



Department
for Business
Innovation & Skills

**Triennial Review of the Industrial
Development Advisory Board
(IDAB)**

DECEMBER 2012

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Introduction

1. This document sets out the findings of the 2012 Triennial Review of the Industrial Development Advisory Board (IDAB). It describes the purpose of Triennial Reviews, the process adopted for this review and presents findings based on feedback from stakeholders. The report draws on this evidence to make recommendations as to the future of IDAB.

Triennial Reviews

2. Triennial Reviews are a Cabinet Office mandated process for reviewing the function of Non-Departmental Public Bodies (NDPBs), the appropriateness of the bodies' delivery mechanisms and their governance arrangements. Reviews should take place every three years for each NDPB, unless an exemption is agreed by the Cabinet Office.
3. The Cabinet Office has identified two principal aims for Triennial Reviews¹:
 - to provide a robust challenge to the continuing need for individual NDPBs – both their functions and their form;
 - where it is agreed that a body should remain as an NDPB, to review the control and governance arrangements in place to ensure that the public body is complying with recognized principles of good corporate governance.
4. Triennial Reviews have two stages, addressing these two principal aims.
5. Stage 1 is designed to examine the key functions of the NDPB, how these contribute to the core business of the NDPB and the sponsor Department, and consider whether the functions are still needed. Where functions are still needed the review considers alternative delivery options to determine how the functions might best be delivered.
6. Where the outcome of the first stage of the review is that the NDPB will remain, Stage 2 looks at the control and governance arrangements in place to ensure that the NDPB is operating in line with recognized principles of good corporate governance.

¹://www.civilservice.gov.uk/wp-content/uploads/2011/09/triennial-reviews-guidance-2011_tcm6-38900.pdf

Triennial Review of IDAB

What is IDAB?

7. IDAB is a statutory body which advises Ministers on applications from companies who are proposing to undertake capital investment projects in the Assisted Areas in England, and have applied for regional selective assistance under the Grant for Business Investment (GBI) scheme or the Regional Growth Fund (RGF). It is appointed under the Industrial Development Act 1982, although it was originally established by the Industry Act 1972. It provides independent and expert business advice to Ministers on large business investment decisions. It is an advisory NDPB with no executive functions.

8. The main work of the Board is to advise on individual applications under the GBI scheme where the grant sought is £2m or more. GBI is a discretionary scheme of support aimed at promoting economic activity in the disadvantaged regions of England and is now limited to large exceptional projects. The Board is also asked to advise on some applications for financial support under the RGF scheme. The RGF is a discretionary £2.4bn fund that will operate until 2015 to stimulate enterprise in those areas and communities that are currently dependent on the public sector and help them make the transition to sustainable private sector-led growth and prosperity. These schemes are among BIS measures to boost enterprise and make this the decade of the entrepreneur, and rebalance the economy across sectors and across regions. This is one of the five Coalition priorities assigned to the department.

9. Occasionally the Board may also be asked to advise on:
 - applications for selective financial assistance that fall outside current forms of support;
 - proposals to make major modifications to existing forms of support;
 - proposals to introduce new forms of support;
 - administrative aspects of the GBI product and other schemes.

10. IDAB currently has ten members. They are drawn from industrial, accounting, financial and academic backgrounds and all have significant expertise and experience. They meet when there are new applications to consider. The reconfiguration of business support since the Coalition took office has led to fewer cases for them to consider in the last two financial years². In this period the total support sought in the cases they have considered, aggregating the applications, has been in the region of £500m. The advice IDAB has given is summarized in the Chair's annual report to Parliament (see paragraph 11 below). Members receive no remuneration, although they may claim travel and subsistence expenses. They are supported by a small secretariat of BIS staff (four officials, each giving around 10% of their time to IDAB).

² In the year to 31st March IDAB met five times in 2007/8; 12 times in 2008/9; 13 times in 2009/10; three times in 2010/11; and six times in 2011/12.

11. The Chair of IDAB provides an annual report to Parliament on the Board's work, within the annual report which Ministers make under the Industrial Development Act 1982, on the exercise of their functions under the Act (2011/12 report at Annex B). In addition, the Act also empowers IDAB to require the Secretary of State to lay a statement before Parliament, should an IDAB recommendation not be followed.

IDAB and the Triennial Review Process

12. The Triennial Review of IDAB was announced in Parliament by the Minister for Business and Enterprise on 22 March 2012.
13. Cabinet Office guidance states that reviews should be appropriate for the size and nature of the NDPB in question and should also offer value for money. Given the small scale of IDAB, and the minimal burden it imposes on public resources, BIS adopted a "light touch" approach to the review, while ensuring it was robust by seeking the views of a range of stakeholders and the exercise of a challenge function by senior BIS officials sitting on the Department's Triennial Review Group, and by a peer reviewer drawn from the Intellectual Property Office, an executive agency of the Department.
14. The Review was conducted by Robin Webb, Secretary to the Low Pay Commission. Consultation took place through structured interviews with all IDAB members, and with BIS and Treasury officials who work, or have worked, with IDAB, and with BIS officials working in related fields (the Shareholder Executive, and sponsorship of the Technology Strategy Board). The National Audit Office and the House of Commons Select Committee for Business, Innovation and Skills were also invited to provide written views. Companies whose applications for support have been considered by IDAB were not among those consulted as there is no contact between applicants and the Board.
15. The Reviewer would like to thank all those who gave their time to providing views on IDAB. They are listed at Annex A.

