



West Midlands  
Regional  
Observatory

# **Business Plan 2004/5**

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## Document Information

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### Note

This document was presented to, and approved by, the Partnership Board of the  
West Midlands Regional Observatory on June 22<sup>nd</sup>, 2004.

It is written from the perspective of progress to date at March 1<sup>st</sup> 2004

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# 1 Executive Summary

## 1.1 Current Development of the Observatory

It is eighteen months since the Observatory was established. We began the current year just as we moved out of the Set-up phase of our development and began the Service Delivery phase. We are due to complete this third phase of our development in September 2004 and to date we are broadly on track to achieve this.

Our team is now fully recruited and the final joiners arrived by the beginning of February 2004, bringing our number to ten (including a full time secondee from AWM). We have successfully established the RDIN as a community of data and intelligence practitioners spanning all sectors and organisational levels and, through the Topic Groups, which are now active, we have engaged the community in identifying and prioritising the intelligence needs of the region.

Our knowledge management study has successfully concluded and has provided us with a valuable insight into the knowledge needs of our users across the region. A key output of this study was a prototype for our proposed regional Knowledge Portal which we will use as the basis for our ongoing website development.

We have begun addressing our objective to support the monitoring of the key regional strategies, initially providing evidence to support updates to both the Regional Economic Strategy and the FRESA. We are also beginning to develop our role in supporting Regional Planning Guidance.

Development of our first annual State of the Region report is well advanced, with publication planned for April 2004. We are developing a report which explores the underlying issues affecting the region and the linkages between them, and that connects them to the real lives of individuals. We are planning a launch event that will establish a significant public profile for this report and its successors, and for the Observatory, generally.

Overall, the Observatory is well placed to take on its proposed agenda for 2004/5.

## 1.2 Planned Activity for 2004/5

Planned activity has been classified into three strands as defined in Reference 1.

These are:

- Core Activity – activity fundamental to meeting the strategic objectives of the Observatory
- Project Activity – commercial activity undertaken to meet clients' data and intelligence needs
- Development Activity – the continuing work needed to develop the Observatory and its service provision

Each of these strands of activity is summarised briefly in the following sections.

### 1.2.1 Core Activity

Core activities represent our first priority. They are what we were set up to do, and substantially contribute to meeting our strategic objectives. Furthermore, under the new business model, endorsed at the Partnership Board meeting in December 2003, these activities will in part be supported by consortium fees from partners.

Core activity in 2004/5 includes the following main strands of work:

- Develop the map of regional data and intelligence to catalogue and make accessible the data and intelligence resources in the region
- Expand and develop our programme of support for the underpinning and monitoring of the six key regional strategies and the dissemination of monitoring outputs
- Continue to develop and support the RDIN through the Topic Groups, User Group, the monthly programme of seminars and our Annual Conference

### 1.2.2 Project Activity

We will provide additional services to partners on a fully funded basis to address their data and intelligence needs. For organisations that choose not to become consortium members, any work we provide for them will be undertaken on this basis. Consortium members may commission project work for any services they need from us that are outside or beyond the scope of any service level agreements.

The three primary strands of project activity are to:

- Conduct, on behalf of a broad partnership, a large-scale Regional Lifestyle Survey covering areas such as health, crime and fear of crime, economic activity, quality of life, social capital and access to services
- Undertake or commission research to fill the data and intelligence gaps identified and prioritised for us by the RDIN Topic Groups and the User Group
- Undertake project work commissioned directly by one or more partners, for example, to support regional strategies beyond the core six, to fill gaps identified by the State of the Region report or to address other regional intelligence needs

### *1.2.3 Development Activity*

Despite the progress the Observatory has made in developing its capabilities, we still have a long way to go. We have an active programme of development activity planned for the coming year that is designed to better place us to meet the growing needs of our users. Full details of these activities are provided in Section 4.4, including:

- Developing and promoting the adoption of standard data protocols for data collection and dissemination in the region
- Developing economic modelling and analysis capability to support the needs of the region and to extend our core activity into this area
- Promotion of regional knowledge working based on the recommendations of our knowledge management study, including the cultural change and adoption of new skills that this implies

## **1.3 Funding and Resources**

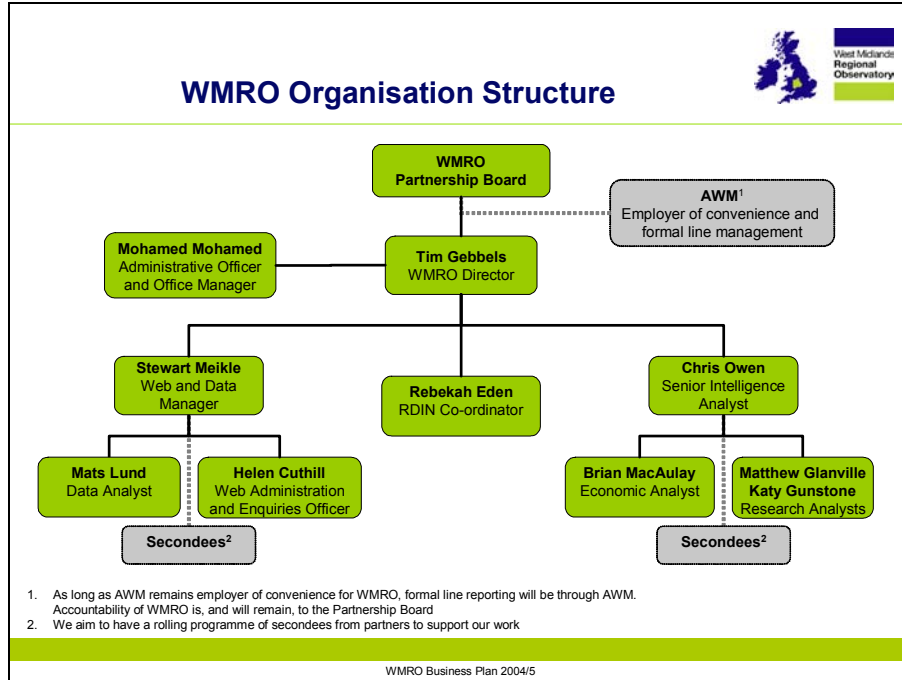
### *1.3.1 Staffing levels*

Recruitment for the Observatory is largely complete. It is possible that we may need to recruit an enquiries officer and RDIN administrator during the year but, aside from this, the team of nine staff and one full time secondee was fully in place by early February 2004.

In addition to our fulltime staff, we will need to rely on secondees and others to support our work. In particular, we expect to call on a number of relatively short term

secondees from partner organisations to support particular projects we undertake. We will continue to work with our partners to identify these resources as we need them.

Our complete team is currently organised as shown in the figure below:



### 1.3.2 Funding and expenditure

A summary of Observatory funding and expenditure is presented in the table below:

Detail	2003/4 (Forecast)	2004/5 (Budget)
	£k	£k
<b>Sources of Funds</b>		
Consortium Funding	540	560
Sponsorship	0	9
Grant Funding	227	165
Project Revenue	33	44
<b>Total Funding</b>	800	778
<b>Expenditure</b>		
Staff	231	379
Overhead	69	19
Premises	98	102
Project & Consultants	194	101

Operational	188	155
Set-up	1	1
Depreciation	19	21
<b>Total Expenditure</b>	800	778
<b>Surplus (Deficit)</b>	0	0

Overall, our budget in 2004/5 is slightly below the level of 2003/4. The very significant increase in our project activity in 2004/5 will actually have only a relatively modest impact on our budget because it will have to be entirely self funded. The net impact will be less than 10% of the overall cost of project work.

The most significant increase in our costs compared with last year is due to our increase in staff numbers. Now we have a full staff, our salary and related costs have increased substantially. This increase in costs is more than offset by three savings. Firstly, we will not have any recruitment costs in 2004/5. Secondly, our KM study is now complete, saving significant consulting costs. And finally, we plan substantially to reduce the cost of our RDIN conference this year compared with last.

Our funding level is lower than last year because the intervention rate for Objective 2 funding is much lower in 2004/5 than it was last year.

## 1.4 Risks

There are four risks to the successful implementation of this plan in the coming year. Firstly, there is a funding risk. Although the budget presented here balances, it is based on a number of untested assumptions. Until the Observatory has become considerably better established, and has a history of successfully securing funding and delivering results, these assumptions will remain unproven. Sensitivity analysis indicates that small changes in the assumptions made can have a significant impact on the Observatory's budget, especially if they act in combination (Reference 5).

