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**Please find attached the Report, Appendix and Annex in respect of Items 10,16 and 19 on the agenda for the above meeting**

10.	<b>Revenue Budget 2017/18 Planning Assumptions</b> (Pages 1 - 8) Consider report by Chief Financial Officer. (Copy attached.)	10 mins
16.	<b>South of Scotland Enterprise and Skills Review - Update</b> (Pages 9 - 26) Consider report by Corporate Transformation and Services Director. (Copy Appendix attached.)	10 mins
19.	<b>SESplan Finance Ratification</b> (Pages 27 - 34) Consider report by Service Director Regulatory Services. (Copy Annex attached.)	5 mins

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## **REVENUE BUDGET PLANNING ASSUMPTIONS 2017/18**

**Report by the Chief Financial Officer**

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**Scottish Borders Council**

**22 December 2016**

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### **1 PURPOSE AND SUMMARY**

- 1.1 This report provides the Council with an initial assessment of the broad planning assumptions that should be followed in constructing the revenue plans for 2017/18 onwards following the publication of the Local Government Finance Settlement for 2017/18 on the 15<sup>th</sup> December 2016. Now the Settlement has been received, this report updates the financial challenge facing the Council and sets out a recommended approach to be followed balancing the budget.**
- 1.2 Reductions in the level of government grant total 4.08% next year. This will see the resources available to the Council reduced by £8.28m when compared to 2016/17.
- 1.3 CMT in planning for the settlement has been assuming a reduction in government grant in the range of 3.5% to 5% as such the actual reduction of 4.08% is in the mid-range of these assumptions.
- 1.4 Coupled with, the reduction in Government grant, the Council will have to fund significant cost pressures next year that will require increases in the Council Tax estimated at 3%, increases in fees & charges and a significant programme of cost reductions to balance the budget and protect core services.
- 1.5 In a late change to its previously published intentions, Scottish Government has now decided that income raised through changes to the Council Tax multiplier (bands E –H) that will take effect from 1<sup>st</sup> April 2017, will be retained by Councils to contribute to general fund expenditure. This change has significantly helped the underlying financial position and reduced the gap that would otherwise have been required to be funded by the Council.
- 1.6 The £250m made available by Government in 2016/17 via the Health budget to fund the introduction of a Living Wage in the care sector has now been baselined. A further £107m has been provided by Government, again through the Health budget, to fund the full year effect of the Living Wage and further service developments. The Council's budget for 2017/18 is predicated on £5.3m of the £250m national fund being delegated by the Integration Joint Board (IJB) to fund the continuation of this initiative augmented by a pro rata £2.27m share of the £107m.

- 1.7 Government has also made available £120m nationally to establish the Scottish Attainment Fund with £1.38m of specific grant to be allocated to the Borders for distribution to Head teachers.
- 1.8 Members will recall that 2017/18 will be the final year of the 5 year financial plan first commenced in 2013/14. The longer term corporate approach to the budget adopted by the current Administration will by the end of 2016/17 have delivered £26.87m of cost reduction savings. These significant reductions have ensured the council has balanced its budget and delivered a small underspend in each year of the 5 year plan to date. Continuing the robust corporate approach to the budget in 2017/18 focussed on transforming Council services, investment in new technology to reduce costs, greater operational efficiency, new ways of working and the prioritisation of core council services will be required.

## **2 RECOMMENDATIONS**

- 2.1 **It is recommended that Scottish Borders Council notes the outcome of the local government settlement and the planning assumptions being made for the revenue budget for 2017/18.**

### **3 BACKGROUND**

- 3.1 2017/18 will be the final year of the 5 year financial plan first adopted in 2013/14. The longer term approach taken by the Council is advocated by Audit Scotland as good practice. The budget is updated annually on a corporate basis with indicative financial plans for the following four years. The longer term corporate approach to the budget adopted by the current Administration will by the end of the current financial year 2016/17 have delivered £26.87m of cost reduction savings. The majority of these measures have been delivered on a recurrent basis and the significant savings made have ensured the Council has not only balanced its budget each year but it has also delivered a small underspend in each year of the 5 year plan to date. This achievement has been delivered despite a continuing backdrop of austerity in public finances and a 9 year freeze in the council tax which has remained at 2007/08 levels.
- 3.2 The forthcoming budget round has once again proved very challenging for the Council. The government has previously signaled the intention to protect police budgets and to provide a budget settlement for the NHS which protects the level of resources available to health in real terms i.e. resources will increase at or above the level of inflation. With public commitments made to protect these services, the resources available to Local Government, which in total makes up around a third of the Scottish Budget, have diminished. The headline cut to Local Government in Scotland is a £350m reduction.

### **4 BUDGET PLANNING**

#### **4.1 Updated Gap**

The challenge now facing the Council has been updated following publication of the Settlement. Since February 2016 a range of additional pressures have also been identified which have led to a revised gap and increased the challenge facing the organisation. The updated gap position highlights the assumptions being made around the current budget position and includes:

- Scottish Government funding levels detailed in the settlement
- Manpower assumptions – relating to pay awards and increments
- Updated cost projections and new pressures

#### **4.2 Local Government Finance Settlement**

The draft local government finance settlement was published on the 15 December 2016. The one year Settlement for 2017/18 indicates that the Council will receive £197.586m next year which includes £2.955m of ring-fenced specific grants (Gaelic £2k, Attainment Scotland Funding £1.83m and Criminal Justice Social Work £1.123m.) The settlement reduces the general funding available to the Council as government grant by 4.08% or £8.28m when compared to the resources available in 2016/17. Revenue grant support provides over 80% of the Council's total net revenue budget and further significant cost reductions and the generation of additional income from fees and charges and the Council tax are required in order to bridge the gap.

- 4.3 The initial planning assumption for 2017/18 when the 5 year plan was agreed by Members in February 2016 anticipated a further projected 2% reduction in government grant in 2017/18. This assumption increased when the financial planning process for 2017/18 commenced following

discussion at the CIPFA Directors of Finance Section that concluded a likely cut ranging from between 3.5% and 5% was reasonable. The increase in the final figure to a 4.08% reduction has increased the challenge faced by the Council by £4.25m over and above the £4.03m funding reduction previously assumed for 2017/18 in the 2016/17 5 year Financial Plan. This increase is shown in the table below.

Government grant reduction previously assumed	£4.03m
Grant reduction per 2017/18 Settlement	£8.28m
Increase in grant reduction	£4.25m

The figures quoted in 4.2 above relate to the reduction in government grant comparing the totals in the 2016/17 circular to the comparable document for 2017/18.

#### 4.4 **Council Tax Reform Funding (Multiplier Funding)**

The figures in 4.2 exclude the £111m calculation of additional council tax income which will be raised nationally from changes to the council tax multiplier, now termed Council Tax Reform funding. On 3 November 2016 the parliament passed the Council Tax (substitution of Proportion (Scotland) Order, which altered the ratios of the upper council tax bands relative to the band D average from 1 April 2017. In gross income terms this funding equates to £2.809m for the Borders, the net Council Tax figure after discounts and exemptions is calculated at £2.2m. Originally the Government stated that this change to council tax would "generate £100m for additional revenue to invest in schools. It later confirmed that this funding would be distributed as a ring fenced grant on the basis of free school meal entitlement. In a subsequent policy change announced via the draft budget the Scottish Government clarified that funding for schools would be provided via a National Attainment Fund (see para 4.8) and that all Council Tax raised by this change to the multiplier, which only affects bands E – H, will be retained by Local Authorities to help pay for general fund services.

