
SCOTTISH GOVERNMENT ENTERPRISE AND SKILLS REVIEW - PHASE 2 PROGRESS

Report by Corporate Transformation & Services Director

EXECUTIVE COMMITTEE

7 March 2017

1 PURPOSE AND SUMMARY

- 1.1 This report updates Members on the progress of Phase 2 of the Scottish Government's Enterprise and Skills Review. The report outlines current officer views on the proposed South of Scotland Enterprise and Skills Vehicle. The report seeks Member agreement for this position, and its further development, to ensure that the Council is able to formally respond to the Phase 2 Review.**
- 1.2 Scottish Government confirmed that a Phase 2 report will be progressed to develop detail on the establishment of a new Enterprise and Skills Vehicle for the South of Scotland and has encouraged Councils, and relevant agencies and stakeholders, to engage in this process. Scottish Government has asked the Council (and other stakeholders) to consider a response to four key issues related to the proposed new 'Vehicle'. These are: Geographic boundary; Role and remit; Governance framework; and Resources.
- 1.3 The geographic area for the new 'Vehicle' should be the administrative boundary of Scottish Borders and Dumfries and Galloway. The role and remit of South of Scotland Enterprise and Skills Vehicle needs to recognise the scale of the challenges facing the area. The 'Vehicle' needs to be able to increase the economic capacity of the region and to tackle its structural economic weaknesses in an inclusive and sustainable way.
- 1.4 Officers believe that the fundamental imperative for the remit of the new 'Vehicle' would be to have a Relentless Emphasis on Geography and Place. This recognises that inclusive economic growth can only be generated within the towns and rural communities of the South of Scotland through a new approach. The opportunity to establish a specific South of Scotland Enterprise and Skills Vehicle is a once in a generation opportunity to improve the level of investment in economic growth, enterprise, skills and innovation.
- 1.5 Building on the Scottish Government's position in the Phase 1 Report, the governance framework to be put in place to underpin the new 'Vehicle' should demonstrate clear accountability at local and national level. It also must facilitate the step change required for the new 'Vehicle' to be established on a bespoke basis that meets the ambitions of the South of Scotland stakeholders. The currently preferred governance framework is

also described in the report. It is recognised that the ambition to transform the economy of the South of Scotland will not be achieved without a significant uplift in resources and investment.

- 1.6 South of Scotland met on Friday 3 March 2017. They considered in detail the Enterprise and Skill review, the work undertaken by officers to date, the outcome of the stakeholder meeting on 17 February 2017 and the proposed way forward following a wide ranging discussion they fully endorsed the proposed way forward.

2 RECOMMENDATIONS

2.1 I recommend that the Executive Committee:-

- (a) Notes the progress made in developing Phase 2 of the Scottish Government Enterprise and Skills Review;**
- (b) Note that South of Scotland Alliance considered the content of this report at its meeting Friday 3 March 2017 and fully endorsed the progress and way forward.**
- (c) Agrees the Council's position as set out in this report, which has been developed in collaboration with Dumfries & Galloway Council;**
- (d) Agrees to submit the Council's position to the Cabinet Secretary for Economy, Jobs and Fair Work as a working proposal from the Council;**
- (e) Notes that the Chief Executive will continue to engage with the Scottish Government and stakeholders in order to develop a detailed proposal for a South of Scotland Enterprise and Skills Vehicle in line with the recommendation (c); and**
- (f) Agrees to receive a future report as proposals develop further.**

3 BACKGROUND

- 3.1 The Scottish Government is undertaking an Enterprise and Skills Review. This is described as an end-to-end review to ensure that all of the Scottish Government's public agencies are delivering the joined-up support that our young people, universities, colleges, training providers businesses and the workforce need.
- 3.2 A Phase 1 outcomes report published by the Scottish Government detailed actions which the Scottish Government has committed to pursuing as a result of the review. Action 4 states that a new Enterprise and Skills Vehicle will be created for the South of Scotland:
- 'NATIONAL AND LOCAL ENTERPRISE AND SKILLS DELIVERY
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'.
- 3.3 Scottish Government confirmed that a Phase 2 report will be progressed to develop detail on the establishment of a new Enterprise and Skills Vehicle for the South of Scotland and encouraged Councils, and relevant agencies and stakeholders, to engage in this process.
- 3.4 At its meeting on 22 December 2016 the Council agreed that the guiding principles which should underpin the establishment of the new enterprise and skills 'Vehicle' for the South of Scotland be developed under the themes of:
- (a) Drive Our Economy Forward
 - (b) Sustaining and Growing Our Communities
 - (c) Capitalising On Our People and Resources
- These have been developed as a framework which aligns themes of economy, community and environment to ensure that future development of a new approach for the South of Scotland is holistic and can achieve the step change in approach which has been signalled by the Scottish Government and promoted by the Council. The South of Scotland Alliance (including Scottish Enterprise) has also agreed these broad themes.
- 3.5 Further to the above, the Chief Executive has led an engagement with Dumfries & Galloway Council, Scottish Government and wider stakeholders in order to develop a proposal for a South of Scotland Enterprise & Skills Vehicle. Scottish Government has asked the Council (and other stakeholders) to consider a response to four key issues related to the proposed new 'Vehicle':
- (a) Geographic boundary
 - (b) Role and remit
 - (c) Governance framework
 - (d) Resources
- 3.6 The outcome of this activity is an outline proposition which sets out the parameters that should underpin the establishment of the new 'Vehicle'. The basis of this proposition is outlined in sections 3.7 to 3.25 below.