The single most effective cost cutting measure the Observatory could take would be to start to recover VAT. We have already begun to exploit the opportunity to recover VAT on project activity. However, it is not possible to recover much of our VAT liability while we remain part of AWM and we must therefore wait until we become independent. Again, this depends on demonstrating that our chosen business model is viable.

The second major risk facing the Observatory is one of partnership. The Observatory is heavily dependent on the support of its partners for its success. In particular, we rely on active support from partners for access to data and intelligence resources, for project team members and secondees, for continuing development of the RDIN, and for the project work we propose to undertake. If, for whatever reason, partners choose not to offer the level of support we need, we will be unable fully to meet our objectives.

Our third risk is a risk to our reputation. We have worked hard over the past year to establish a presence for the Observatory, and to create some trust in what we stand for. High profile among the work we championed was Knowledge Management. It is unfortunate that we were unable to secure ODPM money from the e-Innovations funding stream to allow us to continue with this important work. Such a failure, especially if others follow due to lack of funding, may have an adverse impact on our reputation.

Finally, we face a staff retention risk. Although our recruitment is now broadly complete and our team is in place, we must recognise that there is a constant risk, albeit relatively modest, that we will lose some staff during the year. We will work hard to minimise this risk, especially since we do not have the budget to replace staff that leave. If we do lose staff we would become increasingly reliant on secondees to allow us to continue to deliver our work programme.

## 2 Introduction

This business plan sets out the work that the Regional Observatory proposes to undertake in 2004/5. It builds on the work already completed, and develops the themes of activity laid out in our previous business plan (Reference 1). In the past year we have put in place the structures and capabilities to allow us to move forward with service provision. After just over a year of preparatory work, the Observatory is now in a good position to start to deliver real value to our partners in the region. We are looking forward to an exciting and productive year ahead.

### 2.1 A Good Start

The Observatory was established in September 2002. In our first eighteen months we have focused our effort on developing our capability to address the strategic objectives set out for us by our Partnership Board. We have succeeded in doing this in a number of critical areas:

- Recruitment – We have successfully completed the recruitment of the Observatory staff. All key staff have been appointed and have formed a coherent and effective team.
- Developing the RDIN – We have developed the Regional Data and Intelligence Network (RDIN) from concept into valuable reality. Through the five Topic Groups and the User Group, we have established important semi-formal mechanisms for co-ordinating the analysis of regional gaps in data and intelligence and for providing the Observatory with guidance on our role to meet the intelligence needs of our partners. We have also worked hard to ensure that RDIN members receive something back from us in return. We have kept them up to date with progress and plans through our frequent newsletters and updates and our Annual Conference, and have provided a very successful series of monthly seminars.
- Identifying gaps in regional intelligence – Working with the RDIN Topic Groups, we have now begun to establish and prioritise the gaps in regional intelligence. These gaps represent some of the primary areas in which the Observatory can create value for our partners in the region. Our work on the

State of the Region report will complete our initial assessment of gaps. Together these analyses will substantially inform our research agenda for 2004/5.

- Sharing regional intelligence – our knowledge management study has given us a good understanding of the needs and challenges for an information and knowledge sharing system for the region. We have a comprehensive set of user requirements to guide our web development effort and a detailed set of proposals for taking forward the regional knowledge working agenda. In addition, our mapping pilot studies have provided us with two things. Firstly, we now have an initial, albeit far from complete, catalogue of resources available on our website which will provide a useful starting point for development of the content of our web site. Secondly, the pilot studies taught us some useful lessons on how to conduct mapping studies which we will implement as we take the mapping process forward.
- Monitoring regional strategies – We have begun to develop our involvement with the monitoring of the key regional strategies. Our work to date has been in support of both the Regional Economic Strategy and the FRESA (Framework for Regional Employment and Skills Action), for both of which we have undertaken some initial collection and analysis of regional indicators.

Our success to date puts us in a good position from which to move forward into 2004/5 with a strong programme of delivery for the region.

## **2.2 The Prospects for 2004/5**

Building on the progress we have made over the past year, our focus in 2004/5 will be on delivery. Much of the development work necessary for us to begin meeting the delivery expectations of partners is complete and, in the coming year, this will allow us to establish a significant regional profile in the areas of our Core and Project activities. This does not mean, by any means, that we consider our development activity complete. We still have key development milestones to reach in the coming year.

Our work, in each of the main strands of activity is described in detail in the following sections. In summary, however, we aim to achieve the following during the course of the coming year:

### Core Activity

- Develop the map of regional data and intelligence to catalogue and make accessible the data and intelligence resources in the region
- Expand and develop our programme of support for the underpinning and monitoring of the six key regional strategies and the dissemination of monitoring outputs
- Continue to develop and support the RDIN through the Topic Groups, User Group, the monthly programme of seminars and our Annual Conference

#### Project Activity

- Conduct, on behalf of a broad partnership, a large scale Regional Lifestyle Survey, covering areas such as health, crime and fear of crime, economic activity, quality of life, social capital and access to services
- Undertake or commission research to fill the data and intelligence gaps identified and prioritised for us by the RDIN Topic Groups and the User Group
- Undertake project work commissioned directly by one or more partners, for example, to support regional strategies beyond the core six, to fill gaps identified by the State of the Region report or to address other regional intelligence needs

#### Development Activity

- Develop and promote the adoption of standard data protocols for data collection and dissemination in the region
- Develop economic modelling and analysis capability to support the needs of the region and to extend our core activity into this area
- Promote regional knowledge working based on the recommendations of our knowledge management study, including the cultural change and adoption of new skills that this implies
- Work with the GIS Topic Group to develop requirements for a regional GIS service, and develop ways to provide this through our website or otherwise
- Develop additional grant applications as appropriate to secure further funding for the Observatory
- Begin preparations to move to independence from Advantage West Midlands

We have set ourselves another challenging set of objectives for the coming year to ensure that we keep pace with the expectations of regional partners for what the Observatory will deliver.

# 3 Development Timing

## 3.1 The Development Plan

### 3.1.1 Four Phases of Development

Reference 2 identifies four phases of development for the Observatory over its first three years of existence. The end of each of the phases is marked by key milestones in the Observatory’s evolution. These four phases and their planned completion dates are summarised in the following table:

Phase	Key Activities	Milestones	Completion (planned)
<b>1. Formulation</b>	Establishment of legal, constitutional and resource foundations Executive board convened Funding arrangements confirmed Staff recruitment commenced	Structures of governance and employment in place Office set-up complete	<b>Board meeting September 2002</b>
<b>2. Set-up</b>	First staff take up posts RDIN remit reviewed and working relationships established IT systems and website set up Pilot programmes of mapping and monitoring undertaken	Key staff positions occupied RDIN development programme set out Relationships with key data and intelligence providers established	<b>April 2003</b>
<b>3. Service delivery</b>	Routine mapping and monitoring programmes established Development of project work to fill intelligence gaps Signposting of significant numbers of validated data sets and intelligence resources through the website Programme of events and publications established Develop proposal for independent status	Web portal will be fully operational Initial data and intelligence mapping largely complete Programme of data and intelligence “gapping” underway Governance and management mature, stable and effective	(September 2004)

<b>4 Enhancement</b>	Extend client base to include private companies and individuals Fully functional website operational Full programme of seminars, events and publications underway Research projects routinely undertaken in substantial gap filling programme Participation in development of national standards and protocols for data collection and sharing	Full set of operating services established Extensive client base engaged Future direction identified reviewed and agreed by Partnership Board	(September 2005)
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### 3.1.2 Development Progress

The key activities of the Set-up phase were largely completed by the end of April 2003. Four staff were in post and a fifth, the Senior Intelligence Analyst (Deputy Director), had accepted the job and was working his notice with his former employer. The RDIN was well established and five topic groups were beginning to function effectively. The website was live. The pilot data and intelligence mapping projects were well underway although they were not finally completed until late in the second quarter of the year.

To date, the outstanding milestone of the Set-up phase is the establishment of relationships with key suppliers of data and intelligence to the Observatory. In a sense, this milestone lost most of its relevance when it was decided that the Observatory would not become a data warehouse. As a result of this decision, our main suppliers of data and intelligence became our partners through the members of the RDIN. We have well established relationships with many of them through the Topic Groups, although these relationships are not formalised in the way the milestone intended. Nevertheless, these relationships are proving fruitful in terms of providing the support we need to develop our data and intelligence agenda.

