ECONOMY, ENERGY AND TOURISM COMMITTEE

AGENDA

13th Meeting, 2010 (Session 3)

Wednesday 21 April 2010

The Committee will meet at 10.00 am in Committee Room 2.

1. **The public sector's support for exporters, international trade and the attraction on inward investment:** The Committee will take evidence from—

   Dr Alison Hiley, Director, Confluence Scotland;

   and then from—

   Prof. Pete Downes, Principal of Dundee University and incoming Convener of the Universities Scotland's Research and Knowledge Exchange Committee, Universities Scotland;


2. **Budget Strategy 2011-12:** The Committee will take evidence on the Scottish Government's Budget Strategy 2011-12 from—

   Crawford Gillies, Chairman, Julian Taylor, Director of Research and Policy, and Douglas Colquhoun, Director of Corporate Planning and Performance, Scottish Enterprise;

   David Smith, Interim CEO, Scottish Development International;

   Sandy Brady, Acting Chief Executive, and Alistair Nicolson, Head of Planning and Economics, Highlands and Islands Enterprise.
The papers for this meeting are as follows—

**Agenda item 2**

Note by the clerk  
EET/S3/10/13/1

SPICe briefing paper  
EET/S3/10/13/2

Scottish Enterprise submission  
EET/S3/10/13/3

PRIVATE PAPER  
EET/S3/10/13/4 (P)

Note by the clerk  
EET/S3/10/13/5

Highlands and Islands Operating Plan 2010-13  
EET/S3/10/13/6

Note by the clerk  
EET/S3/10/13/7
Introduction

1. The Finance Committee and the Scottish Government have agreed that a budget strategy phase (BSP) will be undertaken between April and June 2010. The rationale for having a BSP was set out in the Finance Committee’s 2009 Report on the Review of the Budget Process – it was envisaged that such a phase would allow the Parliament to identify the Government’s priorities, determine whether the budget is delivering on these priorities and make suggestions for alternative strategies. It was also expected that the phase would influence subsequent committee scrutiny of the Scottish Government’s draft budget for 2011-12.

2. As its contribution to the BSP, the Finance Committee has agreed to undertake an inquiry into the public sector’s response to the predicted reductions in future Scottish budgets. The specific remit for their inquiry is as follows:

- What preparation should be underway now by the public sector to ensure the efficient delivery of public services within a period of tightening public expenditure?

3. All the relevant subject committees have been invited to contribute to report to the Finance Committee to this end. The deadline for such contributions is 21 May. This means the Economy, Energy and Tourism Committee will need to agree its final report no later than its meeting of 19 May.

4. As part of its agreed approach to the BSP, the Economy, Energy and Tourism Committee will today take evidence from Scottish Enterprise, Highlands and Islands Enterprise and Scottish Development International. This will be followed on 28 April by VisitScotland and on 12 May by the Cabinet Secretary for Finance and Sustainable Growth. Written submissions of evidence have been requested from all of these public sector bodies.

5. In addition to the evidence outlined above, written evidence has been sought from various external groups (e.g. business organisations, trades unions, economic commentators, academics etc) and an open call for evidence was published on the Economy, Energy and Tourism Committee’s website.

Background

6. Normally, the detailed budget scrutiny by parliamentary committees takes place in the autumn of any calendar year. However, this year in addition to the detailed scrutiny that will occur later in the year, the Economy, Energy

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and Tourism Committee will also look at the overall strategy and the policy choices that may be determined by the Scottish Government and non-departmental public bodies (NDPBs) in the months to come.

7. In particular, the Economy, Energy and Tourism Committee’s scrutiny will focus on identifying the Scottish Government’s priorities, determining whether the budget is delivering on these priorities and making suggestions for alternative strategies. Of particular interest is the public sector's response to the predicted reductions in future Scottish budgets. As such, written evidence has been sought around the following points:

- In light of the current economic climate and the strategic challenges ahead in terms of public expenditure, what in your view are the priorities in terms of the remit covered by the Economy, Energy and Tourism Committee?

- Should any spending area be protected from real term cuts and, if so, what would the implications be for other areas of the public sector? Should there be an emphasis on seeking uniform efficiency savings, or are there particular bodies/spending areas that should be targeted?