4 GEOGRPAHY

- 4.1 The geographic area for the new 'Vehicle' should be the administrative boundary of Scottish Borders and Dumfries and Galloway.
- 4.2 This was endorsed by at the meeting of 24 February COSLA Leaders where it was agreed that the South of Scotland Alliance model and area comprising Scottish Borders and Dumfries and Galloway should be the basis for the development of the proposed South of Scotland vehicle. COSLA Leaders further agreed that specific discussions in relation to role and remit of the new 'Vehicle' for the South of Scotland should be led by Scottish Borders and Dumfries and Galloway Councils, with COSLA providing support as necessary.

5 ROLE AND REMIT

- 5.1 The South of Scotland covers one seventh of the land area of Scotland and has the second lowest population density at 23 people per km² in Scotland after the Highlands and Islands. It faces some key challenges that require a step change in the economic development of its area. These include:
 - (a) Low wealth creation (Gross Domestic Product (GDP) per Employee in the South of Scotland £36,632 compared £43,086 for Scotland(2014 figures))
 - (b) Low Average Weekly Wages (£540 in the South of Scotland compared to £623 for Scotland 2016, Workplace Based Analysis)
 - (c) Out-migration of young people and shrinking workforce (Proportion of people of working age 16-64 : 60% in the South of Scotland compared to 65% for Scotland - 2015)
 - (d) Relatively high proportions of its workforce in agriculture, manufacturing, and services and low proportions in growth sectors such as in the finance, professional, scientific and technical areas.
 - (e) Connectivity issues in relation to transport and digital infrastructure.
- 5.2 The role and remit of South of Scotland Enterprise and Skills Vehicle needs to recognise the scale of these challenges and link closely into the Scottish Government's Economic Strategy and the UK Government's "Building our Industrial Strategy" which was launched on 23 January 2017.
- 5.3 The Alliance is well placed to lead the development of the new 'Vehicle', building on the economic ambitions set out in the South of Scotland Alliance's Competitiveness Strategy 2016-2023 and the South of Scotland Rural Regional Economic Development Programme. The role and remit would align with the priorities established in both the Dumfries and Galloway and Scottish Borders Economic Strategies. Officers have been working closely with officials in the Scottish Government to influence thinking which will underpin development of the South of Scotland Enterprise and Skills Vehicle.

- 5.4 A meeting of 30 representatives of organisations with an interest in the proposed South of Scotland Enterprise and Skills Vehicle was hosted by the South of Scotland Alliance on Friday 17 February 2017. The aim of the meeting was to seek the initial views of these bodies on the boundaries, remit, and form of the 'Vehicle', and the desired future engagement with stakeholders.
- 5.5 The main points noted at the workshop were:
- (a) There was agreement that Dumfries & Galloway and Scottish Borders is a coherent area for the boundaries of the initial operation of the 'Vehicle'.
 - (b) There was a need to be ambitious in the proposal for the 'Vehicle', as it is a major opportunity and has the potential to leave a lasting legacy for future generations.
 - (c) The importance of regional control and autonomy for the 'Vehicle'. Governance by regional leaders from the local authorities, Further/Higher Education, businesses, and other key bodies.
 - (d) The 'Vehicle' needs to be entrepreneurial in attracting additional resources to the South of Scotland.
 - (e) In the remit of the 'Vehicle' there was a need for greater consideration to be given to improving skills; making the area more attractive to retain young people; the important role of place and communities; digital connectivity, support, training and awareness as a driver for growth; and the importance of low carbon and environmental factors for economic development.
 - (f) There is a need for continued stakeholder engagement, including a plan for this engagement. It was agreed that private sector engagement would be essential.
 - (g) There was support to aim to have the 'Vehicle' operational within a year.
- 5.6 The proposed role and remit of the 'Vehicle' builds on the guiding principles already agreed by Dumfries and Galloway Council and Scottish Borders Council in December 2016. It takes account of the significant challenges facing the South of Scotland; and the input from the Stakeholder Session.
- 5.7 It is clear from this context that there is a need to be ambitious for the South of Scotland Enterprise and Skills 'Vehicle'. The 'Vehicle' needs to be able to increase the economic capacity of the region and to tackle its structural economic weaknesses in an inclusive and sustainable way. Its interventions would also take account of the economic diversity within the South of Scotland, recognising the distinct challenges facing different places, such as Stranraer and Galashiels. It is crucial that this step change should facilitate clear and demonstrable links between community planning (Local Outcome Improvement Plans) and the South of Scotland 'Vehicle' service delivery to meet local priorities.