Since April 2003, we have begun to address the activities of the Service Delivery phase of our development. We are working on monitoring work on several of the key strategies (RES, FRESA), we have developed a proposal for our first gap filling research project (the Lifestyle Survey, Section 4.3.1) and RDIN members are working on others, we have a well developed programme of monthly seminars which are proving very popular, and we have over 200 regional resources signposted from our website.

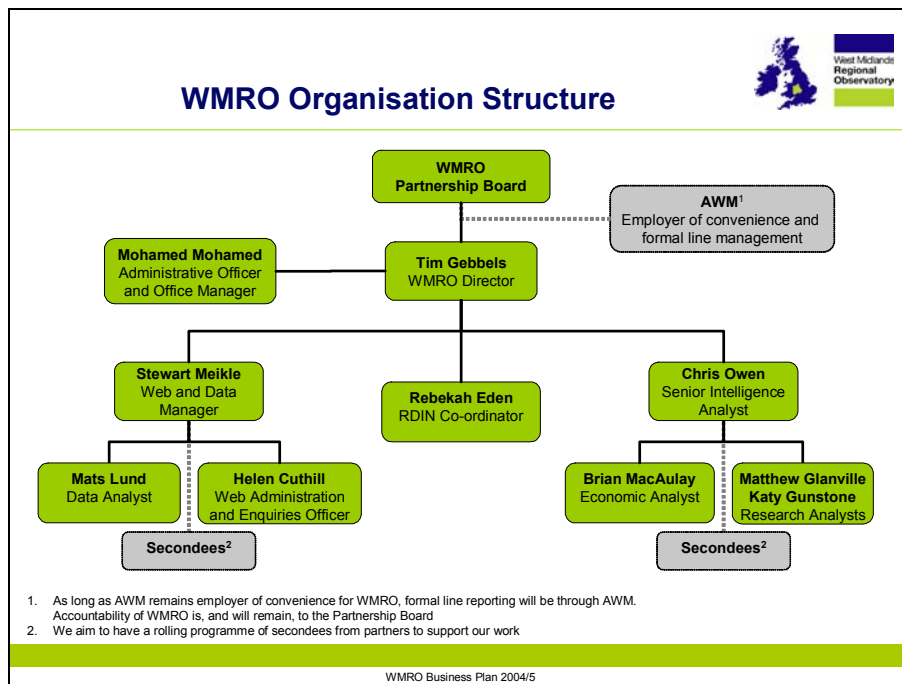
We are keen to move ahead with plans for independence from AWM, in line with the founding principles of the Observatory. However, there remains considerable uncertainty about the financial robustness of the Business Model for the Observatory adopted at the December meeting of the Partnership Board. The Observatory cannot

make progress towards formal independence until this uncertainty is resolved, and effort will be focussed in the coming year on achieving this.

This document sets out in more detail how we will complete the Service Delivery phase of development during 2004 and move on to the next stage of our development.

### 3.2 The Observatory Team

A year ago, the Observatory had only one permanent member of staff. Since then, we have successfully recruited our full team. Our staff is now nine strong, supported by a full time secondee from AWM. At some point, the role of Web Administrator and Enquiries Officer may be split into two roles with the recruitment of an additional member of staff, and we will need to take on an additional administrator to support the growing work of servicing the RDIN but, given budget constraints, neither is likely in the short term. The following figure illustrates what WMRO's structure is anticipated to be at 31<sup>st</sup> March 2004:



With this team in place, the Observatory will begin the 2004/5 year with a strong team and will have the capacity to undertake its broad programme of proposed activity for the year.

### **3.3 The WMRO Business Model**

Scoping work for WMRO undertaken in 2001 by SQW demonstrated broad consensus among regional partners for an Observatory that is independent of any regional organisation, agency or agenda. This independence is widely considered to be fundamental to securing the position of the Observatory as a trusted, independent source of regional intelligence for all partners and as a necessary condition for the acceptance of the Observatory's proposed State of the Region report.

As an expedient approach to start-up operations, the Observatory was initially established as an operating unit of Advantage West Midlands, with a plan for it to become independent after not less than 18 months, once independence becomes viable. An essential pre-condition for independence is that the Observatory adopts a business model that secures its income.

A model has been developed (Reference 3) that secures the independence of the Observatory by formalising the current Partnership Board arrangement within a legal framework, most likely to be as a company limited by guarantee. At the same time, this model lays out the cost basis on which partners can participate in the work of the Observatory. Two options will be available; block funding through fees for membership of a consortium, and ad-hoc funding on a project by project basis at commercial billing rates.

The proportion of time that the Observatory can offer to partners to undertake ad-hoc project work and gap filling research will inevitably be somewhat constrained by the extent of its commitments to consortium members. In the short term, consortium members will be few, and this issue is unlikely to arise. In the longer term, regardless of the number of consortium members, we propose to ensure that not less than 25% of our research capacity remains uncommitted to consortium members and is therefore available to support project activity.

This model was accepted at the December 2003 meeting of the Observatory's Partnership Board, subject to the proviso that the budget deficit presented then could be addressed satisfactorily. The revised budget presented in Section 5 now balances, addressing this one outstanding issue.

# 4 Planned 2004/5 Activity

## 4.1 Overview of Strands of Activity

Reference 1 defined three strands of activity for the Observatory – Core activity, Project activity and Development activity. Classification of individual tasks or projects into these strands was based on their relationship to the Observatory’s strategic objectives. Under the Observatory’s new business model (Section 3.3), each of these strands of activity can now be more precisely defined based on whether it is funded primarily through consortium fees (Core activity), project sponsorship (Project activity) or development funds such as grant funding (Development activity).

## 4.2 Core Activity

### 4.2.1 *State of the Region Report*

Our first State of the Region (SOR) report will be published in April 2004. We plan to publish subsequent editions in September of the year of publication both to coincide with our annual conference and to position them to provide timely input to the research plans of regional and sub-regional partners.

The issues highlighted in our first report, which will have been chosen because of their broad, long term nature, are unlikely to change significantly in a single year. We therefore propose to produce a full State of the Region report only every four years. In the intervening years we will produce supplements, updating the key regional indicators, addressing issues raised in response to previous reports and, perhaps, focusing in more depth on one or two of the key issues highlighted in the preceding full report. These supplements will also be published in September.

Given the limited time between the launch of the first report and our 2004 annual conference, we will aim to produce the first update to the State of the Region report in time for our conference in the autumn of 2005.

#### 4.2.2 *Supporting Key Regional Strategies*

We have identified six key regional strategies that we will support as part of our core activity (Reference 1). These are:

- Regional Economic Strategy (RES)
- Regional Planning Guidance (RPG) (the Regional Spatial Strategy)
- Framework for Regional Employment and Skills Action (FRESA)
- Regional Housing Strategy (RHS)
- Regional Cultural Strategy (RCS)
- Regional Sustainable Development Framework (RSDF)

In addition, although there is no regional health strategy, we include support of the regional health agenda in our core activity (supporting the work of the West Midlands Public Health Observatory).

In our work to date, we have provided direct support to four of these areas: the RES and the FRESA and, in the shape of the Lifestyle Survey proposal (refer to Section 4.3.1), both RPG and health. In 2004/5 we propose to extend our activity to include all seven of these areas. We have already begun discussing how we might extend our engagement in RPG and begin work on the RSDF, and hope to have outline work programmes in place for both of these strategies early in the year.

For the remaining two areas (the Cultural strategy and the Housing strategy), we will take a pro-active approach to becoming involved through two mechanisms. Firstly, we will actively follow up any issues raised by the State of the Region report, and will prepare research proposals on behalf of regional partners to try to address them. The State of the Region report is the key mechanism through which the Observatory plans to engage with the research agenda of the region, specifically around the key strategies. We will actively follow up the issues we raise to ensure that this engagement occurs.

Secondly, we will continue with the programme we have already begun with the RDIN to identify gaps in regional intelligence. As these are identified and prioritised by the RDIN, we will develop proposals for work to fill the gaps (refer to Section 4.2.4).