Review Stage 1: Functions

Objectives and Functions

16. This section considers the key objectives and functions of IDAB, and whether they are still required. It then considers whether a statutory advisory NDPB is the best model for delivery of these functions.
17. IDAB's functions are summarized at paragraphs 8 and 9 above. In assessing whether these functions are still required the Review has not reviewed the business support policies – the Regional Growth Fund, and the Grant for Business Investment – as that is outside the scope of the Review. The Review question in relation to these schemes is whether independent expert advice on certain applications under them is required.

Are the Functions Still Required?

18. The Review considered whether the functions performed by IDAB are still required by the Government.
19. All of those who spoke to the Review said that Ministers should have the benefit of independent and expert advice on business support decisions. Expertise is required because these decisions are often multi-faceted, and require assessment of commercial and business arguments which take account of regional, sectoral and market characteristics as well as the details of the bidding company and its proposal. In particular, IDAB is often called upon to assess “additionality” – how far the grant in question is essential for a project to proceed – which calls for a combination of skill in evaluating business cases and judgement informed by commercial and business experience.
20. Independence is important because proposals to provide public funds to private companies in order to benefit disadvantaged areas are often subject to strong political pressures. Committing funds to a company in order to save jobs has to be balanced against the likelihood that granting public money will actually secure this outcome. Going ahead with funding is, at the point when the decision is made, often likely to be the more popular course even if the case for doing so is not very strong. IDAB provides Ministers with a detached and dispassionate view on the merits of each case. The final decision rests with Ministers, but the independence of IDAB in effect provides a mechanism for assessing value for money in a setting distanced from political considerations.
21. The foundation of IDAB's independence is its statutory power to require Ministers to lay a statement before Parliament, should a recommendation not be followed. In

practice the power has not been exercised at least since the 1982 Act. A number of IDAB members and departmental officials felt that its existence is however important in creating the context in which Ministers take decisions on applications for support, and Accounting Officer directions have however always been sought when Ministers have decided to support proposals despite IDAB advice not to do so.

22. IDAB members are unpaid, which helps to underpin the perception that they are independent, having no financial interest in Board membership. (NB Conflicts of interest due to a personal or business interest in a case before IDAB do arise from time to time, and in these instances the members concerned do not take part in the consideration of cases – see paragraphs 61-63 below.)
23. The Board has not been reluctant to exercise its independence. It has advised against support on a number of occasions, and recommended adding terms to any offer of support so as better to protect public funds in others. The Review thinks it likely that the process for taking decisions on applications for business support commands wider confidence because it is public knowledge that it involves the assessments of experienced experts who are prepared to exercise their independence.
24. Departmental officials were supportive of IDAB. They commented that IDAB's scrutiny is an additional spur to prepare a thorough assessment of cases. The weaknesses in applications for support needed to be put before Ministers. This was the more effective and authoritative because it came from a group of eminent and uninterested experts.
25. The Review concluded that there is a powerful case for retaining IDAB's functions. While as a practical matter advice on applications for business support could be provided by civil servants without recourse to a body like IDAB, the benefits which result from IDAB's independence and expertise would be lost. Moreover these benefits come at negligible cost, so that – even in periods when they have had fewer applications to consider – any cost/benefit assessment remains clearly positive.

Delivery Models

26. This section of the report provides a comparative analysis of the possible delivery models for the functions performed by IDAB. The full range of delivery models set out in the Cabinet Office guidance are considered, though some are dismissed quickly because of obvious weaknesses.

Bring the Functions “In House”

27. This delivery model would bring the functions into BIS, and have them performed by one of the Department’s own teams. As is noted in paragraph 25 above, it would be quite possible for civil servants to give advice on applications for business support without an input from IDAB. There are relevant expertise and skills, for example among BIS’s analysts and in the Shareholder Executive.
28. This model would involve dispensing with the statutory character of this advice, including the right to require Ministers to lay a statement before Parliament. BIS would need to draw on the relevant skills already in the Department, though some recruitment might also be necessary fully to replace the expertise on IDAB.
29. The Review found no good reason to favour this option. IDAB’s independence, and the expertise provided by individuals currently in senior positions in business are key strengths. They would be lost under this approach. There would also be a reduction in transparency, as there would no longer be a public report from the Chair to Parliament. Moreover it would not save money, and might cost some, as IDAB’s unremunerated input would need to be replaced by advice from paid civil servants. Last, IDAB performs functions which need to be performed, and seen to be performed, with political impartiality (see paragraphs 18 above and 36 below): transferring the functions in-house would reduce their distance from Ministers and erode this impartiality.