- 5.8 Officers believe that the fundamental imperative for the remit of the new 'Vehicle' would be to have a **Relentless Emphasis on Geography and Place**. This recognises that inclusive economic growth can only be generated within the towns and rural communities of the South of Scotland through a new approach. This emphasis on 'place' is recognised as one of the distinctive features of Highlands & Islands Enterprise and the successful remit and delivery approach that it has focused on over the last 50 years.
- 5.9 It is considered that the new South of Scotland 'Vehicle' should have the following priorities which would be reflected in its role and remit:
- (a) **Maximise the contribution that the South of Scotland** makes to Scotland's National Ambition for Inclusive Economic Growth - Deliver the ambitions and priorities in the national economic strategy and local economic strategies.
 - (b) **End-to-end solutions for business support**; as it is important to provide a seamless business support service to companies, social enterprises and communities, to enable them to maximise their economic growth opportunities. A key focus would be to simplify and streamline funding and interventions and reduce duplication in service delivery. The aim would be to provide fast and flexible in responding to businesses' needs. This would also involve the development of stronger local economic sectors and more links between businesses, the Colleges and Universities and support businesses to improve through increased investment and increased innovation activity.
 - (c) **Turn Market Failure into Relative Advantage**; as this is important in a rural area such as the South of Scotland where markets are often weak or failing. This would involve supporting more innovation, entrepreneurialism and research and development; and looking at ways of encouraging more inward investment into the region.
 - (d) **Enabling Infrastructure**; this is crucial to supporting business and community economic development and would include the provision of a range of employment sites and high quality business premises as well as investment in improved transport links. A priority would be to continue to promote the need, and to lobby, for further investment in digital infrastructure to provide Hyperfast broadband connectivity and much fuller 4G mobile coverage. World Class digital infrastructure is essential to overcome physical connectivity and peripherality issues faced across the South of Scotland.
 - (e) **Focus on People and Skills**; as it is important to develop the workforce and retain young people in the area through a bespoke South of Scotland Skills Investment Plan. 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. This would involve stronger employer engagement, supporting the skill needs of regional sectors including care, construction, food and drink, tourism, and textiles; strengthening employability progression pipelines; developing higher level skills; and anticipating and planning for future skills needs.

- (f) **Develop Enterprising Communities;** as an important feature of the South of Scotland is its vibrant and enterprising communities. This would include making the most of the assets of local areas and integrate economic development and community regeneration responsibilities to ensure a strong focus on strengthening communities, local empowerment and place making. A particular priority could be supporting the regeneration of the more economically fragile towns and town centres, and rural communities.
 - (g) **Environment;** maximise the economic opportunities arising from the South of Scotland's unique and high quality environment and plentiful natural resources. Energy can be a catalyst to recast the economic relationship between the South of Scotland and Scotland by growing indigenous, and attracting new industry through sustainable, low carbon energy investment.
 - (h) **Leadership;** a clear focus is required to influence and advocate for enhanced economic, business and community support for the South of Scotland. To support this leadership function the 'Vehicle' needs to strengthen the strategic economic development and economic intelligence capacity of the South of Scotland.
- 5.10 The South of Scotland 'Vehicle' would take cognisance of, and work closely with, local authorities and enterprise bodies in neighbouring areas to maximise economic growth opportunities. This would include Borderlands Growth Initiative and the new South of Scotland 'vehicle' would be ideally placed to lead delivery of relevant projects arising from this work.
- 5.11 It should be noted that the Council continues to pursue the work on City Deal across the wider Edinburgh City Region area (Fife, Edinburgh, West, Mid and East Lothian and the Scottish Borders). Additionally work on the Borderlands is ongoing. This exemplifies the need to work across the need to work across different geographic boundaries for different projects and priorities.

