustainability:

- of the 244 FTE jobs created in total, 103.5 FTE jobs have subsequently been safeguarded through further offers of assistance
- there have been a number of job losses - for example in Case A, employment was reduced from 38 FTEs in September 1996 to 19 at December 1998 because of overstaffing, while in Case E, employment dropped from 66 FTEs to 31 over the same period
- there was no attempt to assess the *net* employment effect of the programme - that is, after allowing for the displacement, by the programme, of employment elsewhere in Northern Ireland.

5.22 In NIAO's opinion, the Department should consider how it might gather comprehensive data on employment generated, in order to provide a more meaningful assessment of the impact of the programme and to demonstrate the extent to which value for money is being achieved. The Department's offers of assistance do not include a requirement for groups to provide employment data. In NIAO's view, this might usefully be included as a condition of offer of assistance, with a clear prescription of the level and type of detail required.

Cost Per Job

5.23 When considering whether or not to support a proposed economic development project, it is common practice within most government departments and agencies to consider the average cost to public funds of the jobs to be created. NIAO found that, with one exception (Case M), the planned cost per job had not been actively considered by the Department during appraisal.

5.24 NIAO sought to calculate the actual cost per job in each of the 12 sample projects that were trading at 31 December 1998. While there were some necessary limitations in NIAO's methodology, the results nonetheless provide a broad indication of the cost per job achieved. Details are set out in Appendix 4. NIAO found that the average cost per job ranged from a low of £44,690 (Case J) to a high of £699,415 (Case I). The overall average cost per job was £102,886 with five of the projects having a cost per job in excess of £200,000.

5.25 The Department told NIAO that RDP was not set up primarily as a job creation exercise and that it is important to recognise that it engaged in community economic projects where,

by and large, the private sector would not do so. The Department said that, in some instances, projects were as much to do with building the capacity and confidence of the community as with providing jobs. The Department does not consider it valid to make comparisons between this socio-economic programme and other public sector programmes which are more specifically aimed at job creation. In the Department's view, the cost per job under RDP was balanced by the positive social, environmental and political impacts of the projects.

5.26 NIAO considers that the creation of new, durable employment must always be an important objective of any major project that is aimed at the social and economic regeneration of a deprived area. Indeed, the Department has reported jobs created as a "main impact" of RDP. In NIAO's view, the job creation impact of the programme has been expensive.

Trading Performance

5.27 The Department told NIAO that it monitors and collates data on the trading performance of assisted projects through 'project monitoring team' meetings. However, NIAO saw little evidence of a formal, documented monitoring of trading performance (paragraphs 4.5 and 4.6). In NIAO's view, this type of information is essential, both to assess the effectiveness of assistance to projects and to inform the policy and operational review processes.

5.28 The information collected by NIAO during its casework provided a detailed analysis of the trading performance of the sample of 15 major projects. While there has been an increase in the level of private enterprise within many communities, NIAO's findings (paragraphs 4.15 to 4.24 and Appendix 3) point strongly towards a lack of sustainable growth in many of the projects examined. Given that these projects are intended to underpin the economic and social revitalisation of the communities in which they are located, NIAO concludes that the Department has, at best, enjoyed only limited success in this regard.

Additional Economic and Social Impacts of Projects

5.29 In early 1998, the Department's Economic and Statistics Division (ESD) carried out a review of six (Cases A, E, F, G, N and

O) of the major regeneration projects within NIAO's sample, with a view to putting a value on the *additional*⁸ economic activity stimulated by the project investments. **ESD reported that they were unable to establish any major additional economic benefits for the six projects concerned.**

5.30 Also in 1998, the Department commissioned a consultant to carry out a review of the non-monetary (largely the social, cultural and environmental) benefits associated with the programme for the same six projects examined by ESD. Although the consultant reported a number of benefits, in NIAO's opinion, the basis on which these benefits were assessed appeared superficial. Concerns noted by NIAO included:

- while non-monetary benefits were reported - such as improvements in educational standards and an improvement in the unemployment position - there was no measurement or analysis of the degree and nature of such improvements
- evidence of benefits was obtained solely from the projects' promoters, with no independent validation of claimed benefits
- there was no attempt to isolate the beneficial effects of RDP from other factors that may have contributed to improvements
- the reviews failed to highlight any deficiencies, either in terms of achievements or the need for better impact identification and measurement systems, despite the very obvious shortcomings in this regard.