#### 4.5 **Health and Social Care Fund**

The £250m made available by Government in 2016/17 via the Health budget to fund the introduction of a Living Wage in the care sector and funding pressures associated with the provision of care has now been baselined as recurrent funding. Members will recall that the Living Wage changes to provide an hourly rate of £8.25 for all Social Care staff was introduced from 1<sup>st</sup> October 2016 and as such the cost of this development was only partially funded by the £250m.

4.6 A further £107m, now termed the Integration Fund, has been provided by Government again through the national Health Service budget to fund the full year effect of the Living Wage and further service developments including sustainability in the care sector increasing the living wage rate to £8.45 per hour from April 2017, disregarding the value of war pensions from financial assessments for social care and pre-implementation work in respect of new carers legislation.

4.7 The government has confirmed that NHS contributions to integration authorities will be maintained at least at 2016/17 cash levels. The budget

for 2017/18 presently assumes £5.3m will be delegated by the Integration Joint Board (IJB) to fund the continuation of this initiative and a further pro rata £2.27m share of the additional £107m made available in 2017/18 is anticipated. This development brings the National total to £357m and there is the ability, should a Council chose to do so, to reduce the allocation of the budget to Integration Authorities by up to their share of £80m (Nationally) [Letter to NHS Chief Executives 15 December 2016] below the level of support provided to the integration authority in 2016/17.

#### 4.8 **Attainment Fund**

Government has indicated that they will make available £120m of specific grants via the Settlement to be spent directly by Head Teachers as the Attainment Scotland Fund. The Borders share of this is £1.83m but no information as to the distribution of this funding has been provided at this juncture.

#### 4.9 **Council tax**

The draft budget also confirmed that the council tax freeze will end but that any increases would be capped at 3%.

#### 4.10 **Non Domestic Rates**

The Council's distribution from the non-domestic rates pool has fallen significantly by £1.656m to £31.938m in 2017/18 compared to £33.594m in 2016/17. This reduction has had a material impact on the overall grant distribution available to the council and forms part of the £8.25m reduction noted above.

4.11 There are a number of funding streams excluded from the current settlement and held back by Scottish Government for future distribution. At present only national figures are available. The main sums held back are shown in the table below.

<b>Funding Stream</b>	<b>National Total</b>
Teacher Induction	£37.473m
Discretionary Housing payments	£47.9m
Temporary Accommodation	£22.5m
Council tax reduction scheme	£42.946m

#### 4.12 **Manpower**

The impact of manpower movement is reflected in the updated gap position. Pay awards are assumed at 1% in 2017/18 and 1.5% for the subsequent 4 years. Increments are reflected on a biennial basis for SJC staff and annually for teachers.

#### 4.13 **Updated and new Revenue Pressures**

All known inflation and pressures have been updated. These pressures include national policy decisions with financial implications for the Council such as the Apprenticeship Levy, Attainment Scotland Fund, Criminal Justice and Rates revaluations. There is also provision built in to support the inflation in Education PPP contract, the new CGI contract and other council budgets that are expected to be subject to inflation.

#### 4.14 **Changes to 2017/18 Assumptions**

In addition to changes in the level of grant funding from Government, the Corporate Management Team (CMT) has also reassessed the assumptions made in forming the indicative 2017/18 financial plan in February 2016. A number of these assumptions

have proved to be too optimistic and have required a reassessment of the challenge facing the Council. Consequently continuing the robust corporate approach to the budget focussed on modernising Council services through the transformation programme, investment in new technology to reduce costs e.g. the new Enterprise Resource Planning System which will replace existing general ledger, HR, payroll, payment and billing systems, greater operational efficiency, new ways of working e.g. sharing services, additional income raised through fees and charges and council tax and the prioritisation of core Council services will all be required.

#### 4.15 **Approach to closing the gap**

Following the publication of the Local Government Finance Settlement the resultant gap is £9.1m. Proposals are being worked up to bridge this gap in setting the 2017/18 budget including:

- A management review of all areas of the budget to ascertain where opportunities exist;
- a review of all existing and proposed budget pressures in order to minimise and absorb pressures within existing budgets wherever possible;
- a review of all existing savings proposals to ascertain whether there are opportunities to increase and / or accelerate the savings already in future years' plan;
- a review of income streams and an increase in Fees & Charges by at least 3% across all areas to generate additional income.
- **an increase in Council tax of 3% across all council tax bands (A- H) in 2017/18.\***

**\*N.B. the proposal to raise council tax by 3% is consistent with the Revenue Plan published in February 2016 and is in addition to the Scottish Government change to the council tax multiplier. A paper showing the effect of the 3% change and the changes to be made to the Council tax multiplier affecting tax bands E – H is contained elsewhere on the Council agenda.**

## **5 IMPLICATIONS**

### 5.1 **Financial**

There are no further costs associated with the content of this paper its content relating to the preparation of the revenue budget for 2017/18 onwards

### 5.2 **Risk and Mitigations**

The revenue budget expresses the recommended approach the Council should take to ensure that services are delivered within a prudent and sustainable financial plan. This paper highlights the major planning assumptions to be made in constructing the revenue budget and provides information made available via the draft 2017/18 Local Government Finance Settlement. Figures will only finally be confirmed following acceptance of the Settlement by individual local authorities and parliamentary approval of the Local Government Finance (Scotland) Order 2017 in February. The paper has been prepared using the best information available, including intelligence concerning planning assumptions shared within the Local Government CIPFA Directors of Finance Section.

### 5.3 **Equalities**

A full equalities impact assessment will be undertaken and published as

part of the budget preparation exercise. There are no adverse impacts due to race, disability, gender, age, sexual orientation or religion/belief arising from the contents of this report.

**5.4 Acting Sustainably**

There are no significant effects on the economy, community or environment.

**5.5 Carbon Management**

No effects on carbon emissions are anticipated.

**5.6 Rural Proofing**

It is anticipated there will be no adverse impact on the rural area.

**5.7 Changes to Scheme of Administration or Scheme of Delegation**

No changes to either the Scheme of Administration or the Scheme of Delegation are required.

**6 CONSULTATION**

5.1 Corporate Management Team is fully engaged in the preparation of the revenue plans for the forthcoming financial year. The Chief Legal Officer, the Chief Officer Audit and Risk have also been consulted and any comments received will be reported to Council.

**Approved by**

**David Robertson**  
**Chief Financial Officer**

**Signature .....**

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**Background Papers:**

**Previous Minute Reference:**

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the Author. Information on other language translations as well as additional copies can also be provided.