6 GOVERNANCE

- 6.1 Building on the Scottish Government's position in the Phase 1 Report, the governance framework to be put in place to underpin the new 'Vehicle' should demonstrate clear accountability at local and national level. It also must facilitate the step change required for the new 'Vehicle' to be established on a bespoke basis that meets the ambitions of the South of Scotland stakeholders.
- 6.2 In developing the approach to governance consideration has been given to the recommendations of the report published by the Scottish Government from Professor Lorne Crerar on the 'Proposals on the Governance and the Creation of Strategic Board'. There is link to this report as a background paper for Members. This was an action highlighted in the Phase1 report by Scottish Government.
- 6.3 The report proposes significant changes to the governance structures, and accountability, at national level, reflecting the creation of the National Strategic Board, to drive a step change in the performance of the Enterprise and Skills at a national level. Key recommendations in the report include:

- (a) There would one Strategic Plan setting out how the Government's Economic Strategy would be delivered. Through this Strategic Plan, all activity would be aligned in the context of a longer-term approach which would be set against an agreed and ambitious performance measurement framework, supported by the best available evidence and analysis.
- (b) Through the National Strategic Board, there will be a direct accountability to Scottish Ministers for the collective responsibility of each Agency to deliver stretching and collaborative operational plans which will make a measurable contribution to the overall aims.
- (c) The National Strategic Board will be able to hold Agencies to account more explicitly around collaboration and how they have contributed to the overall aims of the Strategic Plan.

National (and regional) Agency Chairs will share the collective responsibility to deliver the National Strategic Board key aims. The role of Delivery Boards will similarly be transformed to reflect the new structure of ensuring embedded collaboration amongst the Agencies and others.

- 6.4 The report was developed to support the Scottish Government implement the outcomes from the Phase 1 Review of Enterprise and Skills. There is much in the report that resonates with, and is aligned to, the views the Council expressed in its response to the initial consultation. There are points of detail on the relationship and accountability between local leadership and the proposed National Strategic Board which require to be addressed through further dialogue with the Scottish Government.
- 6.5 Notwithstanding the above (and accepting that detailed discussion with Scottish Government is required to clarify key points) it is considered by Officers that the overarching governance principle should be to **ensure regional leaders are empowered to make regional decisions and oversee regional delivery** through embedded and well proven community planning structures and partnerships.
- 6.6 The new structures put in place should not create additional layers of bureaucracy, ensuring that there are streamlined reporting and management arrangements, utilising existing structures and stripping out unnecessary administrative burdens. It is considered that existing Council management functions and processes would deliver best value in delivering the corporate governance required for a new 'Vehicle'.
- 6.7 The currently preferred governance framework is described below:
 - (a) Guidance on regional expectations to support national economic priorities from the Scottish Government via the National Board - a transparent relationship with two way accountability.
 - (b) Establishment of a 'Joint Committee' based on Local Government statute (consisting representatives of Councils, Further Education & Higher Education bodies, National Agencies, business leaders and community representatives) to provide direction and performance scrutiny for the new 'Vehicle'. This would ensure that the principles of local democracy are demonstrably strengthened through regional accountability.

- (c) The 'Joint Committee' would agree a South of Scotland 'Strategic Economic Plan' (with associated Delivery Plan). This would be aligned with the National Strategic Plan and clearly set out regional economic priorities and the way in which these would be achieved.
 - (d) Private sector stakeholder engagement would be placed at the heart of understanding the challenges facing them and the markets they serve. Stakeholder collaboration would be a fundamental building block on which strategic direction and interventions are informed and shaped by insightful information and regional perspectives, thereby leading to ambitious and achievable priorities.
 - (e) A legally binding agreement between those organisations involved, to agree strategic and operational responsibilities and resource contributions. This would include agreement on core resources directly overseen by the Joint Committee and those controlled by local and national agencies but which are aligned with the South of Scotland Economic Plan.
 - (f) Establishment of a delivery model which would brigade staff and financial resources from partners under a new South of Scotland leadership arrangement to deliver the Strategic Plan.
 - (g) Commitment from all regional and national stakeholders to align resources to lead and deliver the specific aims of the South of Scotland Strategic Economic Plan.
- 6.8 The proposed governance would ensure that key stakeholders are empowered in a strategic leadership role whilst ensuring appropriate local political accountability and strong involvement from the business sector. It would create a clear level of accountability between the National Board, Joint Committee and national agencies. All stakeholders would work to achieve the aims of a single South of Scotland Strategic Economic Plan, breaking down perceived or actual organisational barriers to improve service delivery for the specific needs of the South of Scotland.
- 6.9 There would be a clear methodology for Partners to be formally engaged, thus better linking to planning cycles for national agencies and local bodies. It would be relatively quick and straight forward to put in place (with no primary legislation required) and inexpensive as there would be no need to create additional layers of corporate requirements. Legal protection, audit and robust financial management requirements would be managed through existing governance structures and corporate mechanisms.