While welcoming the Department's attempt to assess the non-monetary benefits accruing to rural communities from major regeneration projects, NIAO considers that a much more comprehensive and rigorous methodology is required if the results are to be meaningful.

NIAO Survey of Representative Bodies

5.31 NIAO undertook an independent postal survey of a number of the main representative bodies involved with rural regeneration - the ABSAGs, LAGs and District Councils - to gauge their opinions on the structure and delivery of the programme and their perceptions of its main strengths and weaknesses. Replies were

received from 24 of the 42 bodies contacted, a response rate of 57 per cent. While, overall, a wide range of views and opinions were submitted, some clear patterns emerged. The main points arising from the survey were as follows:

Strengths and Achievements

1. The main strengths and achievements of RDP were that it was seen as having:
 - been successful in stimulating economic and community development in Northern Ireland. Responses ranged from "fairly successful" to "clearly demonstrated ...contribution"
 - engaged local people in decision-making and planning (the 'bottom-up' approach)
 - helped foster partnerships between the community, public and private interests
 - struck a balance between the social and economic objectives.
2. It was also considered that:
 - the Department's staff had shown a high level of commitment to the programme
 - the RDC has proved a valuable source of research material and information.

Weaknesses and Challenges

1. A number of themes were highlighted:
 - almost every respondent referred to the duplication of roles and responsibilities between providers, especially between ABSAGs and LAGs, RDC and RCN and between government departments and agencies. The view was that this has led to confusion, waste, overlap and competition for funding. The wide range of funders involved in the programme had also led to confusion.* Overall, there was a need to rationalise the programme structure and delivery mechanisms
 - the role of the RDC is changing - this needed to be clarified
 - there is a need for better co-ordination and communication between various bodies involved in the programme
 - there is a need to improve targeting of the programme - for example, certain pockets of disadvantage within Northern Ireland are not recognised because they fall outside the main disadvantaged areas
 - guidance to bodies was often basic and not always issued on a timely basis
 - more training was required, especially as regards preparation of economic appraisals.

*As well as the mainstream RDP funders (the Department and the various EU and IFI schemes - see Appendix 1), the programme has also levered funding from other sources including DOE, LEDU, NITB, District Councils, the Millennium Fund and the National Lottery.

⁸ The additional economic activity would comprise those economic benefits lying outside the main boundary of the project. These are often referred to as the 'secondary' economic benefits and the benefits from the 'multiplier' effect.

5.32 The survey results support the view that the programme has succeeded in engaging many local communities in the regeneration process and that both the Department and RDC are providing valuable support. However, there is a very strong message that the delivery mechanisms need to be re-structured and that some aspects of support - such as guidance and training - need to be improved. The results of the survey also suggest that there is a need for structural rationalisation and a greater co-ordination between bodies involved in the programme. As well as improving delivery, in NIAO's opinion, significant savings in administrative costs could also result.

Overall Conclusions

5.33 The Rural Development Programme is an important vehicle in the drive towards the economic and social revitalisation of deprived rural areas in Northern Ireland. While considerable progress has been made, it is NIAO's view that the taxpayer has not received best value for money from every aspect of the programme. There are several key areas that the Department must address in order to improve the effectiveness of the programme:

- the need for a comprehensive management information system to facilitate the ongoing monitoring and evaluation of the economic and social performance of the programme and to demonstrate the value for money achieved
- the need for comprehensive and clearly documented procedures for the appraisal, monitoring and evaluation of regeneration projects
- rationalisation of the programme structure and delivery mechanisms
- the need to increase the level of private sector investment in regeneration projects
- ensure that all sections of the rural community are fully represented within the programme.