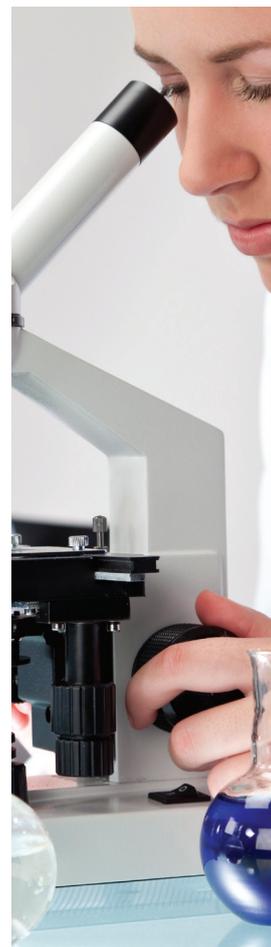
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# ENTERPRISE & SKILLS REVIEW: REPORT ON PHASE 1

OCTOBER 2016





## FOREWORD BY KEITH BROWN

**Scotland has a vibrant and diverse business base, with strengths across a wide range of sectors. That success is based on both the skills and ingenuity of our people and the maintenance of a supportive and competitive business environment.**

We are justifiably proud of our enterprise and skills agencies – Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland, and the Scottish Funding Council. Our agencies, colleges and universities have played a key role in developing this environment and in helping our businesses to thrive and grow. In recent years their efforts have contributed to real improvements in our economic performance across a range of key economic indicators.

Since 2007 we have seen growth in R&D investment by Scotland’s businesses, exports have increased, and we have consistently secured among the highest levels of inward investment in the UK. Alongside these achievements we have continued to develop a highly-qualified and well-educated workforce.

More fundamentally, we have made progress in narrowing the productivity gap with the UK. But we know that further improvement is required – our ambition is for Scotland to rank among the top performing OECD nations for productivity, equality, sustainability and wellbeing.

On 25 May 2016, the First Minister announced a review of enterprise and skills support in Scotland to help make further progress towards these goals. Since then, the EU Referendum result has made the economic context more challenging. It requires that we renew our focus, prioritise our efforts, and leverage all our assets across the public sector and in partnership with business and civic society to maintain prosperity and opportunity for our people.

Although the economic context has changed, Scotland’s Economic Strategy continues to set the overarching framework for delivering the more productive and cohesive Scottish economy that we seek through ever greater focus on growth driven by investment, innovation, exports and inclusion.

In undertaking this review, I have been grateful for the support of the members of the Ministerial Review Group and the wide range of expertise, constructive input and challenge that they have brought. I am also very grateful for the high level and high quality of responses to the call for evidence that we undertook as a key part of the review.

This review has focused on how we can work within the framework of our economic strategy and build on existing strengths and successes to further improve the enterprise and skills support system in Scotland. Its decisions cover a range of aspects that are designed to deliver on our aspirations for a more prosperous and inclusive Scotland by ensuring coherence and hence a simpler, more flexible and cost-effective system of national and local support. This will ensure a system in which all of our agencies work hand in glove with each other and collaboratively with our business, academic and civic partners to optimise economic impact across the whole of Scotland.

In taking forward this work, I want to harness and build on high levels of engagement generated by the review so far. This report sets out the conclusions of phase 1 of our work and the framework for the shape of enterprise and skills services in the future. Phase 2 will take forward implementation of those conclusions. In phase 2, we will also explore how we can better work in partnership with local government and their business and other local interests to maximise regional opportunities and respond to local needs and how, working with our agencies, we can take forward the right digital approach and a new system of enterprise and skills support.



**Keith Brown, MSP**

Cabinet Secretary for Economy,  
Jobs and Fair Work

October 2016

## KEY STEPS

In its focus on improving economic outcomes, the review has been guided by the principles outlined in its [remit](#):

- to make a step-change in enterprise and skills support to help progress towards our ambition of Scotland ranking among the top quartile of OECD countries in terms of productivity, equality, wellbeing and sustainability;
- to be driven by evidence, to listen to the views of users, and put forward proposals that respond to their needs; and
- to ensure a simpler and more coherent enterprise and skills support system.

We have engaged widely to understand stakeholder views and published a number of key pieces of [evidence](#). These include:

- a high-level overview of current economic performance and the nature of the challenge;
- the findings of a public 'Call for Evidence' process that was undertaken from 15 July-15 August and generated 329 responses;
- reports on international enterprise and skills experience and practice commissioned from experts; and
- a report on outcomes from workshops with users of business and skills support.

The review has benefited from the input of the [Ministerial Review Group](#). This Group comprises individuals with a wide range of expertise drawn from business, business organisations, colleges, universities, the National Union of Students, COSLA and the STUC. It has met regularly during the review and contributed considerably to our thinking.

In reaching our conclusions the following key themes have emerged:

- the degree of alignment between enterprise and skills support services, and how to measure impact;
- the optimal fit between national and local priorities;
- the need for a 'no wrong door' approach to simplify service and funding streams;
- how best to augment support for internationalisation in a changing context;
- how to improve our innovation performance; and
- how we improve skills provision and utilisation.

There is some overlap between these issues and the findings of Audit Scotland's report on 'Supporting Scotland's Economic Growth' (July 2016). In addition, we have taken into account Audit Scotland's 2016 work relating to Scotland's Colleges and to Higher Education in Scottish Universities, and Professor Graeme Reid's Review of the Innovation Centres Programme.

On 15 September we announced that we would take forward the review in two phases in response to the new economic context and in order to ensure that we fully capture the high levels of interest generated by the review so far. This report covers the findings of the first phase. It sets out our headline aims and the changes we believe are needed now to deliver on our economic growth and inclusion ambitions.

## ACTIONS

### One Scotland – STRONGER GOVERNANCE OF A COHERENT SYSTEM

- 1) To bring greater integration and focus to the delivery of our enterprise and skills support to businesses and users of the skills system, we will create a new Scotland-wide statutory board to co-ordinate the activities of HIE and SE, including SDI, SDS and the SFC.
- 2) To support the new board, we will review existing data and evaluation functions to further align our enterprise and skills support and to ensure robust evaluation of activity and impact.

### NATIONAL AND LOCAL ENTERPRISE AND SKILLS DELIVERY

- 3) Recognising the different social, economic and community development challenges facing the Highlands and Islands, we will maintain dedicated support which is locally based, managed and directed by HIE.
- 4) Recognising the unique challenges faced in the region, we will create a new vehicle to meet the enterprise and skills needs of the South of Scotland. This will be accountable to the new Scotland-wide statutory board alongside our other enterprise and skills bodies.

### AN OPEN AND INTERNATIONAL ECONOMY

- 5) In order to bring greater coherence as we step up the pace of delivery of our Trade and Investment Strategy through activity such as the establishment of a new Board of Trade, the appointment of Trade Envoys, the establishment of an Innovation and Investment Hub in Berlin, and the doubling of SDIs presence across Europe, we will ensure a much stronger focus on co-ordinating international activity across the public and academic sectors to deliver maximum benefit for Scotland.
- 6) We will consider the role, position and governance of SDI and its possible establishment as a distinct and separate organisation under the new Scotland-wide statutory board delivering a broader range of international activities and support.

### INNOVATION

- 7) We will review, streamline and simplify the innovation support ecosystem, connecting programmes, funding and delivery mechanisms. We will ensure that more businesses in Scotland increase their level of innovation to realise their major growth ambitions by implementing an innovation action plan that will be published by end of November.