Finally, there is a third mechanism through which we can become involved in each of the regional strategies. Partners may choose to approach the Observatory directly to commission a specific piece of research to fill a gap that they have identified themselves.

We expect most of our work in support of these core areas to be funded through consortium fees and commissioned through service level agreements with consortium members. However, especially in the short to medium term, much of the work is likely to be undertaken as ad-hoc project work. The choice is essentially one for partners to make, and is largely a matter of indifference to the Observatory. The key point is that the work will have to be funded.

#### *4.2.3 Mapping Data and Intelligence*

During 2003 we undertook two pilot mapping studies to begin the process of mapping and cataloguing regional data and intelligence resources, and to teach ourselves something about the process of mapping and its potential pitfalls. In the coming year we will take this work forward to extend the coverage much more broadly across the region.

There are two useful approaches to this mapping exercise, and we propose to adopt both of them in parallel. The first is the continuation of the process we began in the pilot studies. We will target key organisations or networks in the region and work with them to form mini project teams to undertake a formal cataloguing of available and relevant resources. We will lead this work, but will depend heavily on secondees from the targeted organisations to co-ordinate the project team from a position of “inside knowledge”.

We learned a considerable amount on how to conduct these mapping exercises (and how not to) from the pilot studies, and these lessons will be applied to ensure that the process produces valuable results. Once we have succeeded with each mini-project, however, we also need to ensure that the catalogue remains live and up-to-date rather than simply being a one-off snapshot. Key to achieving this is to secure the engagement of the target organisations themselves to maintain the catalogue. We will work with partners to determine the most appropriate way to achieve this, but will consider developing a series of Service Level Agreements with partners as one possible option.

The second approach we will take follows on from the Knowledge Management study we undertook last year. Recognising that the Observatory cannot possibly manage and maintain a comprehensive regional resource catalogue alone, the study proposed that we provide our users with the tools they need to create and maintain the catalogue themselves. We hope to provide web-based tools to support this through incremental development of our website, based on the recommendations of the Knowledge Management Study (Section 4.4.2).

Through our initiatives to promote knowledge working, we will promote among practitioners in the region the sharing of newly created data and intelligence resources as a natural part of every-day working. Initially, this will be slow and piecemeal, which is why we will continue with the project-based mapping process, too. However, over time, as users realise ever-greater benefits from effective knowledge working, the proportion of the online resource catalogue that is managed by users themselves will overtake the proportion created through project work (although this is not expected to happen for several years). At this point, the catalogue will have become a fully self-sustaining resource for the region.

Early scoping work for the Observatory suggested that mapping work should be largely completed by the end of the Service Delivery phase (September 2004). Through our work on the mapping pilot studies and the Knowledge Management study, it has become clear that mapping the data and intelligence resources of the region is not a one-off, single pass exercise that can be completed and published. On the contrary, it must be a continuous process, maintaining the catalogue of resources up to date at all times. Any simple snapshot would quickly become out of date and valueless. Although we aim to keep the catalogue as complete and up to date as possible at all times, we believe the Service Delivery milestone to complete the mapping has lost its relevance.

#### *4.2.4 RDIN Activity*

The Regional Data and Intelligence Network (RDIN) is the Observatory's link to practitioners in the region. Members of the RDIN are the primary creators and holders of data and intelligence and are also the primary users of these resources. They represent for WMRO both our key customers and our primary source of information. Over the last year, we have begun to develop the RDIN from a loose affiliation of individuals into a structured network that is able to deliver value to the Observatory. In parallel, we have sought ways to deliver value back to the RDIN, so that members are, and remain, motivated to engage with the Observatory.

Since the beginning of 2003, we have arranged monthly seminars for RDIN members on topics nominated by members themselves. These have proved very popular and have formed a key focus of RDIN activity over the past year. We propose to maintain this monthly schedule, and expect to widen still further the breadth of subjects covered in response to members' requests.

However, in the past, the seminars have been free of charge to attendees and, because of their popularity, have proven expensive to run. In early 2004, we began charging attendees to seminars a nominal fee intended simply to cover costs. We will monitor

carefully the impact of charging on attendance levels and will adjust the price level to ensure an optimum balance between recovered cost and value provision to the RDIN.

The second key point of engagement with the RDIN is through the Topic Groups and the User Group. The Topic Groups have now been established for a year, and are beginning to deliver real value. Each group has produced a set of regional intelligence gaps, and has prioritised those gaps in terms of importance to regional strategy and the ability of the Observatory to fill them (refer to Section 4.3.2). We will continue to push the gap filling agenda forward through the Topic Groups, and will engage the Topic Group members in the operational oversight of the gap filling projects to ensure members' needs are effectively met.

The RDIN User Group is not yet as well established as the Topic Groups. Although its membership is now clearly established, Board representatives from the group only attended their first Board meeting in December 2003. This milestone marked the completion of the establishment of the User Group. Over the next year, guided by the Observatory executive, the User Group will need to develop its role in guiding the development of the Topic Groups, providing operational input to the Executive, and in prioritising the regional intelligence gaps for the Observatory to adopt into its gap-filling programme.

A key event in our calendar which brings together the entire RDIN community and provides us with a good opportunity both to inform and to take feedback from RDIN members is our RDIN conference. We held our first conference in October 2003 and it was widely received as a success. We propose to hold similar conferences annually as a high profile means to involve the RDIN in our work and to promote the services we provide. We will therefore hold our second annual conference in September 2004.

Our final link with the RDIN and, indeed, with the wider community, is through our enquiries service. This front-line service allows us to receive telephone or e-mail "cold calls" for data and intelligence, and to respond appropriately. For example, the enquiries officer can offer the following to users of this service:

- Identification of who in the region or elsewhere is best able to answer the users need
- Management of access by the user to datasets held by the Observatory for use by partners
- Co-ordination of the Observatory's team to compile a brief written response (where this is not onerous in terms of overall Observatory resources)
- Co-ordinating the development of a proposal for some ad-hoc project work to address the specific needs of the user

It is anticipated that the work generated by the enquiries service will increase modestly during the year. We will continuously evaluate the need to separate the post of Enquiries Officer from the Web Administrator post. In any event, due to budgetary constraints, that is not expected to happen this year.

## **4.3 Project Activity**

### *4.3.1 Regional Lifestyle Survey*

In partnership with the West Midlands Public Health Observatory, we will undertake a regional household survey during 2004 to investigate lifestyle, quality of life and environmental issues.

There is currently very little reliable information available in the areas we propose to cover in this survey despite their importance both for policy formulation and for assessing the need for service provision. The last time a fully regional lifestyle survey was undertaken in the West Midlands was in 1995, with a subsequent survey in 2000 covering only parts of the region.

The proposed survey will cover all adults (over 16s) and will take the form of a postal questionnaire aiming for around 100,000 responses across the region. We will also conduct face-to-face interviews, covering more detailed questions, with an additional 10% of the sample, subject to funding and partnership arrangements. Funding partners will have the opportunity to boost the sample size in their areas and to request additional bespoke analysis of the results.

Key areas that will be covered in the survey will include:

- Healthy lifestyle and wellbeing
- Crime and fear of crime
- Economic activity
- Quality of life, social capital and related environmental issues
- Access to services and amenities

The Regional Lifestyle Survey project is built on a strong partnership between the WMRO, the West Midlands Public Health Observatory, and the Learning and Skills Councils in the region. A broad range of partners is being approached to co-fund, support and ultimately benefit from the results of the project, including Local

Authorities, Primary Care Trusts, Advantage West Midlands, the Regional Assembly, Government Office for the West Midlands, West Midlands LSCs and others

WMRO will undertake day to day management of the project, working to a small Operational Steering Group, comprising representatives of both Observatories together with the Learning and Skills Council and other key partners. A larger and broader-based Executive Steering Group will also be formed from among funding partners to oversee the project.

The outputs of the survey will be twofold. The first will be web-enabled access to the underlying raw data (taking into account issues of confidentiality and disclosure) at various geographical levels and in a simple and easy to use format. The second will be bespoke interpretive reports written by WMRO and WMPHO for the partners in the project, tailored to specific geographic and organisational needs.

The total costs of this research will be of the order of £400,000, funded entirely by subscription. The large number of funding partners means that contributions from individual organisations will be relatively modest, particularly given the benefits which will accrue through access to this new and powerful source of primary data. Individual partners may seek to increase the level of survey coverage in their own area or to expand the range of bespoke analyses they receive by making additional contributions to the funding of the project.