Appendices

Appendix 1
(paragraph 1.9)

Rural Development Programme:
EU and IFI Funding Streams

EU Funding Streams	Target Area	Objective	EU Assistance
EU: LEADER I 1991-1995	All of NI	Fund innovative solutions targeting social need, facilitating economic adjustment and protecting the environment in rural problem areas.	Maximum 65%
EU: INTERREG I 1991-1993	All of NI, except Belfast City Council	Establishment of cross-border links and networks.	
EU: LEADER II 1995-1999	All of NI, with priority given to the five designated rural areas.	Develop innovative integrated rural development strategies through 15 local action groups in partnership with public and private sectors.	Maximum 65%
EU: INTERREG II 1995-1999	All of NI, excluding Belfast, but priority given to border areas.	To provide assistance to cross border and border area community economic development projects and community-based partnership initiatives.	Maximum 75%
EU: PESCA 1995-1999	Priority to four designated fishing ports - Annalong, Ardglass, Kilkeel, Portavogie.	Diversification and renewal of fishing villages.	
EU: SPARD 1994-1999	Priority to the five designated rural areas but recognising other pockets of disadvantage.	Tackle social and economic deprivation and encourage the revitalisation of the wider rural economy.	Maximum 50%
	'Measure 4.1.8' - Capacity Building	- to develop leadership and business managerial capacity, establish networks and prepare business plan proposals for regeneration projects.	
	'Measure 4.1.9' - Community Regeneration	- to assist community groups implement an economically orientated project.	
	'Area Based Strategy' - nine designated areas.	- to draw up local area strategies based on needs assessment of area and to support provision of essential infrastructure.	£1 million Rural Fund available to each of nine ABSAG.

EU Funding Streams	Target Area	Objective	EU Assistance
EU: SSPPR (Peace and Reconciliation)	All of NI.	To promote peace and reconciliation by encouraging activities which help to bring communities together and develop the rural economy.	Maximum 75%

IFI Funding Streams	Target Area	Objective	IFI Assistance
IFI Rural Development Programme	Deprived rural areas, priority given to 5 designated rural areas.	Stimulate economic and social regeneration by assisting projects which demonstrate a capacity for self-sustainment.	Maximum 50% through mixture of grant and loan. Loan maximum 20% of total project cost.
IFI Fishing Villages	The four designated fishing ports.	Diversify employment in villages affected by the decline in sea fishing.	As above.

Appendix 2: NIAO Sample Projects at 31 March 1999

Appendix 2:
Overleaf



Appendix 2
(paragraph 3.4)