Move the Functions out of Central Government

30. The Review considered whether IDAB’s functions could be delivered by others such as the private sector, voluntary sector, or local government. Although each case considered by IDAB relates to a local area the functions are inherently national – to give advice to Ministers on decisions that only they can take – and so there is no practicable model under which IDAB’s functions could transfer to local government.
31. The Review could not see any benefit in transferring IDAB’s functions into the private sector. The advantages of private sector involvement are already achieved in the sense of IDAB’s recommendations coming from a private sector standpoint, as that is where the Board members are drawn from. The operational costs of IDAB are negligible – certainly less than a private organization would require to provide the advice on a commercial basis – and so there is no scope to gain benefit from private sector management of the activity.
32. It was not clear to the Review that transfer to the voluntary sector could be achieved, even if it were desirable. There is no obvious appropriate voluntary organization available, let alone one which could mobilize the requisite expertise and experience. Even if there were it is difficult to find any advantage in transferring IDAB’s functions to it: since Board members give their time for nothing the main advantages of a voluntary model are already present.

Merge with Another Body

33. The Review has found it difficult to identify another body with functions close enough to IDAB's with whom merger could be a credible option. BIS has two other partner organizations whose activities involve providing financial support to business, but both have very different roles from IDAB. Capital for Enterprise Limited is a fund management company wholly owned by BIS which provides support for Small and Medium Enterprises, primarily through investing in venture capital funds managed by private sector fund managers, which then invest in companies. But it has no overlaps with the advisory function performed by IDAB.
34. The Technology Strategy Board exists to stimulate and support business-led innovation, and runs programmes to achieve this. Insofar as projects it supports undergo independent assessment there is apparent similarity with IDAB's role. However, the focus of TSB assessment (which is commissioned from independent assessors) is on the quality of a technology development project and the commercial potential of this, rather than other forms of business investment or economic development activity. Conversely most IDAB projects are not technology related, and are outside the TSB's field. The kinds of expertise which each body has are different. In other words transferring IDAB's task to TSB would involve bolting on functions which are unlike those TSB currently has, and which have weak synergy with them.
35. The Review's conclusion is that there are no other bodies with functions sufficiently close to IDAB's to make a case for merger.

Delivery by a New Executive Agency

36. This is not appropriate, because IDAB has no executive functions.

Continued Delivery by a NDPB

37. This option would see IDAB continue on its existing basis. This is a model which has combined expertise, independence and credibility at virtually no cost to the public purse. This is the option preferred by the Review, subject to assessment against the "Three Tests" below.

The Three Tests

38. One of the requirements of the Triennial Review process is an assessment against the Government's "Three Tests" for delivery of functions by an NDPB³. These are:
- is this a technical function (which needs external expertise to deliver)?
 - is this a function which needs to be, and be seen to be, delivered with absolute political impartiality (such as certain regulatory or funding functions)?
 - is this a function which needs to be delivered independently of Ministers to establish facts and/or figures with integrity?

Is this a Technical Function?

39. IDAB does perform a technical function. As already indicated it provides technical corporate finance and commercial analysis and advice, and its members are recruited in order to assemble the right mix of expertise (see paragraph 17 above). IDAB meets this test.

Is Political Impartiality Needed?

40. When Ministers take decisions about provision of financial support to business both political considerations and commercial logic are in play. This means there is always a risk that political factors are perceived to have overridden commercial ones, whether or not that is the case. Placing the commercial assessment in the hands of an independent NDPB separates the political considerations from the assessment of the commercial case. Political impartiality is needed. IDAB meets this test.

Is Independent Delivery to Establish Facts with Integrity Needed?

41. Establishing facts or figures with integrity is not part of IDAB's role. It does not meet this test.

Stage 1: Conclusion

42. The Review concludes that the functions performed by IDAB are still required. It has assessed possible delivery models and found that the advisory NDPB model is most suitable. IDAB meets two of the tests for NDPB status.

Recommendation A: IDAB's functions are required, and the advisory NDPB model continues to be the best way to deliver them.

Stage 2: Governance

43. Having concluded that the Industrial Development Advisory Board should remain an advisory NDPB, the second stage of the Review considers how far IDAB practice aligns with principles of good governance. The assessment is summarized below, and set out in detail in Annex C.