- What are the best examples of efficiency savings being achieved by public bodies working together and across boundaries, for example, through procurement, and can these savings be replicated across the public sector?

- Have efficiency savings had an impact on the quality of public services? To what extent can efficiency savings continue to be made while maintaining current levels of service delivery?

- What progress is being made in delivering on the policies and targets set by the Scottish Government in terms of sustainable economic growth and what are the challenges to the successful delivery of the Scottish Government’s national performance framework if public spending is reduced?

8. In addition to these more general questions covering all sectors of the economy, the Convener was also keen to hear views on the following, in light of the Committee’s recent energy inquiry:

- In light of the recent Climate Change (Scotland) Act, what progress is being made to meet the various targets, obligations and provisions within the legislation and the various action plans?

**SPICe briefing**

9. To support evidence taking from the enterprise agencies, a briefing has been provided by SPICe which outlines the overall trends in the Enterprise
Agencies’ budgets over recent years. These figures have been collated from the previous submissions from the Enterprise Agencies during past appearances. They therefore represent an agreed picture of the trends on budgets for Scottish Enterprise and Highlands and Islands Enterprise during the period from financial year 2007-08 to 2010-11.

Other evidence

10. As indicated above, in addition to the SPICe briefing, both Enterprise Agencies have been asked to provide written evidence submissions for today’s meeting. The brief suggested in discussions between respective officials was for these submissions to focus on three areas:

- What is the latest position in terms of the current budgets for 2010-11 within Scottish Enterprise, Highlands and Islands Enterprise and Scottish Development International based on the latest agreed version of their 2010-11 operating/business plans?

- What is the latest thinking within Scottish Enterprise, Highlands and Islands Enterprise and Scottish Development International in terms of the probable budget for 2011-12? This should cover resource planning, scenarios and options etc. The emphasis given was on asking these bodies to outline what type of budget environment they expect to find in 2011-12 and onwards and what their strategy and priorities are to meet the challenges ahead?

- What further information do Scottish Enterprise, Highlands and Islands Enterprise and Scottish Development International wish to provide in relation to the specific questions outlined above at paragraph 7?

Recommendation

11. Members of the Committee are asked to note this approach paper for the Budget Strategy Phase within the Economy, Energy and Tourism Committee and to take into account the various briefings and written submissions of evidence from SPICe, Scottish Enterprise, Highlands and Islands Enterprise and Scottish Development International and others during the course of this and subsequent meetings.

Stephen Imrie/Joanna Hardy
Clerk/Senior Assistant Clerk
April 2010
Economy, Energy & Tourism Committee

Enterprise budget trends

The following paper outlines the overall trends in the Enterprise Agencies’ budgets over recent years. It considers Grand-In-Aid (GIA) cash funding only.

Scottish Enterprise

The following chart shows trends in Scottish Enterprise GIA since 2007/08. To enable comparison over the years, the GIA figures include transfers which have subsequently been made to Skills Development Scotland and Local Authorities.

The Scottish Enterprise budget decreases by £188m in real terms over the period 2007/08 to 2010/11 (-35%). However, stripping out exceptional items such as capital acceleration and additional one-off provisions, the budget decreases by a lesser £63m in real terms (-14%). Full details are provided in Annex 1.

Highlands & Islands Enterprise (HIE)

The following chart shows trends in HIE GIA since 2007/08. To enable comparison over the years, the GIA figures include transfers which have subsequently been made to Skills Development Scotland and Local Authorities.

The HIE budget decreased by £31m in real terms over the period 2007/08 to 2010/11 (-30%). Full details are provided in Annex 2.
## Annex 1 - Scottish Enterprise budget cuts 2007/8 to 2010/11

