



SUSTAINABLE DEVELOPMENT COMMITTEE:
POLICY AND RESOURCES COMMITTEE:

1 JUNE 2011
9 JUNE 2011

REVIEW OF THE PURPOSE OF AN ENTERPRISE AGENCY

Report by Director of Development

PURPOSE OF REPORT To inform the Comhairle of the outcome of the Scottish Government review of the purpose of an enterprise agency.

COMPETENCE

1.1 There are no legal, financial or other constraints to the recommendations being implemented.

SUMMARY

2.1 Towards the end of 2010 the Economy, Energy and Tourism Committee of the Scottish Parliament undertook a “fundamental review of the purpose of an enterprise agency and the success of recent reforms”.

2.2 The Comhairle responded formally, arguing that the functions of Highlands and Islands Enterprise (HIE) would best be delivered through Local Authorities; that these functions should be adequately resourced and that economic strategy should have a national focus, but the ability to be interpreted to meet and match local needs and aspirations. In November the Comhairle subsequently presented evidence in person to the Committee. The review was concluded in March 2011.

2.3 The Committee reported that budgets of the enterprise agencies have declined steadily over the period since 2007, and there is now a question mark over whether they can continue to deliver a broad range of services to businesses as well as deliver on opportunities associated with renewable energy while at the same delivering large, transformational infrastructure projects such as the roll-out of high speed broadband with the resources available to them.

2.4 HIE’s local presence before the 2007 reforms has been reduced and a perceived dilution of HIE’s strengthening communities remit has taken place. The Committee recognised that some of the major strengthening communities’ initiatives such as community buy-outs could be more difficult to achieve in the future. Full conclusions and recommendations of the Review, which Members are asked to note, are appended.

RECOMMENDATION

3.1 **It is recommended that the Comhairle note the outcomes of the Scottish Government’s Fundamental Review of the Purpose of an Enterprise Agency and the Success of the Recent Reforms.**

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Appendix: Conclusions and Recommendations

Background Papers: 1 Report to Policy and Resources Committee, September 2010
2 Final Report to the Economy Energy and Tourism Committee

BACKGROUND

- 4.1 Scotland's development agencies have played a longstanding role in tackling the country's economic development agenda. The origins of the Highlands and Islands Enterprise (HIE) and Scottish Enterprise (SE) can be traced back to the 1960s and 1970s respectively. HIE's predecessor, Highlands and Islands Development Board (HIDB), sought to address fundamental economic and social issues in the Highlands and Islands which stemmed from the area's loss of population and the fragility of many of its communities. HIDB was provided with powers to address these economic and social challenges.
- 4.2 Both HIE and SE owe their current existence to the Enterprise and New Towns (Scotland) Act 1990. Between 1991 and 2007 the agencies operated largely through a decentralised structure of Local Enterprise Companies (LECs) and for the most part there were 10 in the Highlands and Islands. HIE provided specialist support and services from their headquarters to the LECs and to national initiatives. By definition LECs brought a local dimension to economic development delivery. As separately constituted bodies empowered and resourced through annual operating agreements with HIE, they had their own Boards. Private sector involvement on the Boards was a feature along with other wider local representation, typically including Local Authorities.
- 4.3 In September 2007, the Cabinet Secretary for Finance and Sustainable Growth (the Cabinet Secretary) announced wide-reaching reforms to the enterprise network which were designed to support the implementation of the Scottish Government Economic Strategy. LECs and Local Enterprise Forums (LEFs) were abolished and replaced with a regional delivery model for enterprise support in an effort to reduce bureaucracy and streamline local delivery. Business Gateway is now delivered by local Authorities and acts as a "one-stop-shop" for business start-up and support and refers high growth companies to HIE via the "Growth Pipeline". In recognition of the different needs of remote and rural communities, HIE has retained its strengthening communities remit.
- 4.4 The additional responsibilities given to Scotland's Local Authorities were an important feature of the reforms. The Cabinet Secretary set out the Scottish Government's plans for the reform of the enterprise networks. In relation to Local Authorities he stated:
"...we have looked carefully at the enterprise networks' current functions and identified those truly local activities which we believe should be transferred to local authorities Economy, Energy and Tourism Committee, 2nd Report, 2011 (Session 3) enabling them to take forward a much more significant role in building their own local economy. The Business Gateway is such an example. It provides advice to new start and local businesses serving mainly local markets. It is appropriate that it should be delivered by local authorities with whom these businesses already interact on a range of local issues".
- 4.5 These reforms were accompanied by a transfer of funding from the enterprise agencies to Local Authorities that has resulted in a reduction of budgets and a reduction in staff numbers remaining in SE and HIE. In addition to their transfer of funds, further budget cuts have meant that the enterprise agencies have had to reduce programme and running costs on a year-on-year basis. Recently updated figures show that that the combined effect of the budget transfers and the efficiency savings has seen the grant aid for HIE fall in real terms by £40 million (43%) since 2007/08 – once adjusted for exceptional items. The main priorities of the development agencies have shifted in emphasis post 2007 with a focus on account management of high growth companies and support in key sectors. HIE have also focussed on large scale "transformational" projects and strengthening communities.