#### *4.3.2 "Gap Filling" Research*

We have begun a process to identify, qualify and prioritise regional gaps in data and intelligence. Through the RDIN Topic Groups, a number of important gaps have already been identified, and Topic Group members have been asked to develop project proposals for the most significant gaps. During the remainder of the year, the Topic Groups and the RDIN User Group will evaluate and prioritise these proposals to develop an agenda of gap-filling research for the Observatory to undertake in 2004/5.

Prioritisation of proposals is based on clearly defined evaluation criteria. The most important of these is that the involvement of the Observatory adds significant value. This means that projects are only likely to be prioritised where they do not obviously fall within the remit (but outside the budget) of another organisation, where they are clearly cross-cutting and of value to more than one potential client – usually across sectors – who will be prepared to contribute to the project costs, and where the output has clear relevance to one or more of the key regional strategies. The Observatory's role should primarily be that of a catalyst facilitating an otherwise non-viable project.

We expect perhaps as many as ten projects to be put forward from the Topic Groups to the User Group for prioritisation. Once prioritised, the number actually adopted in the work programme of the Observatory will depend on the uncommitted resource available after the demands of consortium partners have been met. This is likely to represent no less than 25% of the workload of the Observatory (see Section 3.3).

Each gap-filling research project will require approval from the Partnership Board before it can proceed, and will be brought before the Board once the proposal has been developed fully. Part of the process of developing any proposal will be the identification of funds to complete the project. No proposal will be presented to the Board until funding sources have been clearly identified, and the Observatory will not undertake incompletely funded projects.

#### *4.3.3 Commissioned Research*

In addition to the research we will promote pro-actively to partners as part of our gap filling programme, we hope that partners will approach us to commission additional project work. Most of this is likely to support the key regional strategies and is described in Section 4.2.2, but there are other areas of research where the Observatory could add value. For example, partners may commission work:

- In support of strategies other than the key six that we will support as part of the Observatory's core activity
- To fill gaps identified by the RDIN Topic Groups other than those that the User Group prioritised for the Observatory to undertake
- To fill gaps highlighted in the State of the Region report
- To fill gaps they have identified internally

Our resources are necessarily constrained, and we will inevitably have to be selective about the research work we undertake. Our primary selection criterion will be that there is a multi-organisational or cross-sectoral aspect to the work, which makes the work difficult for any single organisation or sector to undertake. In this case, the Observatory clearly adds value as a catalyst, facilitating research that would be unlikely to be undertaken if we were not involved.

#### *4.3.4 Regional Skills Partnership*

In partnership with many regional organisations, Advantage West Midlands has developed a proposal for a Regional Skills Partnership (RSP) (Reference 4) and has submitted its proposal to the Department for Education and Skills for approval.

The proposal foresees a substantial role for the Observatory in delivering the data and intelligence required for more informed and joined-up regional skills thinking. The scale and scope of the work are likely to be significant, and beyond the existing capacity of the Observatory to deliver. Despite this, it is clear that, because of its independence and its clear regional focus, the Observatory is the best existing organisation to take on the role of delivering this aspect of the RSP's needs.

It is too early to say in detail what the impact of this will be on the Observatory. Any work we take on from the RSP will, however, be on the basis that it is fully funded project work. We will ensure that we will take on the additional resources necessary so that any RSP work we undertake does not undermine our ability to deliver our core activity.

Once the RSP work is more clearly understood, a supplemental business plan will be developed for the Observatory, detailing our work and the resources required (and available) to allow us to deliver it. This will be presented to the Partnership Board at the earliest opportunity.

## **4.4 Development Activity**

### *4.4.1 WMRO.org Website Development*

The knowledge management (KM) study conducted during 2003 has produced a vision for KM at the Observatory and across the region, and it has identified in considerable detail the functional requirements of our users for knowledge services. These requirements have been embodied in a powerful and comprehensive prototype of a regional knowledge portal, proposed to meet user needs.

We made a bid to the e-Innovations funding stream offered by ODPM to support the proposed development of the knowledge portal. Unfortunately, our bid was rejected, with the result that we do not have funds to develop the system as envisaged in the prototype. We will need, however, to undertake some incremental website development during the course of the year, and where ever possible we will be guided by the requirements identified in the KM study.

We remain committed to KM practice (Section 4.4.2), and will pursue other funding opportunities as we identify them to try to secure the development of a fully functional knowledge portal in the future. We do not envisage that this will happen in 2004.

#### *4.4.2 Promoting Knowledge Working*

An important proposal to come out of the KM study was that the Observatory should lead and promote the adoption of knowledge working in the region. Knowledge working involves changes to existing working practices, and the changes are not necessarily easy for many organisations to make. They involve new skills and working cultures, new processes and recognition systems and, often, changes in the politics of knowledge to allow a move from a more competitive culture to a more collaborative culture.

There are several ways in which the Observatory can promote knowledge working to overcome these difficulties. The first and most obvious is by example. By adopting best practice in knowledge working in everything it does, and by using what tools we are able to deliver in our website, the Observatory can demonstrate clearly the ways in which effective knowledge working can improve business. We will do this not only in our own internal working, but also in our interactions with partners and the RDIN. Specifically, we will adopt knowledge working practices with the RDIN Topic Groups as soon as the tools are available.

The second way we will promote knowledge working is by fostering its early adoption in a few key organisations or networks in our region. Some networks and organisations will, because of the ways they currently work, find the adoption of the new working practices easier than others. We hope to identify two or three such organisations and encourage them to act as exemplars of the value of knowledge working to the region.

A third way to engage partners will be to develop a community of KM practitioners for the region. There are many organisations in the region with ambitions to become more effective at knowledge management. We will develop a network or community of the individuals with responsibility (or ambition) to deliver KM in their organisations. The community can itself adopt the practices of knowledge working to share effectively between all members the best practices, new learnings, and value potential associated with knowledge working. This community can then become a powerful voice in making the case for knowledge working across the region.

Finally, the Observatory can take a lead in KM education. The need for this exists at two levels. At a strategic level, our KM study discovered that the case for knowledge working was not yet made in all organisations. We need to make the arguments that persuade key decision makers of the value of the new ways of working. Without their active support, the necessary changes in working practice cannot be successfully achieved. At an operational level, too, practitioners remain to be convinced that knowledge working is ultimately a more effective way of working, and is not simply “something else for me to do”. The Observatory will develop programmes, through

seminars, presentations or training sessions, to ensure that the necessary cases for knowledge working are made.

Without the proposed knowledge portal, many of the tools that make knowledge working more straightforward will not be available. This will make our task of adopting and promoting knowledge working all the more difficult. Never the less, we are committed to this work and will adopt the solutions necessary to ensure we succeed.

#### *4.4.3 Establishing Economic Modelling Capability*

A key challenge laid out for the Observatory in Reference 2, is to monitor the regional economy and the impact of key strategies on it, and to provide the economic evidence base to improve the quality of regional policy interventions. This need has been reinforced by the Economy and Labour Force Topic Group, which has identified the provision of regional economic and econometric analysis as a key “gap” for the region. While a few of our partners currently undertake some work (or commission it out) to address their own specific needs, there is no common model of the regional economy, and no consistent approach to addressing regional economic analysis.

We propose to develop a capability for regional economic and econometric analysis and modelling and to develop an underlying description of the regional economy that can be used to assess the impact of policy and other interventions. We will use this capacity firstly to inform future editions of our State of the Region report but also, in the medium to long term, to provide economic services to our partners. By developing a consistent approach to regional economic modelling and sharing that approach with our partners, we can promote joined-up thinking on the economic issues facing the region. At the same time, by developing our capability on behalf of the partnership, we hope to make economic analysis cost effective for many partners for whom it is currently out of reach.

A number of possible approaches to delivering this service are available:

- Developing our own models and analysis in-house
- Acquiring “off the shelf” packages from one or more of the established commercial suppliers, possibly with some customisation to meet the Region’s precise requirements;
- Commissioning the development of bespoke economic modelling solutions for the region (e.g. from a university research department)
- Brokering the development of a region-specific service offering from one or more commercial service providers

There are advantages and disadvantages to each of these options. The first task of our newly appointed Economic Analyst, working closely with the Economy and Labour Force Topic Group, will be to assess the specific needs of partners and to match them to the solutions available.