7 RESOURCES

- 7.1 It is recognised that the ambition to transform the economy of the South of Scotland will not be achieved without a significant uplift in resources and investment. There are four principles which should underpin the resourcing of the new 'Vehicle':
- (a) All regional and national agencies commit to align resources to deliver the aims and objectives of the South of Scotland Strategic Economic Plan
 - (b) Scottish Government provide additional resources to ensure that the Delivery Model is fit for purpose and can deliver the new requirements set out in the Strategic Plan;

- (c) Partners agree to consider further revenue and capital contributions on a project specific basis;
 - (d) Delivery Model remitted to attract additional resources through external funding and/or financial instruments (for example Borderlands Growth Deal Initiative).
- 7.2 It is recognised that the above is in outline only and that a detailed proposal, including in respect of the Delivery Model, is required for the further consideration of Members before any commitment is made to progress. A further report will be presented to Committee in due course.
- 7.3 However, Scottish Government officials have positively encouraged the Council to put forward a proposal in order to inform ongoing work on the Phase 2 report in relation to the establishment of new 'Vehicle' for the South of Scotland. Scottish Government intends to publish an update on Phase 2 in April 2017. It is therefore important to ensure that the Council contributes fully, and timeously, to the development of the Scottish Government position.
- 7.4 It is recommended that the approach outlined in this report is submitted to the Cabinet Secretary for Economy, Jobs and Fair Work for consideration in Phase 2 of the review as the Council's working position.

8 IMPLICATIONS

8.1 Financial

The proposals discussed in this report are at a very early stage of development. A preliminary financial assessment of the implications of the proposals will be undertaken. Detailed work on this will be a priority for officers once the Scottish Government has agreed its favoured solution. However, it is important to reemphasise that the ambition to transform the economy of the South of Scotland will not be achieved without a significant uplift in resources and investment.

8.2 Risk and Mitigations

There is a reputational risk to the Council of not ensuring that it strongly influences the outcome of the Scottish Government's Enterprise and Skills Review – Phase 2. The opportunity to establish a specific South of Scotland Enterprise and Skills Vehicle is a once in a generation opportunity to improve the level of investment in economic growth, enterprise, skills and innovation. The Council is mitigating this risk by working closely with Dumfries & Galloway Council, Scottish Enterprise, Skills Development Scotland and Scottish Government officials to develop ambitious, game-changing proposals for the South of Scotland Vehicle.

8.3 Equalities

It is anticipated that an Equalities Impact Assessment will be required in relation to the establishment of the new 'Vehicle' in order to ensure that there are no adverse impacts due to race, disability, gender, age, sexual orientation or religious/belief arising. The new 'Vehicle' will have inclusive economic growth as one of its key aims.

8.4 Acting Sustainably

The new 'Vehicle' will have the aims of sustainable and inclusive economic growth at its core. If it helps to secure additional economic activity and growth it will have contributed to the sustainability of the local economy and communities.

8.5 Carbon Management

There are no direct implications for the Council's carbon emissions from this proposal. The new 'Vehicle' will undoubtedly have the transition to a Low Carbon Economy as one of its key objectives, and the Council will have a role, along with other local organisations and businesses in contributing to that objective.

8.6 Rural Proofing

Rural Proofing is not required as the proposals do not relate to an amended Council policy or strategy. The proposed South of Scotland Enterprise and Skills Vehicle has the potential to have a positive impact on the rural area.

8.7 Changes to Scheme of Administration or Scheme of Delegation

There are no changes to be made to the Scheme of Administration or Scheme of Delegation arising from this report.

9 CONSULTATION

- 9.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council are being consulted and comments will be reported at the Committee meeting.

Approved by

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Signature

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Background Papers: Enterprise and Skills Review: report by Professor Lorne Crerar.

Previous Minute Reference: Scottish Borders Council, 22 December 2016

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Bryan McGrath can also give information on other language translations as well as providing additional copies.

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