### SKILLS PROVISION AND ECONOMIC SUCCESS

- 8) We will align the functions of our learning and skills agencies to better join up how education services and training are planned and provided to learners and employers.
- 9) We will conduct a comprehensive review of the Learning Journey focused on sustained employment, with significantly enhanced use of labour market information in skills planning at its heart.
- 10) We will review the effectiveness of our investment in learning and skills to ensure we have the right balance of provision across age groups and sectors and to maximise our contribution to productivity and inclusive growth.

## PHASE 1: FINDINGS AND DECISIONS

### STRONGER GOVERNANCE OF A COHERENT SYSTEM

**Vision:** Our vision is a Scotland that is among the top OECD nations for productivity and equality. A Scotland where we build on the existing achievements of our enterprise and skills bodies by enhancing coherence and focus, by bringing each of them under the direction of a single board, by de-cluttering and simplifying the system for the user, and enhancing and measuring the impact of our success. A system that facilitates partnership with business, academia, the third sector and local government to optimize what we can achieve together.

**Guiding principles:** The review's wide-ranging engagement has identified the following key principles that will underpin our drive for deeper alignment:

- we should retain our existing strong coherent economic strategy and focus on improving performance in relation to investment, international, innovation and inclusive growth;
- we should optimize what can be achieved by working across the enterprise and skills system seamlessly with a focus on agreed priorities and objectives;
- we should build on existing analytical and performance measurement capability to improve the measurement of whole system impacts and enhance our capacity to respond quickly; and
- we should simplify and improve the system for business, learners and other users and to enhance partnership working with business, third sector and local government interests.

**Current strengths and successes:** Scotland has a diverse and resilient economy that provides solid foundations on which to build. The Scottish economy grew 0.7% over the year to Q2 2016, and GDP now stands 10% higher than at the low point of the recession at the end of 2009. The number of people in employment is currently 2,618,000, 54,000 above the pre-recession peak (March-May 2008). The unemployment rate is currently 4.6%, which is lower than the UK as a whole. Other strengths include:

- a strong performance on post-secondary qualifications with one of the highest rates in the EU;
- over £27 billion of international exports a year, an increase of over 17% since 2010;
- the highest level of private sector businesses since records began, an increase of 7.8% between 2014 and 2015;
- the second highest level of Foreign Direct Investment projects in UK in 2015, behind only London;
- five universities in the top 200 in the world, more than any other country per head of population except Luxembourg;
- 25,818 Modern Apprenticeship starts in 2015-16, above the target of 25,500;
- one of the highest rates of spend on Higher Education Research and Development in the OECD, and with Business Expenditure on Research and Development that has increased by 44%, in real terms, since 2007;
- over £1 billion of investment in our higher education institutions in 2016-17, building on over £4 billion over the last four years;

- enterprise agencies that have supported 340 businesses to export and over 1,000 businesses to become innovation active in the last year; and
- being one of the first countries in the OCED to put inclusive growth at the heart of our economic strategy, focusing on the mutually supportive pillars of increasing competitiveness and tackling inequality.

**Challenges and opportunities:** Whilst Scotland has significant economic strengths, the evidence and views of a broad range of system users suggest scope for improvement around:

- maximising impact by focusing on well-defined goals, shared ownership and clear accountability;
- perceptions of a ‘cluttered landscape’ where unclear roles and responsibilities may lead to agencies duplicating activity or users finding it difficult to understand access criteria and the entirety of available support;
- simplifying service delivery by developing a ‘no wrong door’ approach that hides operational complexity for users;
- the need to improve digital performance, to focus on targeted advice (which can be more appropriate than funding schemes or grants), and to streamline funding and more closely align it with the shared national ambition;
- the need for improved system-wide performance measures that evaluate individual and cumulative agency contributions to delivering national targets and outcomes; and
- the need for businesses to influence the development and operation of enterprise and skills support, with views differing on the extent of this relative to academic and other input.

**Action:** In order to strengthen governance and deliver the benefits of a single system:

- **To bring greater integration and focus to the delivery of our enterprise and skills support to businesses and users of the skills system, we will create a new Scotland-wide statutory board to co-ordinate the activities of HIE and SE, including SDI, SDS and the SFC.**
- **To support the new board, we will review existing data and evaluation functions to further align our enterprise and skills support and to ensure robust evaluation of activity and impact.**

## NATIONAL AND LOCAL ENTERPRISE AND SKILLS DELIVERY

**Vision:** We seek to build an economy that is equitable and has the necessary flexibility and focus to respond well to local circumstances. To do this we will work with local and regional partners to understand key challenges and to maximise economic opportunity in all parts of the country.

**Guiding principles:** Drawing on the collective experience of individual experts and the lessons of previous approaches, our national and local co-ordination of enterprise and skills support will reflect the following:

- the rationale for moving away from uniform separate regional structures across Scotland in the 2007 Enterprise Network Reforms remains valid;

- arrangements should respond to the differing opportunities and challenges across Scotland, including an openness to pilot fresh approaches in one or more areas; and
- local and regional level arrangements throughout Scotland should be developed in partnership with local government.

**Current strengths and successes:** Scotland has a diverse business and asset base that creates opportunities for future growth. Different approaches to fostering these opportunities highlight successes around which future local and national action can be focused. Examples include:

- broad agreement that national and local parties can align behind an inclusive growth agenda which allows communities across Scotland to prosper – recognising the significant current local investment and action that supports economic growth;
- City Deals that drive economic growth and inclusion at city region levels, and improve knowledge sharing and risk awareness. These engage key public and private sector organisations, and are supported by robust regional governance;
- the strong partnership working in developing Regional College Outcome Agreements that reflect economic circumstances and skills needs in each region;
- HIE’s specific expertise and support to strengthen communities and address issues in remote, rural and fragile areas. HIE account manages 44 communities, all of which are pursuing revenue earning projects; and
- the partnership approach to delivering the Highlands and Islands Skills Investment Plan that matches individual skills development to local industry needs supported by local plans.

**Challenges and opportunities:** Responses to the call for evidence and engagement with key stakeholders highlighted opportunities for improved local support around:

- a stronger regional approach where appropriate to respond to need;
- inconsistency in how the particular needs of the Highlands and Islands and the South of Scotland have been addressed, despite the socio-economic circumstances faced by both areas being more similar to each other than to the Central Belt;
- the effectiveness of the link between national and local enterprise support, including Business Gateway;
- national skills support products and their scope to meet local needs; and
- building on the positive impact of current economic partnerships, for example the work of the three Ayrshire Local Authorities around a growth deal and South Lanarkshire’s participation in the Glasgow City Region Deal.

**Action:** In order to ensure that economy has the necessary flexibility and focus to respond well to local circumstances:

- **We will recognise the different social, economic and community development challenges facing the Highlands and Islands and maintain dedicated support which is locally based, managed and directed by HIE.**
- **We will recognise the unique challenges faced in the South of Scotland and create a new vehicle to meet the enterprise and skills needs of the region. This will be accountable to the new Scotland-wide statutory board.**

## AN OPEN AND INTERNATIONAL ECONOMY

**Vision:** We want an enterprise and skills system that works as one both in Scotland and internationally, that inspires, enables and supports Scotland's businesses to trade internationally, and that engages individuals, businesses and institutions to invest in Scotland. One system that promotes a global mindset, raises international ambition, and works with and for the private, academic and public sectors to maximise the impact of individual action and of Scotland's collective endeavour.