We expect economic analysis to become an important part of our Core activity in the future. For 2004/5, however, establishing our capability and the specific services we will offer is clearly a Development task.

#### *4.4.4 Developing a Regional GIS service*

We plan to implement GIS functionality in a future release of our website to support the needs of our users in visualising and, ultimately, analysing regional data and intelligence in support of the key regional strategies. To do this, we need to choose (or develop) a single system that provides the features and facilities our users need. But it is also imperative that we choose a system that is compatible with the other systems already in use across the region. Since it is unlikely that different organisations will be able to standardise on a single regional GIS system for some time, if ever, it is important that our choice of system be governed to a considerable degree by consideration of the issues of data compatibility and sharing.

Local Authorities are currently developing a GIS system, WMGIS – the West Midlands GIS, to meet their needs, specifically for monitoring Regional Planning Guidance. While no decision has yet been made on the suitability of this system for use by the Observatory, we will remain involved in its development and continue to review how well it meets our needs. We have asked the GIS Topic Group to help us assess the GIS needs of RDIN members and to assess how those needs might best be met. The Topic Group will be instrumental in helping us decide whether to adopt WMGIS or some other system for Observatory use.

There are two issues that we will need to overcome before we can adopt WMGIS or any other system. Both are licensing issues. The first relates to the use of Ordnance Survey (OS) maps as base maps for the GIS displays. These are subject to copyright, and carefully controlled by OS. We will need to develop an approach to sharing these maps with our partners, many of whom do not themselves have license agreements with OS, that both meets our needs and protects the OS copyright.

Secondly, the software vendors themselves protect the functionality they offer with license agreements. If we want to provide simple visualisation tools to our website using GIS (e.g. to produce static thematic maps), then licensing should not be a significant issue. However, if our users demand real analytical capability through our website, and do not already hold GIS licenses with the software vendor, then we will

need to find a way to deliver this without compromising the intellectual property rights of the software company.

Neither issue will be straightforward to resolve. However, we are confident that solutions exist to both, and we will work with both the GIS Topic Group and the license holders to ensure that satisfactory solutions are found.

#### *4.4.5 Developing Further Grant Applications*

The business model proposed for the Observatory in Reference 3 highlights the fact that the Observatory is likely to be constrained by funding limits in the short to medium term. We will remain dependent on existing and new grant funding streams to allow us to stretch our capacity to deliver our objectives as far as possible. To date we have secured EU funding from both ERDF and ESF Objective 2 streams to support our general activity through to 2005. In the coming year, we will continue to monitor possible funding streams and to apply, where appropriate, for additional grant support.

In some cases we will prepare applications ourselves. In others however, it will be more effective if applications are prepared on our behalf by one or more partners, specifically when they already have established expertise in preparing similar bids. Moreover, in some cases, bids may be made by partners for projects for which the Observatory will be the delivery agent, providing us with grant funded project revenue.

#### *4.4.6 Standard Data Protocol Development*

A long term objective for the Observatory is for it to promote standard protocols for data collection and sharing within the region. This is essential if data collected in different organisations (for example, different local authorities) are to be compared, aggregated or otherwise analysed collectively. Standardising data collection is a first step towards de-fragmenting regional data resources.

Developing standard protocols is not straightforward. For example, when asked, local authorities suggest that the first need of a data collection standard is that it must be policy led. This works well within an organisation. But across many organisations with divergent policies, the result is divergent data standards.

We will work with partner organisations and exploit national data standards wherever possible to broker the acceptance of standards for data collection and dissemination

and to integrate and aggregate the collected data to produce a unified view of the region and its sub regions wherever appropriate.

Whenever possible, we will adopt national standards of practice to guide our work, and we will work through the Association of Regional Observatories or otherwise, to influence the development of those standards to ensure that regional needs are met.

#### *4.4.7 Preparing for independence*

The Observatory was set up with the intention that it should become independent as soon as practically possible. The primary reason for seeking independence is strategic – the Observatory needs to be seen to be independent of any organisational or political agenda to be credible in its regional role, particularly as publisher of the State of the Region report. The second reason is more pragmatic. Irrecoverable VAT represents a significant cost for us (circa £50,000 in 2004/5) and, so long as we remain part of AWM, we cannot reclaim it on our core operating expenses (we can however reclaim VAT incurred on project activity such as the lifestyle survey). This is likely to change when we become independent, saving us a substantial amount. We therefore have powerful reasons for seeking independence as soon as it becomes viable.

After eighteen months of activity, and with a complete complement of staff, the organisation is now in a position to begin to consider moving to independent status. We have begun to make the preparations necessary for full independence. As a first step, we have prepared a business model (Section 3.3) that defines how the Observatory will fund its operations and on what basis it will undertake work for partners. This model was developed during 2003 and was approved by the Partnership Board at its December meeting. However, the constraints that continue to operate on our budget mean that we are some way from achieving a sustainable financial position under the new model. Until we do, it would be premature to pursue independence.

The second step to independence, which we will undertake as soon as we have reached financial sustainability, is to prepare a case to DTI under Section 5(2)(c) of the RDA act, 1998, for AWM to continue to support the Observatory after independence. We can learn from the experience of AWM in making similar cases for the regional broadband company and the regeneration zones, among others, and hope to be able to present the case to DTI sometime in 2005. We expect them to take between three and six months to grant approval.

With the business model in place, and as we work with DTI towards a decision on the Section 5(2)(c) application, we will begin to develop our options for independence, seeking legal and financial advice as necessary. Again, we can learn from the experience Advantage West Midlands has gained from its earlier spin-offs.

Driven by the dual motivation outlined above, we aim to become independent as soon as it is practical to do so. We will constantly review the sustainability of our financial position, and will move ahead with preparations for independence as soon as it is possible to do so. However, given our current financial position, that is not expected to be before during the 2004/5 financial year.

# 5 Required Resources

## 5.1 Staff Requirements

Over the last year we have recruited our staff effectively so that we will start 2004/5 with very nearly a full complement of staff. Our recruitment needs in the coming year will be minimal.

We do have one position unfilled. At present the roles of Web Administrator and Enquiries Officer are combined and filled by a single staff member. During the course of the year, it is possible that either of these two roles will grow significantly, to the point where they can no longer be delivered by a single person. This is most likely to occur for the Web administrator role, since it is envisaged that the continued development of our website will bring considerable new challenges in terms of administration and content management. It is possible that we will therefore need to recruit an enquiries officer around the middle of the year.

It is unlikely that enquiries alone will keep a full time staff member occupied even late into the year. However, there is a considerable burden of administration that is currently absorbed by the team, and which could effectively be delegated to an enquiries officer. A substantial proportion of this is related to the seminar programme and Topic Groups in support of the RDIN. This post would therefore be recruited as Enquiries officer and RDIN Administrator, reporting to the RDIN Co-ordinator.

Constraints on our budget mean that, at present, we do not have the resources to fill this extra post. If additional funding cannot be found, recruiting to this post will not be possible and we will look for a secondee instead or, failing that, we will constrain our activity appropriately.

By the second half of the year, and assuming we have recruited our final staff member, our skills profile will be as follows:

<b>Skills requirements (at Q4)</b>		
Core Activity 5.9 FTEs	Project Activity 1.5 FTEs	Development Activity 1.1 FTEs

Senior Intelligence Analyst (0.5)	Senior Intelligence Analyst (0.5)	Web & Data Manager (0.2)
Web & Data Manager (0.8)	Economic Analyst (0.2)	Web Administrator (0.5)
RDIN Coordinator	Research Analyst (0.8)	Economic Analyst (0.4)
Economic Analyst (0.4)		
Research Analyst (1.2)		
Data Analyst		
Web Administrator (0.5)		
Enquiries Officer (0.5)		

The change in resource level supporting Core and Project activity strands compared with last year (when it was 5 and 2.8 FTEs respectively) is due to the expectation that a substantial amount of commissioned work previously classified as Project work will now be undertaken under the terms of consortium membership and is consequently now classified as core activity, as discussed in Section 4.1.

We hope to be able to make substantial use of secondees during the coming year, as we did last year. In addition to our seconded Office Manager, we will need secondees in two key areas. Firstly, from organisations participating in the data and intelligence mapping exercise, secondees will bring an inside knowledge of the organisation and the information resources it holds. Without this knowledge, any mapping exercise is likely to be slow, difficult and, ultimately, incomplete.