³ http://www.civilservice.gov.uk/wp-content/uploads/2011/09/triennial-reviews-guidance-2011_tcm6-38900.pdf

Accountability

44. IDAB is an advisory body whose members give a few hours of unpaid time each month to advise the Secretary of State on applications for forms of business support. Ministers are accountable for its overall performance, and arrangements are in place to achieve accountability for its work, and the way it does it. In particular the Chair makes an annual report to Parliament (2011/12 report attached at Annex B), within the Secretary of State's overall report on the exercise of functions under the Industrial Development Act 1982 (IDA82). This provides visibility and accountability while respecting the commercial confidentiality of the cases which make up IDAB's workload.
45. A number of stakeholders rightly emphasized the need to keep IDAB's overheads proportionate to its small scale. That is important: the limited time the Chair and members can give to IDAB should be used for the job it exists to do. However there are several adjustments which could align IDAB governance better with best practice, without adding materially to burdens. Specifically, what is expected of IDAB members is understood, but it is not stated as clearly as it could be when they are appointed, and no record is made of each member's performance (apart from attendance records) until his or her reappointment is considered.

Recommendation B: BIS should review the drafting of letters of appointment to make it explicit rather than implicit that satisfactory performance and compliance with IDAB's code of conduct are conditions of appointment. The current informal evaluation of individuals' performance should be turned into a very light touch process for periodic recording of evaluation of members' performance.

Role of the Department

46. BIS has arrangements in place to oversee and support the work of IDAB. These are generally commensurate with IDAB's size and task. However, the Departmental Board is effectively unaware of the performance of IDAB as it has no direct oversight at all. Annual provision of limited key performance information would correct this without adding unduly to the Board's work.
47. IDAB's remit derives from its statutory purpose expressed in the Industrial Development Act 1982, and is set out on its web pages and in the IDAB handbook. The statute provides for IDAB to advise on certain matters, but does not mandate that all cases are referred to it – defining IDAB's role is thus partly a matter for the Department. A number of stakeholders commented on BIS's definition of IDAB's role (see paragraphs 8 and 9 above).
48. Several Board members felt that BIS could make better use of IDAB, suggesting that IDAB's brains could be picked on wider questions of business support than is

currently the case. IDAB has advised on such questions in the past, but not frequently. Others noted that members are busy people and their capacity to give unpaid time is constrained. It may be possible to make better use of the time they can give: members generally felt that the quality of analysis they see is very good, but that while analyses of cases always contain enough detail, there is sometimes too much – there may be scope to vary the depth and extent of officials’ analysis more according to the amount of support sought, its importance to the project in question, and the complexity of the case, and some thought key issues could be highlighted more clearly. This could help to expedite some of IDAB’s business.

49. Members also commented on the timing of submission of cases to IDAB. The Board adds most value when proposals are sufficiently concrete to allow assessment to take place, but before any commitments have been given to the applicant which, even if conditions are attached, risk diminishing the value IDAB can add.
50. Several stakeholders commented that awareness of IDAB and its work varies within BIS. Perhaps as a result some interviewees felt that there could be more consistency as to what business came to IDAB, and at what point a case came to it (i.e. at what stage in the assessment of the application for business support). Before the Review IDAB Members had contributed to scrutiny of investments by the UK Green Investments team in BIS (the forerunner for the Green Investment Bank), which has relied on powers in Sections 7 and 8 of IDA82 (i.e. the powers whose exercise IDAB exists to advise upon) pending the development of a full statutory footing for the Bank. Achieving a shared understanding of IDAB Members’ role and how this interacted with UKGI’s Investment Committee framework proved more time-consuming than might have been expected.
51. IDAB’s role is set out at paragraph 8 and 9 above. The Review’s conclusion is that IDAB’s role in relation to business support cases which should come before it is clear enough, but it is not as widely understood as it could be (though a note from the then Permanent Secretary on the Board’s role was widely distributed throughout the Department in 2009). It would be useful to refresh awareness of this role, including when cases should come to IDAB, and to try to produce a clearer statement of when IDAB should be invited to contribute to wider policy and regulatory questions.

Recommendation C: BIS should consider its scope to make better use of IDAB, including contributions to wider business support policy issues. BIS should set out IDAB’s role in Terms of Reference, stating as clearly as possible what sorts of cases should go to it and at what stage in their development. IDAB’s TOR should periodically be drawn to the attention of all parts of the Department which may have contact with it. The Departmental Board should receive proportionate performance information on IDAB on an annual basis so its impact is kept under review.

Roles of the Chair and Board Members

52. IDAB's character and work make the role of the Chair particularly important. He needs to draw together the professionally diverse membership of the Board, and manage the Board's relationship with Ministers and senior officials, including judging how to proceed if IDAB advice is not followed.
53. With one caveat (see below) Board members and stakeholders felt that the role of the Chair was appropriate and understood by all concerned. Their overall message was that IDAB works well in this respect.
54. The caveat was that the Chair has no role in the appointment of new members, or in advising Ministers and the Department about new appointments. Some Board members thought it unsatisfactory that they lacked a mechanism – beyond the general freedom to put forward advice – to transmit into the recruitment process views about types of expertise that IDAB needed. The skills and experience on the Board are an important factor in its overall effectiveness, for which the Chair is responsible. He would be better able to discharge this responsibility, and his responsibility to draw the Board together, if he were able to participate in the appointment of members who will serve under his Chairmanship.