**Guiding principles:** Our actions in this area are based on the wide range of experience and expertise which the review has drawn upon, including:

- an existing internationalisation agenda which improves understanding of international opportunities and increases our appetite and ability to seize them; enhances our ability to influence the world around us; and raises Scotland's profile and reputation;
- an approach that builds on *Global Scotland*, Scotland's Trade and Investment Strategy for 2016-21;
- a One Scotland approach so that working together across the public, private and academic sectors and among individuals and businesses is the norm; and
- agility in our response to international opportunities and circumstances.

**Current strengths and successes:** Work across the public, private and academic sectors already provides a strong foundation for achieving our vision:

- between 2010 and 2014 international exports increased by £4.0 billion (17.3%) from £23.4 billion to £27.5 billion;
- total food and drink manufacturing exports increased by £3.4 billion (63%) from £5.4 billion to £8.8 billion between 2002 and 2014;
- the 2016 EY Scotland Attractiveness Survey ranks Scotland as the top location for inward investment in the UK outside of London;
- Scotland is now the top UK region for R&D inward investment, with 2015 a record year in attracting 23 individual projects, up from 17 in 2014;
- SDI's support to Scottish companies has increased from 1,380 companies in 2011-12 to 2,607 companies in 2015-16; and
- Scotland's universities attracted over 50,000 EU and international students in 2014/15. They have agreements with other universities across the world; have established or are developing campuses in places from Malaysia to Dubai to South Korea; and are internationally renowned for their research and academic excellence.

**Challenges and opportunities:** Our existing strengths and successes, and the agenda for internationalisation set out in our Trade and Investment Strategy, provide a strong platform for the future. However, Scotland's long-term economic performance depends on greater success in international markets and in continuing to attract stronger investment. The outcome of the EU Referendum puts this at significant risk

In this context, the review identified:

- the need for a more concerted and better co-ordinated effort across the enterprise and skills system and beyond to ensure that our collective international activity, and not just that focused directly on trade and investment, delivers maximum benefit for Scotland;

- a need to improve understanding of SDI's responsibilities and governance;
- the need to embrace digital as a key means of accessing international opportunities and to provide and join up services in Scotland and internationally; and
- the scope and opportunity to make even more of Scotland's wide range of international assets and strengths, including the SDI network; the expertise and reach of VisitScotland; the development of innovation and investment Hubs in London, Dublin, Brussels and Berlin; networks such as Connected Scotland and Global Scots; and our universities' global reputation, teaching and research reach.

**Action:** In order to bring greater coherence as we step up the pace of delivery of our Trade and Investment Strategy through activity such as the establishment of a new Board of Trade, the appointment of Trade Envoys, the establishment of an Innovation and Investment Hub in Berlin, and the doubling of SDI's presence across Europe:

- **We will ensure a much stronger focus on co-ordinating international activity across the public and academic sectors to deliver maximum benefit for Scotland.**
- **We will consider the role, position and governance of SDI and its possible establishment as a distinct and separate organisation under the new Scotland-wide statutory board delivering a broader range of international activities and support.**

## INNOVATION

**Vision:** We want Scotland to be a place where innovation is an intrinsic part of our culture, our society and our economy – where businesses across the country are ambitious and open to collaborations and partnerships with one another, with academia, and with other organisations, and have high levels of innovation and growth as a result.

**Guiding principles:** Innovation and collaboration are about turning ideas and research into new or improved products, services or business processes. To drive this:

- we need to simplify the innovation landscape and align better our innovation approach to maximise the impact of public sector support for innovation;
- we need to ensure that we have the right range and mix of accessible innovation advice and products, tailored to the right customers and meeting their needs; and
- we need to increase awareness of sources of innovation support and the benefits it can provide for businesses across Scotland. This should include access to academic expertise and facilities across Scotland.

**Current strengths and successes:** Scotland has a world-wide reputation for invention and innovation. Evidence shows that:

- Scotland's world-class innovation assets include a highly skilled and qualified workforce, a strong HE sector and research base, and a number of internationally innovative companies across a variety of sectors;
- our businesses have been improving their innovation performance in recent years through increased investment and increased innovation activity;
- Scotland does well internationally on the enablers of innovation, ranking second among EU countries in terms of university graduates as a share of the adult population, and fifth in the OECD in terms of expenditure on higher education R&D.

Our public sector plays a number of important roles in supporting innovation by:

- acting as a catalyst through procurement and support for research and innovation;
- contributing to the creation and development of innovative firms and assisting existing businesses to access finance and assimilate innovative products and ways of working;
- helping to shape markets and create the best environment for innovation; and
- driving collaboration between business and academia.

Scottish Enterprise, which provides the bulk of our business-facing innovation support, has improved its approach in order to widen and deepen business innovation activity. A review of innovation support over the past decade shows that it has:

- significantly increased the reach of its innovation support and engaged with an additional 2000 new innovation companies;
- increased the economic return on its innovation investment to £15 for every £1; and
- increased export activity, with the innovative firms it works with now more than three times more likely to export.

**Challenges and opportunities:** Nonetheless, Scotland remains a mid-ranking nation when it comes to innovation performance overall. Significant gaps remain between our performance and the best-performing countries in the OECD. Evidence shows that:

- although Scotland's innovative SMEs are amongst the most likely in the EU to collaborate with others on innovative activities, Scotland has a notably lower share of SMEs innovating in-house;
- although more businesses are innovating, Scotland still lags behind the leading regions and countries in Europe with a lower share of 'innovation active' businesses overall. Although Scotland's larger businesses are more likely to be innovative than smaller or medium-sized businesses, innovation rates for both medium and large-sized businesses still substantially lag behind the EU average;
- Scotland lags behind other parts of Europe in the economic outcomes associated with innovation, e.g. in terms of employment and of its export share in knowledge-intensive manufacturing and services; and
- basic digital skills issues persist both for businesses and individuals, alongside gender segregation in educational choices.

In helping to build and develop an environment that supports innovation we need to address several challenges highlighted in the Call for Evidence:

- simplify and streamline funding and interventions and reduce duplication in our support for innovation, while ensuring it is agile, fast and flexible in responding to businesses' needs;
- improve leadership, digital and other skills to drive innovation and enterprise;
- maximise the impact of university research to increase collaboration with businesses in Scotland and internationally in order to better drive improved economic output;
- make better use of our existing network of innovation centres and ensure the wider public support landscape enables growth; and
- maximise the impact of our world-renowned research base.

**Action:** In order to drive up innovation across Scotland:

- **We will review, streamline and simplify the innovation support ecosystem, connecting programmes, funding and delivery mechanisms. We will ensure that more businesses in Scotland increase their level of innovation to realise their major growth ambitions by implementing an innovation action plan that will be published by end of November.**

## SKILLS PROVISION AND ECONOMIC SUCCESS

**Vision:** The recently published Labour Market Strategy makes clear our ambitions to deliver a labour market where there:

- is a skilled, productive and engaged workforce capable of meeting the needs of employers;
- is equality of opportunity to access work and to progress to ensure everyone is able to maximise their potential;
- are fulfilling, secure and well-paid jobs, where employees' contributions are encouraged, respected and valued;
- is low unemployment and high employment; and
- is an economy that supports a sustainable working population and can retain and attract new talent to meet our wider economic and social ambitions.