Secondly, secondees can add capacity to our ability to support the monitoring effort on key regional strategies. We will seek secondees from the commissioning organisation, or from any of the organisations closely associated with the strategy concerned, to supplement our internal skills in delivering the agreed objectives.

We expect to need secondees for limited time periods of from two to eight months, often only part time, and hope that they will continue to be partner-funded. The following table gives an indication of our likely need for secondees and is based on a rolling programme of part time secondees working two days a week, which we consider to be the minimum effective time commitment.

Activity	Staff Required (FTEs)			
	Q1	Q2	Q3	Q4
Secondees	2.6	2.6	2.6	2.6

## 5.2 Summary of Funding and Expenditure<sup>1</sup>

Overall, we expect our budget to be slightly lower in 2004/5 compared with 2003/4. The most significant change in our income arises from the decline on our expected grant funding (Section 5.3). On the cost side, staff costs will increase substantially, reflecting our larger headcount (Section 5.4.1), but this is more than offset in other areas. In particular, since our team is now complete, we will save the recruitment costs we incurred last year. In addition, the costs associated with ongoing development activity will be substantially lower now that the Knowledge Management study is complete. (Section 5.4.3).

Our overall revenue and expenditure position is summarised in the following table, with further detail provided in the sections below.

<b>Detail</b>	<b>2003/4 (Forecast)</b>	<b>2004/5 (Budget)</b>
	£k	£k
<b>Sources of Funds</b>		
Consortium Funding	540	560
Sponsorship	0	9
Grant Funding	227	165
Project Revenue	33	44
<b>Total Funding</b>	800	778
<b>Expenditure</b>		
Staff	231	379
Overhead	69	19
Premises	98	102
Project & Consultants	194	101
Operational	188	155
Set-up	1	1
Depreciation	19	21
<b>Total Expenditure</b>	800	778
<b>Surplus (Deficit)</b>	0	0

<sup>1</sup> Forecast figures for 2003/4 are based on draft WMRO accounts to March 2004. They are indicative only. Finalised figures for 2003/4 will be published in our Annual Report in July 2004.

### 5.3 Sources of Funds

It is assumed that, beginning in April 2003, funding will move to the model described in Reference 3. Under this model, funding comes substantially through contributions from consortium members and, in 2004/5, we will have three consortium members (AWM, WMRA and the LSCs).

In addition to consortium funding, the Observatory will receive EU funding from the Objective 2 grant we have been awarded. Because we modulated our expenditure profiles to bring grant monies into earlier years, we will not receive as much in 2004/5 as we expect to receive in 2003/4. Beyond March 2005, we will receive none at all, and will be even more heavily dependent on consortium membership fees.

Our sources of funding are summarised in the table below. Further details are provided in the succeeding sections.

<b>Summary of Funding</b>		
<b>Detail</b>	<b>2003/4 (Forecast)</b>	<b>2004/5 (Budget)</b>
	£k	£k
Consortium Funding		
Advantage West Midlands	495	445
WM Regional Assembly	40	55
WM LGA	5	0
Learning and Skills Councils	0	60
Subtotal: Consortium	540	560
Sponsorship Funding		
Newsletter	0	2
Economic Bulletin	0	1
Annual Conference	0	5
Seminar Programme	0	1
Subtotal: Sponsorship	0	9
Grant Funding		
EU Technical Assistance	227	165
Subtotal: Grant	227	165
Other Revenue		

	Net Project Revenue	33	44
Subtotal: Other		33	44
<b>Total Funding</b>		<b>800</b>	<b>778</b>

### 5.3.1 Sponsorship

Consortium funding and grant funding together are not sufficient to cover the cost of Observatory activity in the long term. Additional sources of income are required if we are to deliver our strategic objectives. While it has always been assumed that we will be able to generate a margin on our project work (see Section 5.3.2), we are now also looking to develop additional streams of income. The first of these, which we hope to develop this year, is to secure commercial sponsorship for some of our activities.

We have a number of “products” for which we might reasonably seek sponsorship, including the annual conference, the quarterly newsletter and the seminar programme. We will add to these in the coming year a quarterly economic bulletin for the region. We propose to seek sponsorship for each of these this year. Our long term aim is to make these products net revenue generators. However, our target for this year is more modest, and we hope to secure £9,000 in sponsorship across all of the products.

### 5.3.2 Project Revenue

In the coming year we propose to undertake considerable research work, for example, in filling regional gaps or responding to partners’ requests, for which we will charge our partners commercial fees. Some of this work will be done in house but a substantial proportion will be commissioned through research organisations or consultants. Where work is commissioned out in this way, revenue and the associated costs will closely match, although the Observatory will recover a fraction of the total cost (~10%) to cover its internal administrative costs.

The largest component of both project income and costs is the proposed lifestyle survey (Section 4.3.1). This project is our first gap filling project, and represents our first attempt to secure funding by subscription. Although we have been successful in securing very substantial funding for the project, it is unlikely that we will be able to retain any of this, and certainly not 10%. We will need to use all of the subscription funding to secure the quality of results we need. In future, and as our credibility and reputation grow, we hope that it will be easier for us to secure a margin on project work.

Details of our expected project revenue and of the associated costs are presented in the following table:

<b>Project Income and Expenditure</b>		
<b>Detail</b>	<b>2003/4 (Forecast)</b>	<b>2004/5 (Budget)</b>
	£k	£k
<b>Project Income</b>		
Regional Lifestyle Survey	0	400
RES/FRESA monitoring	31	32
ODPM Best Value Survey	0	10
Outsourced research	0	47
Sales and other income	2	2
<b>Total Income</b>	<b>33</b>	<b>491</b>
<b>Project Costs</b>		
Regional Lifestyle Survey	0	400
RES/FRESA monitoring	0	0
ODPM Best Value Survey	0	0
Outsourced research	0	45
Sales and other income	0	2
<b>Total Costs</b>	<b>0</b>	<b>447</b>
<b>Net project revenue</b>	<b>33</b>	<b>44</b>

## 5.4 Expenditure

A breakdown of our expected expenditure in the year is presented in the following table, together with the forecast figures for 2003/4 for comparison. Further details are provided in the succeeding sections.

<b>Summary of Expenditure</b>		
<b>Detail</b>	<b>2003/4 (Forecast)</b>	<b>2004/5 (Budget)</b>

	£k	£k
Staff		
Staff	231	379
Temporary staff	0	0
Subtotal: Staff	231	379
Overhead		
Travel and expenses	4	5
Welfare	1	1
Recruitment	50	0
Relocation	7	0
Training	2	9
Parking	5	4
Subtotal: Overhead	69	19
Premises		
Rent	56	58
Service and maintenance	19	20
Utilities	3	3
Insurance	1	1
Rates	19	20
Subtotal: Premises	98	102
Projects & Consultants		
Data acquisition costs	26	29
Website development	16	28
KM project consulting	131	0
State of the Region	21	39
ARO Subscription	0	5
Subtotal: Projects	194	101
Operational		
Finance and HR SLA (AWM)	40	27
IT SLA (MPPL)	8	8
Network access	7	7
Telecoms	2	2
Non-capital equipment	4	4
Consumables and stationery	6	6
Petty cash	1	1

Website/ICT operations	3	7
Marketing and dissemination	12	15
RDIN Events	35	19
Catering & Room Hire	5	3
Professional fees	3	2
Irrecoverable VAT	62	49
Contingency	0	5
Subtotal: Operational	188	155
Set-up		
IT Set up	1	1
Lease agreement	0	0
Subtotal: Set-up	1	1
Depreciation		
IT equipment	8	8
Furniture	6	7
Fixtures and Fittings	5	6
Subtotal: Depreciation	19	21
<b>Total Expenditure</b>	<b>800</b>	<b>778</b>

#### 5.4.1 Staff Costs

Staff cost represents our single largest item of fixed cost. Taken together with Overhead (largely staff related), fixed staff costs will amount to just under £400,000 in 2004/5. This represents an increase of 33% over the equivalent costs in 2003/4, reflecting the substantial increase in the size of the team during the past year.