NIAO Sample Projects at 31 March 1999

Case	Offer Date (month/year)	Total Assistance Offered (£'000)	% of Total Investment	Type of Project
A: Rural College (see paragraphs 3.18, 3.19, 3.22, 3.24, 3.25, 3.28, 3.30, 4.8, 4.10, 4.17, 4.19, 4.21, 5.21, 5.29)	9/93	DARD 994 EU 535 IFI Grant 391 IFI Loan 144 LEDU 81 Community 217 Total 2,362	42 23 17 6 3 9	An education and conference facility comprising accommodation (4 chalets), licensed restaurant, lecture theatre and conference centre.
B: Portneal Lodge (see paragraphs 3.18, 3.19, 3.22, 3.24, 3.30, 3.33, 4.6, 4.8, 4.10, 4.13, 4.19)	3/94	EU 389 IFI Grant 252 District Council 100 DARD 18 Community 65 Total 824	47 31 12 2 8	A fishing lodge with 19 en-suite bedrooms (50 bed spaces) and the provision of fishing points on the Lower River Bann.
C: Country Markets (see paragraphs 3.18, 3.19, 3.22, 3.24, 3.30, 3.33, 4.6, 4.10, 4.13, 4.19)	8/95	DARD 84 Private Sector 10 Community 54 Total 148	57 7 36	Managing agent for a number of individual producers. Promotes concept of local market development and provides advice to members.
D: Townland Radio (see paragraphs 3.19, 3.22, 3.24, 3.30, 4.7, 4.19)	3/96	LEDU 34 DARD 29 District Councils 6 Community 50 Total 119	29 24 5 42	Community Radio Station. (Project in receivership).
E: Ardboe (see paragraphs 3.19, 3.22, 3.24, 4.8, 4.10, 4.17, 4.19, 4.21, 5.29)	3/93	IFI Grant 486 IFI Loan 255 EU 731 LEDU 393 DARD 157 Community 95 Total 2,117	23 12 35 19 7 4	Enterprise project comprising: Cold Store Facility Resource Centre (office etc) Six craft units Eleven workshop/industrial units.
F: Creggan (see paragraphs 3.18, 3.19, 3.22, 3.24, 3.30, 4.10, 4.13, 4.17, 4.19, 4.21, 5.29)	2/93	EU 647 IFI Grant 440 IFI Loan 198 DARD 39 LEDU 23 Community 70 Total 1,417	46 31 14 3 1 5	Agri-Tourism complex comprising: Restaurant/Bar/Visitors Centre Eight self-catering cottages Trout lake and traditional farm Three craft units Mushroom growing units.
G: Teemore (SWFDO) (see paragraphs 3.22, 3.30, 4.8, 4.10, 4.17, 5.29)	3/93	IFI Grant 480 IFI Loan 269 DARD 456 EU 323 Community 35 Total 1,563	31 17 29 21 2	Improvement of quality of suckled calves: Provision of loans to farmers to finance breeding programme and cattle shelters.

Case	Offer Date (month/year)	Total Assistance Offered (£'000)	% of Total Investment	Type of Project
H: Tyrone West (see paragraphs 3.18, 3.19, 3.22, 3.24, 3.33, 4.7, 4.19)	4/94	EU 106 IFI Grant 63 District Councils 21 Private Sector 21 Total 211	50 30 10 10	A farm machinery ring. Venture Teams providing support for local enterprise. Support for Innovation Programme. (Two year pilot project completed in October 1996).
I: Ardglass (see paragraphs 3.22, 4.8, 4.17, 4.19, 5.21, 5.24)	9/94	IFI Grant 538 IFI Loan 134 EU 510 DARD 351 Community 50 Total 1,583	34 9 32 22 3	Marina of 80 berths, amenity building with an office, laundry, kitchen and showers. Environmental Improvements.
J: Kilkeel (see paragraphs 3.31, 3.33, 4.7, 4.18, 4.21, 4.22, 5.24)	1/96	DARD 755* IFI Grant 470 DOE 35 District Council 35 Community 86 Total 1,381	55 34 2 2 7	Tourism facility comprising: Cafe, retail outlets and net stores. Environmental Improvements. (*Includes £200,000 contribution towards a swimming pool provided by the District Council).
K: Portavogie (see paragraphs 3.22, 3.31, 4.7, 4.21, 4.22)	2/96	DARD 739 IFI Grant 493 IFI Loan 221 Community 25 Total 1,478	50 33 15 2	Tourism facility comprising: Cafe, hostel accommodation and two retail units. Four fish-processing units. Environmental Improvements.
L: Ti Chulainn (see paragraphs 3.22, 3.24, 3.30, 3.31, 4.7, 4.10)	8/95	IFI Grant 400 NITB 400 DARD 377 Arts Council 350 FSA 100 Community 50 Total 1,677	24 24 22 21 6 3	Cultural Activity Centre with: Accommodation for 30 people Performance areas Workshop/training facilities.
M: Middletown (see paragraphs 3.22, 3.24, 3.31, 4.7, 4.10, 5.23)	9/94	IFI Grant 321 IFI Loan 184 DARD 457 LEDU 78 Community 30 Total 1,070	30 17 43 7 3	Spent Mushroom Compost Processing Plant. (Project commencement delayed).
N: Seeconnell (see paragraphs 3.24, 3.30, 4.8, 4.10, 4.17, 4.19, 4.21, 5.29)	3/93	EU 847 IFI Grant 621 IFI Loan 105 DARD 113 Community 284 Total 1,970	43 32 5 6 14	Tourism facility comprising: Restaurant/Inn accommodation Ten self-catering cottages Community Centre All-Weather Equestrian Centre.
O: Slieve Gullion (see paragraphs 3.18, 3.19, 3.24, 3.25, 3.30, 4.8, 4.10, 4.13, 4.17, 4.19, 4.21, 5.29)	3/93	IFI Grant 315 IFI Loan 152 EU 454 DARD 50 Community 30 Total 1,001	32 15 45 5 3	Tourism facility comprising: Exhibition centre for education and tourism Five self-catering units Restaurant Four craft units.
		GRAND TOTAL	18,921	