**Guiding principles:** The skills and learning systems contribute to our economic success by supporting people to get the skills they need to participate in the labour market and by ensuring our employers are supported to build and develop the workforce they need to succeed. Building from this strong base, we need to better meet the needs of learners, colleges, universities, business and employees by:

- focusing on an efficient learner journey toward and into sustained employment, with funding mechanisms aiding that journey; and
- supporting learners' progression at each stage of that journey, even as they switch between types of learning and institutions.

**Current strengths and successes:** Scotland already has a high-performing skills system by many measures:

- a strong performance on post-secondary qualifications with one of the highest rates in the EU;
- our college reforms have seen the emergence of a network of regional skills and technical education hubs focused on the needs of the region's learners and employers;
- five universities in the global top 200; and
- the scale, impact and ambition of our Modern Apprenticeship programme has grown significantly over the past decade in partnership with employers across the economy.

The review has highlighted the importance of good quality labour market information to better drive the planning and procurement of skills across the system. Skills Development Scotland has made good progress in recent years with the development of Skills Investment Plans and Regional Skills Assessments. The Scottish Funding Council, having responsibility for funding both further and higher education, has been in a unique position of being able to think strategically about the learning system as a whole, using this information to help meet the needs of students as they progress through their learner journey.

**Challenges and opportunities:** Building on this, the first phase of the review has concluded:

- that we need to enhance significantly the use of information across the system to ensure that learners have a wide range of high quality options that are informed by the needs of employers;
- that we should consider the types of partnerships necessary to improve our responsiveness to regional skills needs, starting with the alignment of the two skills agencies;
- the move to more joined-up governance of the skills and enterprise agencies should be replicated at an operational level, with much closer alignment across the system with the planning and provision of learning and skills;
- the importance of understanding better the most effective balance of our skills investment to maximise the return in terms of productivity and labour market inclusion; and
- the need to consider how we invest to ensure the most effective support for, and contribution from, those in work, always mindful of changing external factors.

**Action:** In order to contribute to increased productivity, we want to make sure that learners move as effectively and efficiently through their learning toward employment. To support this, we will start to take forward the following improvements with our agencies over the coming months:

- **We will align the functions of our skills agencies to better join up how learning and skills are planned and provided to learners and employers.**
- **We will conduct a comprehensive review of the Learning Journey focused on sustained employment, with significantly enhanced use of labour market information in skills planning at its heart.**
- **We will review the effectiveness of our investment in learning and skills to ensure we have the right balance of provision across age groups and sectors and maximise its contribution to productivity and inclusive growth.**

## PHASE 2: IMPLEMENTATION, NEXT STEPS AND FRONT-LINE SUPPORT

### Phase 1 Implementation

In phase 2 we will undertake the implementation of our phase 1 decisions. This will include working with the agencies and other partners to strengthen our enterprise and skills system by:

- consulting on the strategic board, the best distribution of functions between the agencies underneath it, and the associated legislative requirements;
- taking forward plans for the development of a common analytical approach;
- developing a number of common targets aligned with Scotland's National Performance Framework and Economic Strategy to help measure performance;
- exploring how best to create the new vehicle to meet the needs of the South of Scotland, including clarifying its boundaries and the locally-based support it will deliver; and
- taking forward our decisions across internationalisation, innovation and the learning journey.

## Next Steps – Regional Partnerships

In addition, we will work with COSLA, local authorities and their business and other local partners to build on existing and emerging opportunities throughout Scotland and to optimise regional economic impact while remaining responsive to meeting local needs. This is with the aim of building on assets to harness regional strengths to stimulate local economic development and to build inclusive growth.

## Next Steps – Strengthening Front-line Support

In phase 2, we will also undertake further work with our agencies to develop the right digital approach and a new system of enterprise and skills support.

**On digital**, evidence from the review highlighted the critical dependency of our global economic competitiveness on the **right digital approach**. Stakeholders identified various key contributory factors: connectivity; skills; business capability to operate digitally; and the development of digital public services. They highlighted the need:

- for good connectivity across all parts of the country;
- to increase general digital skills levels across all parts of our population, including those in work;
- for increased specialist skills to be available to ensure that businesses can design modern, internationally competitive services;
- for more businesses to be fully digital, applying digital technologies in core business beyond website design to reach and service customers, respond to feedback, improve back-office support, use analytics, and develop new types of services;
- for a wider digital support offering to more businesses; and
- public services to be available digitally and be user-focused with ‘no wrong door’ access.

In response, we will seek to implement with agencies over the coming months:

- a step-change in digital skills provision at both general and specialist level;
- wider support for more businesses to increase their appetite and skills to operate digitally so that every business can be a digital business; and
- better communication of the Scottish Government’s infrastructure plans, and ongoing examination of how best to accelerate improved coverage.

**On enterprise support**, evidence from the review suggested the system had broadly identified the right strategic framework and considered areas where operational delivery might be improved. It was suggested that:

- it may be reasonable to seek certain attributes or contributions from companies seeking and receiving public sector support;
- ‘high growth’ company support might be better and more clearly targeted and should be time-limited in nature, with clearer entry and exit points;
- more companies might benefit from advice and support, with a wider core offering around increasing productivity, innovation, digital support and exporting;
- targeting should be reviewed and focused on increasing impact;

- in many cases, the right advice and support for businesses might offer greater impact than grant; and
- there are opportunities to involve businesses more effectively in the design of services and some aspects of delivery.

In response, during phase 2 we will look at the best way to take forward:

- improving the delivery of enterprise support with better targeting, and clearer entry and exit points;
- a wider and more coherent offering of core support to more businesses. This will cover innovation, productivity, digital and exporting, and may include improved web-based delivery and one-to-many engagement;
- increased focus on ensuring the right advice and support services over grant provision;
- closer engagement with the private sector to shape how the public sector can meet business needs; and
- the right areas for the private sector to engage in providing services.

## ANNEX

### Scotland's Enterprise and Skills Agencies – Factual Background

**Scottish Funding Council (SFC)** was established under section 1 of the Further and Higher Education (Scotland) Act 2005 and is given various statutory functions in that Act, e.g. the undertaking of research. The Act also sets out the number of board members and details their appointment arrangements. The SFC Board is accountable to Ministers for the funding it is given, under terms of conditions of grant and a Ministerial letter or guidance, and the Chief Executive is an Accountable Officer. Ministers have statutory powers of direction. A Framework Document governs the relationship between Ministers and the Agency.

**Scottish Enterprise and Highlands and Islands Enterprise (SE and HIE)** are set up under Part 1 of the Enterprise and New Towns (Scotland) Act 1990 and have various functions under that Act. HIE has some additional social development responsibilities to SE. The legislation sets out the number of board members and details their appointment arrangements. Framework documents govern the relationship between Ministers and the Agencies. Chief Executives are Accountable Officers. Ministers issue strategic guidance letters and budget allocations. Ministerial agreement is required for certain decisions, e.g. relating to new leases, and Ministers have the power to issue Letters of Direction.

**Scottish Development International (SDI)** brings together the Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise. It is the lead body for driving forward international trade and investment support in Scotland.