Now that we have a full team in place, we have no plans for recruitment. This results in a very substantial saving of both recruitment and relocation costs (£57,000). In order to secure a budget that balances, we have assumed that it will not be necessary to recruit to cover staff turnover. This creates a risk for us that is addressed in Section 6.4

No costs are shown for secondees. We plan to make substantial use of secondees again in the coming year but hope that their costs will continue to be borne by partners as in-kind funding to the Observatory.

#### *5.4.2 Operational Costs*

Operational costs, including premises costs and depreciation, are expected to amount to nearly £280,000 in the coming year. A significant proportion of these are fixed costs, particularly those relating to our office and office services. Of the rest, there are four significant items.

- There is a cost associated with running RDIN events. The cost of the Annual Conference in October 2003 was a little under £35,000, and we are planning to run another similar event again next year, but will save costs, particularly in event management, to keep costs below £20,000. Other costs here arise from the newsletter, supporting the activities of the Topic Groups and the RDIN Seminars (some of which will be recovered as we start to charge for these).
- Website/ICT costs are expected to rise for two reasons. Firstly, we will have to begin to pay for our site to be hosted (in 2003/4, 2WM provided hosting services to us at no cost). And secondly, we will need to engage a service provider for maintenance of our website to ensure that it remains operational.
- Our service charge with AWM has been reduced. Following internal review at AWM, the services we receive can now be given at lower cost to us.
- We have introduced a modest contingency of £5,000 to help us to manage our financial risks. This contingency is small, but it is all our budget will support.

Other operational costs are expected to be broadly in line with 2003/4.

#### *5.4.3 Projects and Consultants*

Project and consultant costs cover work undertaken as part of our core or development activities. Costs in 2004/5 are expected to be substantially lower than in 2003/4 largely because the Knowledge Management study has completed. However, although we were unsuccessful in securing money from the e-Innovations funding stream to develop our Knowledge Portal, our web site will still need substantial development in 2004/5 and beyond. Without the grant funding, progress will necessarily be slowed but we plan to have a continuing programme of development over the coming years.

With publication of our first State of the Region report taking place in April 2004, some of the costs associated with production will fall in 2004/5. The costs shown relate exclusively to this first edition. We do not propose to produce an update until September 2005.

In 2004/5 we will begin to make a contribution to the Association of Regional Observatories (ARO). ARO co-ordinates the work of all of the Regional Observatories nationally and encourages and facilitates the sharing of ideas and best practice. Additionally, ARO provides a mechanism for the Observatories collectively to engage with national organisations (including central government) and to contribute to national debate.

#### *5.4.4 Cost of VAT*

The Observatory pays VAT on many the goods and services it procures. Where it is associated with products and services that are sold on to customers, for example for project activity, that VAT can be recovered. However, a significant proportion of our VAT costs is currently unrecoverable and will remain so for as long as we remain part of AWM. VAT therefore represents a very considerable cost to us, and is expected to amount to approximately £50,000 next year.

We expect that when we become independent it will become possible for us to recover our VAT. One consequence of this change in status will be that we will be required to charge VAT on the services we provide to partners. However, as most, if not all, of our partners are themselves able to recover their VAT, this change will have no impact on partners' costs. The net result is that the costs of the Observatory that must be borne by the partnership will fall by a substantial amount. This fact alone provides a strong motivation for achieving independent status quickly.

We anticipate that it will take some time to achieve independent status (see Section 4.4.7), and it is unlikely that we will be able to save much of the £50,000 in 2004/5. In fact, given that we have clearly not yet reached a position of financial stability, it is quite possible that we will not be ready to begin the move to independence in the coming year. However, we will seek to achieve independence at the earliest possible opportunity to maximise the benefit of this potential saving.

#### *5.4.5 Capital expenditure*

The Observatory's need for capital expenditure is modest. Never the less, there is a low ongoing need for capital expenditure to replace computer and office equipment. Our expected capital costs are summarised in the following table:

<b>Summary of Capital Expenditure</b>		
<b>Detail</b>	<b>2003/4</b>	<b>2004/5</b>
<b>Computers</b>	2	3
<b>Furniture</b>	0	1
<b>Fixtures and Fittings</b>	0	0
<b>Total Capital Expenditure</b>	2	4

# 6 Risks

## 6.1 Funding

Funding presents a significant challenge to the Observatory. Our capacity, both in terms of staff capacity, and through networked collaboration with the RDIN, is now far greater than it was last year. The objectives set out for us by the Partnership are challenging. And our ambition to deliver added value to the region is high. We can readily and cheaply identify the work we need to undertake, both in terms of mapping and cataloguing regional intelligence resources and by identifying regional gaps and scoping further research to fill them. However, without the necessary financial resources, we can do little actually to deliver these things.

Much of the project work we propose to undertake next year will be funded by subscription. If we don't get the subscriptions, the work will not go ahead. While this will be disappointing, it will not be particularly problematic for the Observatory (unless all our projects fail in this way). However, a significant proportion of our activity is, and will continue for some time to be funded as operating "overhead", as outlined in Reference 3. If, under the new business model, we cannot secure the necessary number of consortium members, or if we cannot find other direct sponsorship, we risk being unable to deliver our strategic objectives to the region.

We have introduced a new source of potential funding in 2004/5, namely commercial sponsorship. We have made reasonable assumptions about the possible level of sponsorship we might achieve, and we have assumed that we can reach that level only gradually over a number of years. We recognise the risk, however, that we will not be able to reach the levels of sponsorship we have projected.

The funding risk associated with the development of the business model is compounded by our need to recover VAT. We cannot consider becoming independent before the business model is demonstrably working, and we cannot begin to recover VAT until we are independent.

Overall, our budget, although balanced, is not very robust, and carries much uncertainty. An analysis of the sensitivity of the budget to the various assumptions

that underlie it (Reference 5) clearly highlights the financial risks we face. We will need continuously to monitor our financial position and act early to keep our financial exposure under control.

## **6.2 Partnership**

The Observatory is an organisation formed through partnership and partner working is central to our value proposition. This goes far beyond the need for the Observatory to rely on partners for funding, and extends to the heart of everything we do. Without partners' support, we cannot map and catalogue regional intelligence resources, nor can we promote the adoption of standard protocols for data collection and dissemination nor even can we undertake research to fill gaps in the regional evidence base. All of these Core activities depend on partners' willingness to support and actively to participate in the work of the Observatory.

Next year, 2004/5, will be the first year in which partners' active, operational support and participation will have been required to secure the practical success of the Observatory's work. The success of our knowledge working initiative, for example, will depend ultimately on practitioners at partner organisations to embrace the opportunities the new ways of working offer. Our project proposals will depend on the buy-in and committed financial and in-kind support of partners to secure their outcome. The success with which this is achieved will certainly reflect the Observatory's skill in identifying partners' needs and proposing high quality and cost effective approaches to meet them. But, equally importantly, it will provide a real test of the principles of partnership upon which the Observatory is founded. If there is any failure here, the Observatory cannot succeed.

## **6.3 Reputation**

Over the past eighteen months the Observatory has begun to build a presence and even a reputation in the region. Partners are beginning to understand what we want to achieve and where we propose to deliver value. A key element of our proposition to partners in the coming years was as a champion of knowledge working. Throughout our KM study we worked hard to create understanding of knowledge working and to position the Observatory as a vehicle for its delivery. With the failure of our bid to ODPM for funding we risk losing the considerable momentum we have built up, and with it much of the reputation we may have established.

More generally, funding constraints we face next year threaten other core aspects of the Observatory's purpose. If we are unable to deliver even these, it will be very difficult for us to create the reputation we need if our work, particularly the State of the Region report, is to have any impact.

## **6.4 Staffing**

In contrast with last year, we no longer have any significant risk associated with recruitment. Our staff risk is now related to retention.

The risk of any individual leaving the Observatory is currently assessed to be relatively low. However, because of the size of the organisation, the impact of any losses on our work programme could be significant. Moreover, succession planning is not particularly useful in mitigating the risk, again because of the small size of the organisation.

We do not have the surplus in our budget that would allow us to recruit additional staff to fill gaps left by staff leaving. Should this situation occur, we will look to secondments from our partners to fill the gaps as they arise but if this, too, proves unsuccessful, we will have to review our activities and cut back to a level we can deliver.

# 7 References

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2. Into Action: A Business Plan for the West Midlands Regional Observatory, SQW, March 2002
3. WMRO Business Model – An Independent Consortium Model. Paper for WMRO Partnership Board, 11 December 2003
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