NIAO Sample Projects : Summary of Trading Performance

Case A: Rural College		Funding: £2.36 million	Started Trading: September 1995	
The project has experienced difficulties:				
			Year Ended March 1997 (£)	Year Ended March 1998* (£)
• Trading Position	- Turnover		770,944	481,205
	- Profit/(Loss)		(216,339)	(16,658)
	- Forecast Profit/(Loss)		(3,599)	8,294
	- Grant		-	1,297
	- Loss after Grant		(216,339)	(15,361)
			* 1997-98 accounts unaudited	
• Management	- a new College Director, appointed in December 1997, has embarked on a cost-cutting exercise.			
	- wages reduced from £325,000 in 1996-97 to £174,000 in 1997-98.			
	- the new Director identified deficiencies in the operation of the College including:			
	- limited marketing and a low college profile			
	- weak financial systems			
	- poor co-ordination within the college			
	- a limited range of educational course and products			
	The Department said that the new Director took immediate steps to remedy the deficiencies identified.			
• Additional Funding	- additional funding, consisting of five separate offers, totalling £1.06 million since commencement of the project. This includes revenue funding of £200,000 to reduce the bank overdraft and a £600,000 subvention for the cost of running educational courses.			
• Employment Levels	- employment has fallen from 37 full-time equivalent staff in September 1996 to 19 staff at December 1998.			
• IFI Loan	- the IFI has agreed to a moratorium on repayment of its loan of £144,061. No principal or interest has yet been repaid. Interest of £18,546 has been waived and interest of £1,335 is overdue.			
• Franchising	- the College restaurant and bar was franchised in early 1998 to a private sector operator.			

Case B: Portneal Lodge Funding: £0.82 million Started Trading: July 1995

The project has experienced difficulties:

- | | | | |
|-----------------------------|---|--------------------|----------|
| | | | (£) |
| • Trading Position | - Year Ended March 1997 | - Turnover | 59,171 |
| | | - Profit/(Loss) | (40,577) |
| | | - Forecast Loss | (3,784) |
| | | - Grant | 22,236 |
| | | - Loss after Grant | (18,341) |
| | - the conference market has helped to boost business income. However, this has been criticised by Directors as not being part of the original purpose of the Fishing Lodge. | | |
| | - accommodation occupancy for the period April 1997-January 1998 stood at 13% compared with a forecast occupancy level of 55%. | | |
| • Management | - in its 1998-99 Annual Report the Directors identified that management had consistently failed to produce proper financial information and had failed to co-operate with the Board in the implementation of control procedures. As a consequence, Directors agreed that the manager should not have a long-term role at the Lodge. | | |
| | - employment at December 1998 stood at 3.5 full-time equivalent staff. | | |
| • Employment Levels | - £18,000 was made available in 1996 for additional building costs due to site difficulties. | | |
| • Additional Funding | - the business was advertised as a franchise but no acceptable tenders were received. | | |
| • Franchising | | | |