**Skills Development Scotland (SDS)** has no statutory governance structure, although it has a number of statutory functions. It is a company limited by guarantee with Scottish Ministers the sole member of the company. Its powers and functions are determined by Memorandum and Articles of Association, which may be adjusted by special resolution to Companies House. Ministers set out their priorities in annual budget allocation letters and in strategic guidance letters.

**SE, HIE, SDS and the SFC** all collect and analyse **data** to help them to carry out their functions as effectively as possible. Some also carry out **evaluation** functions to help to identify the most effective interventions. The Agencies undertake **strategic analysis** both in relation to national priorities and to support their specific delivery functions.

**Local government** – Local authorities can promote economic development under the power to advance wellbeing (The Local Government in Scotland Act 2003 – Guidance on the Power to Advance Wellbeing). The Business Gateway service is one element of economic development services offered by local authorities. It is delivered locally through Councils, either by in-house provision or externally by a contractor. Its funding forms part of the local government funding block. Beyond local authorities there is significant existing regional activity (e.g. ONE, City Regions). There are **three City Deals** in Scotland (Glasgow, Aberdeen and Inverness). Together, these commit Scottish Government funding of £760 million over the next 10-20 years. There is a commitment to tripartite discussions on a **City Region Deal** for Edinburgh and South East Scotland.



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## ITEM 8 - FINANCE

Report by: Alice Miles, Lead Officer

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### Purpose

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This report presents the following for SESplan Joint Committee consideration:

- Expenditure against the approved Operating Budget for 2016 / 2017 up to October 2016;
- Total forecast expenditure against the approved Operating Budget for 2016 / 2017; and
- Operating Budget for 2017 / 2018, 2018 / 2019 and 2019 / 2020.

### Recommendations

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It is recommended that the SESplan Joint Committee:

1. Notes the expenditure against the approved Operating Budget for 2016 / 2017 up to October 2016 as set out in Appendix 1 to this report;
2. Notes the total forecast expenditure against the approved Operating Budget for 2016 / 2017 as set out in Appendix 1 to this report;
3. Approves the Operating Budget for 2017 / 2018 as set out in Appendix 1 to this report;
4. Notes the Operating Budgets for 2018 / 2019 and 2019 / 2020 as set out in Appendix 1 to this report;
5. Agrees that member contributions for financial year 2017 / 2018 will be set at £46,550 (excluding VAT) per authority, payable to Fife Council by the 30 April 2017; and
6. Notes that member authorities will be required to ratify the decision at Recommendation 3 of this report by the end of December 2016 and to make their required contributions by the due date.

### Resource Implications

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As set out below and in Appendix 1.

## **Legal and Risk Implications**

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There are risks to the process if sufficient funding is not available to progress the Strategic Development Plan (SDP) at a rate which provides up to date strategic planning policy context for the timeous progression of the member authorities Local Development Plans as is required by the relevant legislation. All risks and responses to these are detailed in the SESplan risk register and updates on risk management are reported to SESplan Joint Committee on an annual basis (See Item 5 Risk Management).

## **Policy and Impact Assessment**

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No separate impact assessment is required.

### **1. Background**

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2.1 The SESplan Financial Rules set out that Operating Budgets for the next financial year should be proposed by the SDP Manager, approved by the SESplan Joint Committee and that decision ratified by the member authorities by the end of December. The SESplan Operating Budget for 2016 / 2017 was approved at SESplan Joint Committee on the 14 December 2015, with all member authorities to contribute £46,550 by the 30 April 2016. All member authorities paid the required contribution by the due date.

1.1 The Treasurer in conjunction with the SDP Manager is also required to submit detailed finance monitoring reports to the SESplan Joint Committee twice a year, with one occasion being the end of each financial year.

### **2. Operating Budget 2016 / 2017**

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2.2 In terms of fixed costs the Operating Budget for 2016 / 2017 includes an allowance for staffing within the Core Team of the SDP Manager, Lead Officer (1 FTE – Maternity Leave cover over the period January 2016 – January 2017), Planner, Temporary Planner (contract to December 2017) and Student Planner (0.4 FTE contract to August 2016).

- 2.3 Accommodation costs within West Lothian Civic Centre were assumed at £7,613 with an allowance of £2,000 for administration support. In terms of IT / Software, the Operating Budget includes £12,000 for Objective and £1,500 per annum for Objective Connect. Also included is the annual hosting of the SESplan website and recharge for West Lothian IT services who provide IT hardware and support to the Core Team. Audit fees in 2014 / 2015 were £3,380 and costs were assumed to be the same in future years (i.e. no reduction but also no inflation).
- 2.4 The 2016 / 2017 Operating Budget included £20,000 for spend on technical support plus £2,000 contingency.
- 2.5 The approved Operating Budget for 2016 / 2017 is £286,366. Total actual expenditure to October 2016 is £123,017 with total forecast expenditure estimated at £257,565, an underspend of £28,771.
- 2.6 The underspend in forecast expenditure is largely because the SDP Manager post has been vacant since September 2016 and the Student Planner post became vacant in May rather than August 2016. As set out under Item 5 (Risk Management) there is a risk of insufficient resources over the period to the submission of Proposed SDP2 for Examination. In response to this risk, the underspend on the 2016 / 2017 Budget in staffing has allowed for the recruitment of a planner and student planner posts on temporary three month contracts. These posts will assist with the processing of representations received on Proposed SDP2 and preparation of the Schedule 4s and Submission Package for Examination. The Submission Package and Schedule of Unresolved Representations will be brought to the SESplan Joint Committee in March 2017 for approval. In addition, opportunities for the SEStran Partnership Director to provide some leadership and management for the team previously delivered through the SDP Manager post are being explored, albeit on the basis of one day a week, a much reduced time commitment.

### **3. Operating Budget 2017 / 2018 and Forecast Operating Budgets 2018 / 2019 and 2019 / 2020**

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- 3.1 Appendix 1 sets out a proposed Operating Budget for the financial year 2017 /2018.
- 3.2 The 2017 / 2018 Operating Budget includes an allowance for staffing within the SESplan Core Team of Lead Officer (0.8FTE), Planner (1FTE), Planner (1FTE contract to December 2017) and SDP Manager (0.2FTE). It is proposed that the Planner contract to December 2017 is extended to December 2018. There is also provision for a Student Planner on a twelve month contract.