### Cash terms

<table>
<thead>
<tr>
<th>To enable comparison, data includes transfers which have subsequently been made to Skills Development Scotland and Local Authorities</th>
<th>Change 07-08 to 10-11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
</tr>
<tr>
<td><strong>Scottish Enterprise</strong></td>
<td></td>
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<tr>
<td>Grant-in-aid</td>
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</tr>
<tr>
<td>2007/08</td>
<td>2008/09</td>
</tr>
<tr>
<td>524</td>
<td>418</td>
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<tr>
<td>-166</td>
<td>-32</td>
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<tr>
<td><strong>Exceptional Items</strong></td>
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<td>79</td>
<td>-1</td>
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<tr>
<td><strong>Exceptional items description</strong></td>
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</tr>
<tr>
<td>1. Exceptional capital allocation (£29.8m) 2. Additional provision for Scottish Venture Fund (£18m) 3. Additional provision for Informatics project (£14m) 4. Additional provision for Scottish Co-Investment Fund (£12.5m) 5. In-year adjustment (£4.7m)</td>
<td>1. Advanced capital expenditure (£5m) 2. In-year adjustment (-£5.7m)</td>
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<tr>
<td><strong>Grant-in aid stripping out exceptional items</strong></td>
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<td>445</td>
<td>419</td>
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### Real terms

<table>
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<tr>
<th>To enable comparison, data includes transfers which have subsequently been made to Skills Development Scotland and Local Authorities</th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
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<td>2008/09</td>
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<td>422</td>
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<tr>
<td>-188</td>
<td>-35</td>
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<tr>
<td><strong>Exceptional Items</strong></td>
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<tr>
<td>82</td>
<td>-1</td>
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<tr>
<td><strong>Grant-in aid stripping out exceptional items</strong></td>
<td></td>
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<tr>
<td>2007/08</td>
<td>2008/09</td>
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<tr>
<td>459</td>
<td>423</td>
</tr>
<tr>
<td>-63</td>
<td>-14</td>
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</table>

Source: Scottish Enterprise
### Annex 2 - Highlands & Islands Enterprise budget cuts 2007/8 to 2010/11
(Note: this analysis does not strip out exceptional items)

<table>
<thead>
<tr>
<th>Cash terms</th>
<th>To enable comparison, data includes transfers which have subsequently been made to Skills Development Scotland and Local Authorities</th>
<th>Change 07-08 to 10-11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007/08</td>
<td>2008/09</td>
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<tr>
<td>HIE Grant-in-aid</td>
<td>101</td>
<td>82</td>
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</table>

<table>
<thead>
<tr>
<th>Real terms</th>
<th>To enable comparison, data includes transfers which have subsequently been made to Skills Development Scotland and Local Authorities</th>
<th>Change 07-08 to 10-11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007/08</td>
<td>2008/09</td>
</tr>
<tr>
<td>HIE Grant-in-aid</td>
<td>104</td>
<td>83</td>
</tr>
</tbody>
</table>

Source: Highlands & Islands Enterprise

HIE figures for 2009/10 and 2010/11 assume that the budget transferred to Skills Development Scotland in 2008/09 remains constant.

Scherie Nicol  
SPICe Research  
16 April 2010

Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.
The Scottish Parliament

Submission by Scottish Enterprise to

The Economy, Enterprise and Tourism Committee's
Budget Strategy Phase – April 2010

Friday 16 April 2010

Contact:
Lena Wilson
Chief Executive Officer
Scottish Enterprise
maxine.nellany@scotent.co.uk
0141 228 2421
Introduction

Scottish Enterprise (SE) is pleased to submit this written evidence on our budget proposals for 2010/11 to the Economy, Enterprise and Tourism Committee.

We have also included an advance copy of our 2010/13 Business Plan (due for publication on 22 April), which sets out the scale of the challenge for Scotland’s economy and how we are responding through our contribution to the Scottish Government’s Economic Recovery Plan and wider Economic Strategy.

Executive Summary

Like other public agencies across Scotland, we do not yet know the full extent or implications of any future government spending cuts. We do know, however, that increasing budget pressures will require us to focus our efforts on the opportunities which offer the biggest potential to grow Scotland’s economy.

These opportunities are likely to emerge where Scotland has inherent strengths and existing competitive advantage. We believe that continued, and ideally increased, investment in these areas will help to accelerate economic recovery and help create a more globally competitive Scottish economy in the future.

Our Board and senior management team, in close liaison with Scottish Government colleagues, lead our strategic planning and budget process. This includes considering potential implications for future budgets.