Case C: Country Markets Funding: £0.15 million Started Trading: 1991 (DARD assistance in 1995)

The level of trading has been low:

- | | | Year Ended
March 1997
(£) | Year Ended
March 1998
(£) |
|-----------------------------|---|---------------------------------|---------------------------------|
| • Trading Position | - Turnover | 5,630 | 6,738 |
| | - Profit/(Loss) | (30,437) | (8,533) |
| | - Grant | 30,091 | 8,580 |
| | - Profit/(Loss) after Grant | (346) | 47 |
| • Employment levels | - at December 1998 0.5 full-time equivalent staff were employed. | | |
| • Additional Funding | - the Department turned down a request for additional funding in June 1997. | | |

Case D: Townland Radio Funding: £0.12 million Started Trading: April 1996

The community company went into receivership in July 1997:

- **Trading Position** - the project was subsequently taken over by a commercial radio station. It no longer has any connection with the rural development programme.
 - of £29,170 grant, the Department has recovered some £4,000.

Case E: Ardboe Funding: £2.12 million Started Trading: November 1994

The project has experienced difficulties:

- | | | | |
|-----------------------------|---|--------------------------|----------|
| | | | (£) |
| • Trading Position | - Year Ended March 1998 | - Turnover | 142,904 |
| | | - Profit/(Loss) | (51,424) |
| | | - Forecast Profit/(Loss) | 89,578 |
| | | - Grant | 99,008 |
| | | - Profit after Grant | 47,584 |
| • Employment Levels | - employment in the project has fallen from 66 full-time equivalent staff in September 1996 to 31 staff in December 1998. Employment includes jobs at Industrial Units which are rented out to private companies. | | |
| • Additional Funding | - the project received two offers of additional funding totalling £208,958 to enable capital completion of its Cold Store. | | |
| • IFI Loan | - £5,000 principal of a loan of £255,426 has been repaid. Of interest due, £5,989 has been repaid, £22,448 has been waived and £7,352 is overdue. | | |
| • Franchising | - the Cold Store has been leased to a private company since August 1997, at an annual rental of £140,000. | | |

Case F: Creggan Funding: £1.47 million Started Trading: July 1994

The project has experienced difficulties:

- | | | | |
|-----------------------------|---|--------------------------|----------|
| | | | (£) |
| • Trading Position | - Year Ended August 1998 | - Turnover | 333,585 |
| | | - Profit/(Loss) | (62,985) |
| | | - Forecast Profit/(Loss) | 16,074 |
| | | - Grant | 45,845 |
| | | - Loss after Grant | (17,140) |
| • Employment Levels | - employment at December 1998 was 22 full-time equivalent staff. | | |
| • Additional Funding | - two additional offers were provided: £77,000 to complete initial capital works and a further £49,000, in February 1999, to provide a conference facility and convert craft units to an exhibition area. | | |
| • IFI Loan | - no repayments have been made on the loan of £198,000. As regards interest due, £1,300 has been repaid, £8,958 has been waived and £17,047 is overdue. A revised repayment schedule has now been provided to the Department. | | |
| • Franchising | - the restaurant was franchised in October 1996. | | |

Case G: Teemore		Funding: £1.56 million	Started Trading: June 1993
The project has experienced some difficulties:			(£)
• Trading Position	- Year Ended December 1998	- Turnover	36,497
		- Profit/(Loss)	(8,918)
		- Forecast Profit/(Loss)	14,559
		- Grant	12,921
		- Profit after Grant	4,003
• Employment Levels	- employment has fallen from 15.5 full-time equivalent staff in September 1996 to 4 staff in December 1998.		
• IFI Loan	- principal of £79,927 on a loan of £269,341 has been repaid. Of interest due, £7,974 has been repaid, £13,373 has been waived and £12,362 is overdue.		
• Current Position	- two independent reviews of the project in 1998 identified the need for a Breeding Stock upgrade programme to further improve quality. The community group has submitted a proposal for upgrading, seeking £186,800 from IFI. The Department has indicated that they are not prepared to consider any upgrading at this stage.		