Recommendation D: The Chair should play a part in the appointment of new members who will serve on the Board with him. This, together with other aspects of his role, should be set out explicitly in his letter of appointment. Further to Recommendation B above, the role should include conducting a very light touch process for periodic evaluation of members' performance, and its recording.

55. Board members' roles are well understood by members and those IDAB deals with. Many stakeholders saw IDAB as an exemplar in providing independent and expert advice to government. This year the Board has asked for a report on what has happened subsequently to projects on which it has advised in recent years. This will enable members to assess the quality of the expert advice they have given and to improve in future.
56. However, letters of appointment are not as explicit as they could be in setting out the expectations of Board members, and this is covered in Recommendation A above.

Communications

57. IDAB's communication of its role and work does not comply with all the provisions in the Cabinet Office draft guidance. This is because IDAB's core function is to assess

applications for business support which are commercially confidential. This limits scope for transparency. For example, the publication of board agendas and minutes would involve redaction of the majority of substantive material.

58. There is a bespoke arrangement to achieve openness and accountability, in a way consistent with the commercially confidential character of the Board's casework, through the Chair's annual report to Parliament.
59. In this context it is important that IDAB is predominantly a casework body. It is not drawing on evidence and stakeholder views in order to advise Ministers on features of the regulatory or policy framework in the way that other advisory NDPBs (for example the Low Pay Commission) do. It is more a source of professional advice for officials and Ministers.
60. However, Recommendation B above invites BIS to consider scope to make better use of IDAB, including contributing to wider policy questions. To the extent that IDAB does give formal advice on such questions the default should be that this advice is published, unless covered by an exemption in the Freedom of Information Act 2000.

Conduct and Behaviour

61. IDAB has a code of conduct, and members are aware of the standards required of them. The key conduct issue for IDAB is the handling of conflicts of interest, which inevitably arise when senior business people are invited to assess business support applications.
62. There is a register of members' interests which, though not published, is publicly available on request. This was being updated at the time of the Review. The Cabinet Office guidance does not prescribe exactly what should appear in registers of interests, leaving some room for bodies to tailor rules to their particular circumstances. IDAB's approach is to record financial and political interests. Financial interests include other professional roles and shareholdings other than those whose value falls below a materiality threshold. Because of the nature of IDAB's work it is particularly important that its register should be regularly updated, so that there can be assurance that it will be as accurate as it can be. Even so, as a practical matter it will not be possible for it always to be fully up to date and the most important thing is that members declare any interest in business before the Board.
63. It is IDAB's practice that they do so. When a member's interests include an interest, or what could reasonably be perceived as an interest, in a business support application before the Board, IDAB's approach is that he or she will not receive any relevant papers or take part in the discussion. This is an effective way to manage such conflicts, and consistent with the Cabinet Office guidance that a member of a

public board should “remove yourself from the discussion or determination of matters in which you have a financial interest.”⁴

⁴ <http://www.bl.uk/aboutus/governance/blboard/BoardCodeofPractice2011.pdf>

Conclusion and Recommendations

64. The Review has found that the functions performed by IDAB are still required. It has assessed possible delivery models and found that the advisory NDPB model is most suitable. IDAB meets two of the tests for NDPB status. (Recommendation A.)
65. The Stage 2 assessment has found that IDAB's governance largely complies with Cabinet Office's principles of corporate governance. In some instances where it does not this is for good reasons, arising from IDAB's character as an unpaid Board whose members give a few hours each month, and which deals mostly with commercially confidential casework.
66. However, the Review has also identified several opportunities to make improvements, to help BIS to make the best use of IDAB and to make explicit aspects of the management of IDAB which have been implicit. (Recommendations B, C and D.)

Recommendation A: IDAB's functions are required, and the advisory NDPB model continues to be the best way to deliver them.

Recommendation B: BIS should review the drafting of letters of appointment to make it explicit rather than implicit that satisfactory performance and compliance with IDAB's code of conduct are conditions of appointment. The current informal evaluation of individuals' performance should be turned into a very light touch process for periodic recording of evaluation of members' performance.

Recommendation C: BIS should consider its scope to make better use of IDAB, including contributions to wider business support policy issues. It should set out IDAB's role in Terms of Reference, stating as clearly as possible what sorts of cases should go to it and at what stage in their development. IDAB's TOR should periodically be drawn to the attention of all parts of the Department which may have contact with it. The Departmental Board should receive proportionate performance information on IDAB on an annual basis so its impact is kept under review.

Recommendation D: The Chair should play a part in the appointment of new members who will serve on the Board with him. This, together with other aspects of his role, should be set out explicitly in his letter of appointment. Further to Recommendation B above, the role should include conducting a very light touch process for periodic evaluation of members' performance, and its recording.