STRATEGIC AND ECONOMIC CONTEXT

- 5.1 In 2007 the Scottish Government launched the Government Economic Strategy (GES) with explicit aims and priorities for the development agencies and others to follow.⁵ The GES sets out five priorities for the Government and the wider public sector to pursue:
- Learning, Skills and Well-being;
 - Supportive Business Environment;
 - Infrastructure Development and Place;
 - Effective Government, and
 - Equity.
- 5.2 In addition the Government has made a commitment that Scotland will achieve a headline target of 20% of total Scottish energy use coming from renewable sources by 2020. Scotland's Renewables Action Plan sets out a framework for action in the specific area of renewable energy. The development of renewables has been recognised by both HIE and SE a major priority now and going forwards.
- 5.3 During evidence to the Committee, the Cabinet Secretary explained that one of the purposes behind this was to focus Government and public services, including local authorities, on increasing sustainable economic growth. He took the view that local authorities had been discouraged from seeing themselves as players in economic development, yet carried out some innovative and impressive economic development work and pointed out the range of other functions – such as planning, transportation and trading standards – which were part of local authorities' portfolio and had an impact on the local economy.
- 5.4 In the post 2007 period Scotland's economy has been affected by the banking crisis and subsequent recession. Until recently, growth had fallen away and unemployment had increased steadily. During the downturn the Scottish Government implemented the Economic Recovery Programme. As part of this the agencies were seen as one of the economic levers to restore growth and during this period service delivery was flexed to meet the needs of the economic conditions and new services were introduced. For example the Scottish Investment Bank was introduced in February 2011.
- 5.5 However, the Scottish Government did not revise the Government Economic Strategy guiding the agencies. In the context of the perceived importance of the enterprise agencies with a backdrop of reducing budgets the Economy, Energy and Tourism Committee, during its consideration of the 2010-11 budget, raised some fundamental questions about the purpose of the enterprise network and its role in economic development. These included whether it was time to rethink the very purpose of an enterprise network and what tasks it should be expected to carry out in a modern economy. This inquiry aimed to address those questions.
- 5.6 The review was concluded in March 2011 and a report published. The conclusions and recommendations of the review are appended to this report. Members are asked to note the outcomes.

A FUNDAMENTAL REVIEW OF THE PURPOSE OF AN ENTERPRISE AGENCY AND THE SUCCESS OF THE RECENT REFORMS

CONCLUSIONS AND RECOMMENDATIONS

Introduction

1. While it is clear that widespread support exists for the role of a publicly funded enterprise network, opinions differ regarding the distribution of responsibilities for economic development across Government, the development agencies and the local authorities. The Committee notes the CoSLA event that took place on 22 February 2011 to evaluate the success of the transfer of Business Gateway functions to local authorities and looks forward to receiving a note of the event.
2. The Committee has heard much evidence to suggest that the transfer of delivery of Business Gateway and local economic development has had some advantages – local accountability, alignment with other local authorities' services and so on. Set against this is the evidence that has suggested that some businesses with the potential for growth miss out or fall between local and national support services.
3. The transfer of regeneration responsibilities to local authorities has been slow to get off the ground and there is confusion over roles. Contributors to the inquiry regretted the fact that some projects – such as the regeneration of Ravenscraig – appeared to slip between the gaps.
4. The budgets of the enterprise agencies have declined steadily over the period since 2007, and there is now a question mark over whether they can continue to deliver a broad range of services to businesses as well as deliver on opportunities associated with renewable energy while at the same delivering large, transformational infrastructure projects such as the roll-out of high speed broadband with the resources available to them.
5. The Committee recognises that economic development takes time and that a sustained emphasis and direction is required to support any intervention.

Social Capital

6. The Committee is struck by the evidence it heard concerning investment in communities and views projects which lead to community enablement and “placeshaping” effective whether these communities reside in inner city urban areas or remote rural areas.
7. The Committee considers that investment in human capital can go hand-in-hand with economic growth – a range of community projects, particularly in the area of community energy generation bear this out.
8. The Committee accepts that different types of intervention will be appropriate to different areas but the common aim should be to offer a level playing field that will support communities to undertake projects that will allow them to develop economically. In this context, consideration should be given by the next government of how communities, regardless of their geographic location, can be empowered to take advantage of economic opportunities in order to flourish socially and economically.
9. The Committee seeks a reassurance from the Scottish Government that such community-led economic opportunities are not being lost due to the absence of a social remit for Scottish Enterprise.