Case H: Tyrone West		Funding: £0.21 million	Started Trading: October 1994
The project has been discontinued:			
• Trading Position	- the project operated as a two-year pilot exercise until October 1996. Due to insufficient uptake and low impact of the project, it was decided to discontinue funding at the end of the pilot period. The project has ceased to trade.		

Case I: Ardglass		Funding: £1.58 million	Started Trading: June 1996
The project has experienced some difficulties:			(£)
• Trading Position	- Year Ended January 1999	- Turnover	70,561
		- Profit/(Loss)	(11,226)
		- Forecast (Loss)	(16,418)
		- Grant	29,005
		- Profit after Grant	17,779
• Employment Levels	- two full-time equivalent staff employed at December 1998. - total wages paid in the year ended January 1999 amounted to £4,542.		
• IFI Loan	- the IFI has granted a moratorium on its loan of £133,870. Principal of £3,870 has been repaid. Of interest due, £4,571 has been repaid, £12,178 has been waived and £378 is overdue.		
• Additional Funding	- further funding of £235,600 was made available to enable completion of capital works, as the cost of the Marina had been underestimated.		

Case J: Kilkeel		Funding: £1.38 million	Started Trading: November 1997
The project is still at an early stage of trading:			(£)
• Trading Position	- Year Ended October 1998 (Year 1)	- Turnover	66,486
		- Profit/(Loss)	(13,580)
		- Forecast Profit	24,807
		- Grant	3,124
		- Loss after Grant	(456)
• Employment Levels	- employment at December 1998 was 29 full-time equivalent staff, of which 21 were new jobs.		
• Franchising	- the restaurant/cafe is run by a local franchisee.		

Case K: Portavogie		Funding: £1.48 million	Started Trading: August 1997
The project is at an early stage of trading:			(£)
• Trading Position	- Year Ended January 1998	- Turnover	3,740
		- Profit/(Loss)	(2,708)
		- Forecast Profit	22,068
		- Grant	1,771
		- Loss after Grant	(937)
• Employment Levels	- employment at December 1998 was 7.5 full-time equivalent staff, including two new jobs.		
• IFI Loan	- the project received a loan of £221,500. Repayment is not yet due.		
• Franchising	- the group plans to franchise the restaurant in the near future.		

Case L: Ti Chulainn		Funding: £1.68 million	Started Trading: 1997
The project is at an early stage of trading:			(£)
• Trading Position	- Year Ended May 1998	- Turnover	3,357
		- Profit/(Loss)	(151,692)
		- Grant	150,957
		- Loss after Grant	(735)
• Employment Levels	- employment at December 1998 was 5 full-time equivalent staff.		

Case M: Middletown		Funding: £1.07 million	Started Trading: (Not Yet)
The project has not commenced trading due to difficulties:			
• Trading Position	- while over £1 million of funding was secured, development of the project was hindered by environmental objections from local residents to the proposed siting of the spent mushroom compost reprocessing facility. A series of public meetings were held to encourage discussion between project promoters and objectors. However, some 5 years after receiving the offer of assistance, agreement has still not yet been reached and the project in its present form has been suspended.		