ANNEX A: CONSULTEES

Industrial Development Advisory Board Members

Mark Seligman (Chair)

Nigel Brooksby

Simon Collins

Chris Higson

William Lazarus

Charles Lochrane

Paul Mullins

George Rose

Andrew Shilston

Philip Sturrock

Civil Servants

BIS Triennial Review Group

BIS IDAB Sponsorship Team

BIS IDAB Sponsorship Team, former members

BIS Finance

BIS Regional Growth Fund

BIS Technology Strategy Board Sponsorship Team

BIS Shareholder Executive

HM Treasury

Parliament

Business, Innovation and Skills Select Committee

National Audit Office

ANNEX B: IDAB'S 2011/12 REPORT TO PARLIAMENT

(Extract from the report on the Industrial Development Act 1982 by the Secretary of State for Business, Innovation and Skills, the First Minister of Scotland, and Welsh Ministers, for the year ended 31 March 2012⁵)

Industrial Development Advisory Board

Report by the Chairman of the Industrial Development Advisory Board.

93. Over the year the Board met on five occasions as well as holding a separate teleconference on an issue on which the Department sought urgent advice. As in 2010/2011, the number of cases coming before the Board was lower than in previous years as regional support under the BIS Grant for Business Investment scheme is now limited to exceptional cases and as applications over the period from large industrial projects are likely to have been directed at the Regional Growth Fund (RGF).

94. Advice on RGF cases is provided by a separate Independent Advisory Panel, chaired by Lord Heseltine. Two members of IDAB, Andrew Shilston and myself, sat on this Panel during the year to represent the Board. In addition, IDAB continues to perform its statutory role in advising on RGF cases involving funding using Sections 7 or 8 of the Industrial Development Act. At the inception of the RGF the Board agreed that in view of the large number of applications and the two-stage appraisal process, it would focus its attention on a limited number of large, novel and/or contentious cases, where it could explore the issues raised in depth, at the point at which due diligence had been undertaken and before the grant award became unconditional.

95. The Board was also invited to nominate members who could represent it on the Green Investment Bank Investment Committee. The Investment Committee's role is to provide advice on proposals for finance before the Bank itself is established following clearance by the European Commission and primary legislation. In this interim period the Department will provide funds to projects using Section 8, on which IDAB has a statutory role to play. Chris Higson and Philip Sturrock kindly undertook to fulfil this role for the Board.

96. The Board considered a range of individual cases during the year. We provided advice on two regional aid projects under the Grant for Business Investment scheme, one a long-standing application where progress had been delayed due to circumstances beyond the applicant's control, and the other the first project coming forward under the criteria for determining exceptional cases that we had agreed the previous year. In both instances we were content to advise the Department to proceed to provide support, though we did suggest additional conditions be included in one case.

97. We also provided advice on a number of RGF cases which were of sufficient size or complexity to warrant reference to the Board. As well as research and development applications from a large industrial concern we considered three programmes providing finance – both grants and equity funding – to small firms and a proposal for developing supply chains.

⁵ HC 210, ISBN: 9780102979879

98. Finally, we provided advice on a proposal for support from the aerospace sector, involving a combination of assistance for research and development and a loan on commercial terms.

99. During the year Dermot Mathias (formerly Senior Partner of BDO Stoy Hayward LLP) retired from the Board, having successfully served for a period of six years. The Board was very grateful for the valuable work that Dermot contributed over this period.

100. In November 2011 four existing members – Simon Collins, Bill Lazarus, Paul Mullins and George Rose – were all re-appointed to the Board for a further three years.

101. I would like to personally thank all members for the time and effort they have devoted to the work of the Board over the past year.

MARK SELIGMAN

Chairman

ANNEX C: ASSESSMENT AGAINST PRINCIPLES OF GOOD GOVERNANCE

Principles of corporate governance for advisory NDPBs	Description	Assessment of IDAB
ACCOUNTABILITY		
Principle	The Minister is ultimately accountable to Parliament and the public for the overall performance, and continued existence, of the public body.	IDAB is an advisory body comprised of individuals appointed by the Secretary of State in accordance with the Code of Practice on Public Appointments. Ministers are accountable to Parliament and the public for the overall performance of the Board.
Supporting Provisions	The Minister and sponsoring department should exercise appropriate scrutiny and oversight of the public body. This includes oversight of any public monies spent by, or on behalf of, the body.	Scrutiny and oversight is achieved by the role of the dedicated sponsor team (see below). IDAB spends no public monies, members are unpaid and it has no budget.
	Appointments to the board should be made in line with any statutory requirements and, where appropriate, with the <i>Code of Practice</i> issued by the Commissioner for Public Appointments.	Appointments are made in line with the Commissioner for Public Appointments' <i>Code of Practice</i> . The composition of the Board complies with Section 10 of the Industrial Development Act 1982 (IDA82), which provides that IDAB shall be composed of 7-13 members drawn from industry, banking, accounting and finance.
	The Minister will normally appoint the Chair and all board members of the public body and be able to remove individuals whose performance or	Ministers agree appointments before they are made, and appointment letters allow for the possibility of early