Access to Finance

10. There is now a sense of urgency surrounding the ability of businesses of all shapes and sizes to access capital to innovate and grow. The Committee warmly welcomes the establishment of the Scottish Investment Bank and the Scottish Loans Fund. However, the Committee remains unclear of the extent to which these reflect substantial 'new money' rather than a re-branding of existing schemes.

Alignment

11. With regard to the alignment of public sector intervention, the Committee is not persuaded that the reforms have assisted, or that they have de-cluttered the delivery landscape.
12. Greater clarity is required on the roles and responsibilities of all public and private sector players in economic development. Better alignment of intervention across all sectors would provide greater cohesion to the implementation of the Government's economic strategy.
13. Issues have arisen over the visibility and accountability of structures such as the strategic forum and Regional Advisory Boards. If such bodies are to be instrumental and influential, there must be clear lines of accountability to the parliament.

Highlands and Islands Enterprise.

14. The Committee took the opportunity to meet in the HIE area and engage with local businesses, social enterprises and with local government. The Committee heard a great deal of inspiring evidence surrounding HIE's ambition.
15. However, the Committee is concerned to find that HIE's local presence felt before the 2007 reforms has been reduced and that a perceived dilution of HIE's strengthening communities remit has taken place. The Committee recognises that there is a risk that a loss of momentum, coupled with declining resources, not just in agency funding but also from sources such as the lottery, could mean that some of the major strengthening communities initiatives such as community buy-outs could be more difficult to achieve in the future. The Committee requests a response from the Scottish Government on its assessment of this risk.

Skills

16. The backdrop of the recession risks a "lost generation" of unskilled people, who will find it difficult to access work even within a recovery economy. It is essential, therefore, that resources are aligned to prevent this. Opportunities to train young people within renewable energy and home energy exist now.
17. The formation of Skills Development Scotland has had mixed success and it has been slow to engage with stakeholders. While the Committee does not recommend further structural reform in this area in the medium term, SDS must now grasp its leadership role in skills development and put a fresh emphasis on engagement with partners and stakeholders and a renewed focus on good quality labour market analysis and mapping of skills requirements.
18. It is of critical importance at this early stage of economic recovery and for the future that industry is able to articulate its needs and receive a joined up skills response, based on local, regional and national mapping of need.

The Future

19. It is apparent from the evidence which the Committee has heard that sticking with the status quo carries the risks that some businesses with the potential for growth will continue to be left out in the cold; regeneration will continue to be a low priority for local authorities and the resources of the enterprise agencies and local authorities (in the absence of a statutory duty upon them) will be stretched too thinly to make a meaningful impact.
20. The Committee recommends that resources allocated to support economic development are not reduced any further. The Scottish Government needs to recognise that to seriously exploit emerging opportunities, such as those relating to renewables, additional resources will be required.
21. The Scottish Government now needs to give serious thought to what shape enterprise and regeneration support in the future might take. In an atmosphere of declining resources for public intervention, the Committee believes that a key focus going forward should be on supporting access to capital for both businesses and community groups, regardless of where they are based.
22. Drawing together the evidence it has heard, the Committee proposes the following checklist for the future of enterprise support in Scotland. The desirable characteristics of any state intervention to stimulate economic growth are that it must:
 - respond to market failure, particularly in the areas of internationalisation, innovation and research and leadership;
 - promote entrepreneurship;
 - develop a skilled workforce which matches the needs of the economy;
 - increase access to, and availability of, investment capital by aligning public funds and stimulating input from the private sector;
 - focus on areas with the greatest potential return for the Scottish economy;
 - align policy and strategy between all delivery agencies;
 - avoid unnecessary bureaucracy;
 - have clarity of responsibilities;
 - support local partnerships and invest in the capabilities of communities to determine their own economic future;
 - focus on outcomes for the economy;
 - support innovation and promote the investment by business in innovation;
 - allow a degree of risk-taking; and
 - support more businesses to export.
23. While the enterprise agencies, in their current shape, would argue that they already deliver on all of these characteristics, the Committee has heard evidence to suggest that this is not always the case and more needs to be done to support sustainable economic recovery.
24. The Committee is particularly concerned that access to investment capital is hindering businesses' ability to grow and therefore undermining economic recovery and Scotland's long term competitiveness.
25. The Committee therefore recommends that the Scottish Government considers what more it can do to enable businesses to access investment capital, without further reducing the resources available to the enterprise agencies to meet their existing responsibilities.