- 3.3 These posts will provide for stability within the Core Team over the period to the approval of SDP2 by Ministers (anticipated Spring 2018). Critically these posts will allow for the completion of substantial pieces of work to inform the preparation of Supplementary Guidance on a Cross Boundary Transport Contributions Framework (see Item 5 Risk Management and paragraph 3.6 below) and two frameworks for the cross boundary Green Network Priority Areas identified in Edinburgh and West and South East.
- 3.4 In terms of IT / software, the Operating Budget includes £12,000 for Objective and £1,500 per year for Objective Connect. These systems allow management of the consultation on the plan and the sharing of information and papers with members and other stakeholders. Also included is the annual hosting of the SESplan website and recharge for West Lothian IT services who currently provide IT hardware and support to the Core Team.
- 3.5 Audit fees in 2015 / 2016 (totals for 2016 / 2017 are not yet available) were £3,380. Costs for 2017 / 2018 have been assumed to be the same (i.e. no reduction but also no inflation).
- 3.6 Under variable costs, the 2017 / 2018 Operating Budget includes £108,350 for spend on technical support. The largest item of spend is £60,000 for research to provide the robust evidence needed to justify an appropriate rate for contributions and the 'contributions zones' that will be a key element of the Cross Boundary Transport Contributions Framework Supplementary Guidance. As set out under Item 5 (Risk Management) sufficient funds have been set aside to commission further work to generate contribution zones for specific interventions that will address the impacts of cross boundary travel. This work should as a minimum ensure the outputs will enable a system to be established that could not be subject to the same challenges as the Aberdeen Strategic Transport Fund.
- 3.7 Following discussions with the DPEA, £30,000 has been allocated to cover the costs of the Proposed SDP2 Examination.
- 2.7 Looking ahead the White Paper on Planning following the Planning Review is anticipated to be published in January / February 2017. The Planning Review included the recommendation that SDPs are no longer prepared and that Strategic Development Planning Authorities (SDPA) should be repurposed. In this context the format of SDP3 is unknown. However as set out above there are opportunities for the SEStran Partnership Director to provide some leadership and management for the team previously delivered through the SDP Manager post.

- 3.8 SEStran are located within Victoria Quay in Edinburgh, therefore it is sensible for the SESplan Core Team to relocate to Victoria Quay alongside the SEStran Partnership Director. The Core Team are anticipated to relocate by April 2017. Accommodation costs for 2017 / 2018 have been assumed at the same level as Civic Centre at £7,487 with an increase of 1.5% per year for inflation. Exact costs to accommodate the SESplan Core Team in Victoria Quay have not been confirmed, but they are not expected to be higher than current accommodation costs in the Civic Centre in Livingston.
- 3.9 In the short term the underspend in the 2016 / 2017 Operating Budget will facilitate the relocation of the SESplan Core Team and allow for the procurement of IT hardware currently provided by West Lothian Council. In the longer term discussions on the opportunities for the repurposing of SESplan alongside SEStran will be explored. In this context into 2018 / 2019 and 2019 / 2020 opportunities for savings in the SESplan Operating Budget particularly around administration and IT as the structures and arrangements currently in place at both SESplan and SEStran are reviewed will be investigated.
- 3.10 The SESplan Annual Audit for 2015 / 2016 identified that there may be merit in re-assessing the Authority's use of reserves and it is noted that the Operating Budget sets out that the Authority's reserves will increase over the period 2018 / 2019 and 2019 / 2020. However it is sensible to plan the 2017 / 2018 Operating Budget and 3 Year Budget on the basis of a continuation of SESplan in its current form with member contributions to remain at £46,550 per authority. This will ensure that SESplan or any potential successor organisation has adequate resources to deliver any new responsibilities that may emerge from the Planning Review process. In any event by 2019 / 2020 much of the evidence on which strategic infrastructure planning in the region is based will need to be updated, regardless of the public sector landscape or governance arrangements under which strategic regional planning is actually delivered in that year.
- 3.11 The 2018 / 2019 Operating Budget will be drafted to take account of any changes to the purpose of the SDPA and a Monitoring Report on finance and expenditure will be brought to the SESplan Joint Committee meeting in March 2017. Opportunities for efficiencies will be identified.

#### **4. Conclusion**

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- 4.1 It is requested that member authorities take steps now in their budget setting to ensure that contributions will be in place by the start of the next financial year.

## Appendices

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1 SESplan Operating Budget 2016 / 2017 and Three Year Operating Budget to 2019 / 2020

### Report Contact

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Appendix 1 - SESplan Operating Budget 2016 / 2017 and Three Year Operating Budget to 2019 / 2020

DESCRIPTION	16/17 Budget	Actual spend Sept- 16	16/17 Forecast	16/17 Variance	17/18 Budget	18/19 Budget	19/20 Budget
SINGLE STATUS BASIC PAY incl Agency	227,199	96,591	197,294	-29,905	160,931	163,969	190,186
TRAINING COSTS	1,000	520	1,000	0	2,000	2,000	2,000
RENTS PAYABLE, incl service charges	9,613	7,376	7,376	-2,237	7,487	7,599	7,713
TRAVEL EXPENSES	5,100	1,611	4,200	-900	4,200	4,200	4,200
IT HARDWARE	0	0	500	500	0	0	0
IT SOFTWARE	16,000	7,200	13,500	-2,500	13,703	13,909	14,118
IT MAINTENANCE	0	684	684	684	0	0	0
MOBILE LINE RENTAL	524	55	200	-324	203	206	209
PROFESSIONAL FEES	3,400	0	3,400	0	3,400	3,400	3,400
EVENT COSTS	0	411	411	411			
MISCELLANEOUS EXPENSES	1,500	0	1,500	0	1,500	1,500	1,500
<b>Fixed</b>	<b>264,336</b>	<b>114,448</b>	<b>230,065</b>	<b>-34,271</b>	<b>193,424</b>	<b>196,783</b>	<b>223,326</b>
<b>Technical Support</b>							
PRINTING/PHOTOCOPYING COSTS	2,500	135	4,000	1,500	4,000	4,000	4,000
CROSS BOUNDARY TRANSPORT PROJECT EXAMINATION	16,000	8,434	16,500	500	60,000	0	0
TECHNICAL SUPPORT					30,000	0	0
POSTAGES/FRANKING	500	0	500	0	0	20,000	30,000
ADVERTISING/MARKETING	1,000		4,000	3,000	500	500	500
OTHER SERVICES (Contingency 10%)	2,000		2,500	500	4,000	4,000	4,000
<b>Variable</b>	<b>22,000</b>	<b>8,569</b>	<b>27,500</b>	<b>5,500</b>	<b>108,350</b>	<b>31,350</b>	<b>42,350</b>
<b>Expenditure</b>	<b>286,336</b>	<b>123,017</b>	<b>257,565</b>	<b>-28,771</b>	<b>301,774</b>	<b>228,133</b>	<b>265,676</b>
INCOME-OTHER LOC AUTH(VAT)	-279,300	-279,300	-279,300	0	-279,300	-279,300	-279,300
SALES-PLANNING	-250	0	0	250	0	0	0
INCOME-INTEREST ON REV BALANCE	-1,000	0	-500	500	-500	-500	-500
<b>Income</b>	<b>-280,550</b>	<b>-279,300</b>	<b>-279,800</b>	<b>750</b>	<b>-279,800</b>	<b>-279,800</b>	<b>-279,800</b>
<b>Net</b>	<b>5,786</b>	<b>-156,283</b>	<b>-22,235</b>	<b>-28,021</b>	<b>21,974</b>	<b>-51,667</b>	<b>-14,124</b>
(TAKE FROM)/ADD TO RESERVES	-5,786		22,235	28,021	-21,974	51,667	14,124
<b>NET TOTAL</b>	<b>0</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Usable reserve balance</b>	-36,889		-64,910	-28,021	-42,936	-94,603	-108,727
<b>Usable reserve balance at 1/4/16</b>	-42,675						
<b>Usable reserve as % of expenditure</b>			-25.2%		-14.2%	-41.5%	-40.9%