Principles of corporate governance for advisory NDPBs	Description	Assessment of IDAB
	conduct is unsatisfactory.	termination.
	The Minister should meet the Chair on a regular basis.	The Minister has met the Chair occasionally, to discuss IDAB business. There is no provision for regular meetings to consider IDAB performance. As a solely advisory body with a varying caseload that consumes very few resources, regular meetings would not be a good use of the Minister's or the Chair's time.
	There should be a requirement to inform Parliament and the public of the work of the public body through publication of an annual report (or equivalent publication).	Parliament and the public are informed of IDAB's work through the Chair's annual report, within the Secretary of State's annual report to Parliament on IDA82.
	The public body must be compliant with Data Protection legislation.	IDAB is compliant with Data Protection legislation.
	The public body should be subject to the Public Records Acts 1958 and 1967.	IDAB records are held by the Department on its filing systems, and subject to the Public Records Acts.

ROLES AND RESPONSIBILITIES

Role of the Department

Principles of corporate governance for advisory NDPBs	Description	Assessment of IDAB
Principle	<p>The departmental board ensures that there are appropriate governance arrangements in place with the public body.</p> <p>There is a sponsor team within the department that provides appropriate oversight and scrutiny of, and support and assistance to, the public body.</p>	<p>There is a sponsor team which supports IDAB and ensures appropriate governance arrangements are in place.</p>
Supporting Provisions	<p>The departmental board's regular agenda should include scrutiny of the performance of the public body.</p>	<p>This is not the case. IDAB's scale and size mean that regular scrutiny of its performance would not be a good use of departmental board meeting time. However the Board is effectively unaware of the performance of IDAB as it has no direct oversight at all. Annual provision of limited key performance information would correct this without adding unduly to the Board's work. See Recommendation C.</p>
	<p>There should be a document in place which sets out clearly the terms of reference of the public body. It should be accessible and understood by the sponsoring department and by all board members. It should be regularly reviewed and updated.</p>	<p>IDAB's remit derives from its statutory purpose expressed in IDA82, and is set out on its web pages and in the IDAB handbook. It has been reviewed and updated, for example in late 2010. It is understood by Board members. However knowledge of IDAB across BIS is mixed, and an accessible TOR document would be helpful.</p>
	<p>There should be a dedicated sponsor team within the parent department. The</p>	<p>There is a sponsor team for IDAB in BIS, which also</p>

Principles of corporate governance for advisory NDPBs	Description	Assessment of IDAB
	role of the sponsor team should be clearly defined.	provides the IDAB secretariat.
	There should be regular and ongoing dialogue between the sponsoring department and the public body.	All IDAB's work involves interaction and dialogue with BIS.
	There should be an annual evaluation of the performance of the board and its committees – and of the Chair and individual board members.	There is no formal and recorded evaluation of the Chair or members between appointment and possible renewal of membership. There is an informal process of continuous evaluation of members and the chair, intended to be proportionate to a role which is voluntary and unpaid and occupies only a few hours every month. (See Recommendation B.)
Role of the Chair		
Principle	The Chair is responsible for leadership of the board and ensuring its overall effectiveness	
Supporting Provisions	The board should be led by a non-executive chair.	This is the case.
	There should be a formal, rigorous and transparent process for the appointment of the Chair. This should be compliant with the <i>Code of Practice</i> issued by the Commissioner for Public Appointments. The Chair should have a clearly defined role in the appointment of non-executive board members.	There is a formal etc process for appointing the Chair which complies with the Commissioner's code. The Chair does not have a role in appointing board members. (See Recommendation D).
	The duties, role and responsibilities, terms of office and remuneration of the Chair should be set out clearly and	The Chair's role is understood, but not formally defined in his letter

Principles of corporate governance for advisory NDPBs	Description	Assessment of IDAB
	formally defined in writing. Terms and conditions must be in line with Cabinet Office guidance and with any statutory requirements.	of appointment. (See Recommendation D). Terms and conditions comply with Cabinet Office guidance and statutory requirements.
	<p>The responsibilities of the Chair will normally include:</p> <ul style="list-style-type: none"> • Representing the body in discussions with Ministers • Advising the sponsoring Department and Ministers about board appointments and the performance of individual non-executive board members • Ensuring that non-executive board members have a proper knowledge of their role and responsibilities. The Chair should ensure that new members undergo a proper induction process and is normally responsible for undertaking an annual assessment of non-executive board members' performance • Ensuring that the board, in reaching decisions, takes proper account of guidance provided by the sponsoring department or Ministers • Ensuring that the board carries out its business efficiently and effectively • Representing the views of the Board to the general public. 	<p>This is the case.</p> <p>The Chair does not advise on appointments. He does have an input on individuals' performance. (See Recommendations B and D.)</p> <p>The Chair does ensure members understand their roles. There is an induction process for all new members. There is no formal annual assessment of members' performance.</p> <p>This is the case.</p> <p>This is the case.</p> <p>Not appropriate because IDAB is a body whose role is predominantly to assess individual commercially confidential cases for Ministers.</p>