Case N: Seeconnell	Funding: £1.97 million	Started Trading: May 1995	
The project has experienced difficulties: (£)			
• Trading Position	- Year Ended March 1996*	- Turnover	283,566
		- Profit/(Loss)	(136,497)
		- Forecast (Loss)	(117,880)
		- Grant	33,882
		- Loss after Grant	(102,615)
*more recent accounts not available, as at June 1999.			
• Employment Levels	- employment at December 1998 was 18.5 full-time equivalent staff.		
• Additional Funding	- to date this has totalled £226,000. Revenue funding of £100,000 was made available in May 1998 to overcome trading difficulties. A further £126,000 of capital funding was provided to complete the Equestrian Centre. Despite this, the Centre remains unfinished as at June 1999 - the Board of Directors decided in October 1998 that it was not economically viable to run the Equestrian Centre and considered it unlikely that a third-party investor would offer to franchise the facility even at a nominal fee.		
• IFI Loan	- the IFI has agreed to a moratorium on repayment of a loan of £104,800. No principal or interest has yet been repaid. Interest due of £14,523 was waived.		
• Franchising	- from April 1998 the Hotel/Restaurant and the Self-Catering Cottages have been contracted to separate franchisees.		

Case O: Slieve Gullion	Funding: £1.00 million	Started Trading: September 1995	
The project has experienced difficulties: (£)			
• Trading Position	- Year Ended August 1998	- Turnover	67,900
		- Profit/(Loss)	(81,796)
		- Forecast Profit	9,036
		- Grant	21,865
		- Loss after Grant	(59,931)
	- the company continues to trade at a loss. Restructuring of the Community Board and involvement of other participants/funders is being considered.		
• Employment Levels	- employment at December 1998 was 4 full-time equivalent staff.		
• IFI Loan	- IFI have agreed a moratorium on repayment of its £151,806 loan. No principal or interest has yet been repaid. Interest due of £21,023 has been waived.		
• Franchising	- the restaurant had been run for a brief period on a temporary franchise by another Community Group from the area. However, continued franchising was not deemed a viable option in view of the low rental fee (£5,000 rising to £7,000 in Year 3) offered by the franchisee.		

NIAO Sample Projects:
Cost Per Job Created, at December 1998

Project	FTE Jobs	Funding (£)	Cost per Job
A. Rural College	19	2,000,863	105,309
B. Portneal Lodge	3.5	759,400	216,971
C. Country Markets	0.5	83,574	167,148
E. Ardboe	31	1,766,398	56,981
F. Creggan	22	1,198,500	54,477
G. Teemore	4	1,258,509	314,627
I. Ardglass	2	1,398,830	699,415
J. Kilkeel	29	1,296,000	44,690
K. Portavogie	7.5	1,231,900	164,253
L. Ti Chulainn	5	1,627,000	325,400
N. Seeconnell	18.5	1,581,200	85,470
O. Slieve Gullion	4	819,233	204,808
Totals/Average	146	15,021,407	102,886

Source: DARD

- Notes:
1. FTE jobs include both new jobs created and jobs safeguarded.
 2. Funding sums are the amounts of public funds offered. Loans of £1.5 million and community and private sector contributions have not been included.
 3. The Department told NIAO that the Teemore project also helped to sustain the jobs of 77 participating farmers.

List of NIAO Reports

Title	HC/NIA No	Date Published
1999		
Northern Ireland Transport Holding Company	HC 390	6 May 1999
School Inspection in Northern Ireland	HC 636	26 August 1999
Department of the Environment: Improving Winter Driving Conditions	HC 933	11 November 1999
Road Safety in Northern Ireland	HC 10	25 November 1999
Corporate Governance and Financial Management in Colleges of Further Education	NIA 5	16 December 1999
2000		
The Administration of Income Support Benefit	NIA 8	10 February 2000
University of Ulster: Senior Officers' Expenses } Energy Efficiency in the Education Sector } Management of Richmond Chambers }	HC 288	16 March 2000
Grants Paid to Irish Sport Horse Genetic Testing Unit Ltd } Roads Service : Bridge Assessment and Strengthening Programme - A Progress Report } Health and Personal Social Services - Executive Directors' and Senior Managers' Pay }	HC 396	20 April 2000
Fire Authority for Northern Ireland: Fleet Management	NIA 9	8 June 2000
Structural Maintenance of Roads	NIA 15	29 June 2000