Principles of corporate governance for advisory NDPBs	Description	Assessment of IDAB
Role of Board Members		
Principle	Board members should provide independent, expert advice.	This is the case. It is the predominant characteristic of IDAB.
Supporting Provisions	There should be a formal, rigorous and transparent process for the appointment of non-executive members of the board. This should be compliant with the <i>Code of Practice</i> issued by the Commissioner for Public Appointments.	This is the case.
	Board members should be properly independent of the Department and of any vested interest (unless serving in an ex-officio or representative capacity).	This is the case.
	Board members should be drawn from a wide range of diverse backgrounds. The board as a whole should have an appropriate balance of skills, experience, independence and knowledge.	Board members bring a wide range of skills, expertise and senior experience. BIS recognizes the importance of a professionally and socially diverse membership and continues to strive to attract female (one newly appointed Board member) and ethnic minority (no Board members) applicants.
	The duties, role and responsibilities, terms of office and remuneration of board members should be set out clearly and formally defined in writing. Terms and conditions must be in line with Cabinet Office guidance and with any	Duties etc are set out in members' letters of appointment. Members are unpaid.

Principles of corporate governance for advisory NDPBs	Description	Assessment of IDAB
	statutory requirements.	
	All board members must allocate sufficient time to the board to discharge their responsibilities effectively.	This is the case.
	There should be a proper induction process for new board members. This should be led by the Chair. There should be regular reviews by the Chair of individual members' training and development needs.	The Secretariat inducts new members in the processes and role of IDAB. Members are appointed to deploy expertise they already possess and other individual training and development (or reviews to identify it) would not be a good use of the limited unpaid time the Chair and members have for IDAB duties. The Board recently commissioned an assessment of what has happened subsequently to projects on which it has advised in recent years, which will provide collective learning for the Board.

COMMUNICATIONS

Principle	The Public Body should be open, transparent, accountable and responsive.	IDAB's core function is to assess commercially confidential cases. This limits scope for transparency. The annual report to Parliament achieves openness and accountability in a way consistent with the commercially confidential character of its casework.
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Principles of corporate governance for advisory NDPBs	Description	Assessment of IDAB
	The public body should operate in line with the statutory requirements and spirit of the Freedom of Information Act 2000.	This is the case.
	The public body should make an explicit commitment to openness in all its activities. Where appropriate, it should establish clear and effective channels of communication with key stakeholders. It should engage and consult with the public on issues of real public interest or concern. This might include holding open meetings or annual public meetings. The results of reviews or inquiries should be published.	IDAB does not make this commitment. Engagement with stakeholders, consultations etc are appropriate to NDPBs advising on policy issues. IDAB however gives advice on individual commercially confidential cases, based on the expertise of the members.
	The public body should proactively publish agendas and minutes of board meetings.	Agendas and minutes are not published, and this practice should continue, because all the substantive case business before IDAB is commercially sensitive.
	There should be robust and effective systems in place to ensure that the public body is not, and is not perceived to be, engaging in political lobbying. There should also be restrictions on board members attending Party Conferences in a professional capacity	This is the case. The restrictions on political activities of Board Members are understood by members.

Principles of corporate governance for advisory NDPBs	Description	Assessment of IDAB
CONDUCT AND BEHAVIOUR		
Principle	Board members should work to the highest personal and professional standards. They should promote the values of the public body and of good governance through their conduct and behaviour.	Board members are aware of the standards required of them.
Supporting Provisions	A Code of Conduct must be in place setting out the standards of personal and professional behaviour expected of all board members. This should follow the Cabinet Office Code. All members should be aware of the Code. The Code should form part of the terms and conditions of appointment.	IDAB has a code of conduct contained in the IDAB Handbook, of which members are made aware in their letters of appointment. The Handbook is also sent to new members and, when revised, to all members.
	There are clear rules and procedures in place for managing conflicts of interest. There is a publicly available Register of Interests for board members. This is regularly updated.	IDAB is very aware of the importance of avoiding conflicts of interest. When members have an interest in an aspect of a case before IDAB they do not take part in the discussion. There is a publicly available register of interests available on request, which was being updated when the Review was taking place.
	There must be clear rules in place governing the claiming of expenses. These should be published. Effective systems should be in place to ensure compliance with these rules.	BIS's rules on claiming expenses apply to IDAB. These rules are in the public domain (following a Freedom of Information request, answered this year), Claims, when received, are

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		scrutinised in the same way as claims from BIS employees.
	There are clear rules and guidelines in place on political activity for board members and that there are effective systems in place to ensure compliance with any restrictions.	This is the case.
	There are rules in place for board members and senior staff on the acceptance of appointments or employment after resignation or retirement. These are enforced effectively.	The IDAB Handbook contains provisions dealing with members taking up an appointment with, or a financial interest in, a business on which they have provided advice as a Board member.

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