This has drawn out some difficult decisions on where to prioritise our investment. For example, we know we can have a bigger impact on Scotland’s economy by working more intensively with fewer customers rather than delivering “light touch” support to a greater number of companies. Our approach to prioritisation has been to focus investment in areas that demonstrate greatest contribution to the Government’s Economic Strategy and delivers the highest economic impact as identified through independent evaluation. We have also had to balance the need to take short term action to protect the fragile economy while maintaining our investment in our long term goals.

1. Current Economic Picture

The global economy started to see signs of growth towards the end of 2009, with many advanced economies moving out of recession. However, there remains uncertainty over the nature and extent of the recovery.

Furthermore, unemployment may well continue to rise as many companies continue to feel the impact of the economic challenges they have faced over the past 18 months. It is therefore vital that we invest in activities that aim to prevent these labour market challenges happening (i.e. through support for companies with growth potential and attracting new inward investment).

The companies we work most closely with directly employ approximately 250,000 people (those we work more broadly with employ well over this number of people). Two thirds of these companies forecast that they will increase turnover over the next six months and 40% expect to increase employment. Compared with the wider business population, these companies have performed better during the downturn and are more optimistic about the future.
In addition, feedback from our customers highlights the positive impact that our support has had on their performance. We need to maintain our investment and support for these businesses to ensure they can realise their potential and deliver more for Scotland’s economy through increased GVA and employment.

**Preparing for Economic Recovery**

We continue to monitor economic conditions and gather real time feedback from the companies we work with both domestically and internationally. Based on this feedback, we have significantly adapted our range of business support to help companies respond to the challenges they are facing. This has allowed us to make a major contribution to the Government’s Economic Recovery Plan.

This support offering has included enhancing business advisory support to more than 8,000 companies through our *Now’s the Time to Ask* and *Strengthen your Business* campaigns; and investing additional support to help businesses expand overseas, with over 700 companies from initiatives such as *Sell Now Pay Later*. We have also been able to accelerate £30 million of expenditure in our business infrastructure projects such as Edinburgh BioQuarter and the SECC.

Over the next three years, we will continue to be responsive to market conditions, the needs of our customers and to any new opportunities that will help us to emerge from recession in a stronger position.

2. **SE Priorities**

Our new business plan demonstrates a clear contribution to the Government’s Economic Strategy. Our overall ambition has been clarified and simplified as we focus on a set of objectives to:

1. **Support Globally Competitive Companies**
   - Help companies improve their business
   - Support companies to develop world class leadership skills
   - Encourage companies to invest in innovation
   - Stimulate business investment in research and development
   - Attract new inward investment

2. **Build Globally Competitive Sectors**
   - Identify and capitalise on major opportunities in Scotland’s key sectors
   - Engage with industry leadership and collaborate with public and private sectors to respond to these opportunities

3. **Establish a Globally Competitive Business Environment**
   - Provide appropriate business infrastructure for our key sectors to grow
   - Work with partners to increase the availability of finance for Scottish companies

We also recognise the importance of ensuring future economic growth is shared across all parts of Scotland. In order to achieve this, we will make more use of Regional Selective Assistance grants to target investment in specific areas and we will continue to support national and regeneration projects.

We know that we will achieve greater impact from our activities by working closely with our partners and we will continue to find new ways for joint working across the public sector to help us deliver more with less resources. This includes working closely with other Strategic Forum members to develop opportunities for greater alignment.
Our business plan is more focused than ever before on measuring the impact and outcomes from our work. An impact assessment of our business plan highlights that for every £1m we plan to invest during 2010 in globally competitive companies, sectors and business environment, we will generate an additional £8.8m for Scotland’s economy, equating to an additional £2 billion for Scotland’s Gross Value Added (GVA) by 2020.
3. 2010/11 Budget Plans and Commentary

To provide greater transparency of our expenditure, we have refocused our budget lines against our priorities. The table below reconciles the initial 2010/11 budget presented to the Committee in October 2009, with our final budget as published in our business plan. Significant differences are explained in the commentary below.

<table>
<thead>
<tr>
<th>Reconciliation to Previous Budget Submission</th>
<th>Previous submission re-aligned</th>
<th>Final Published Plan</th>
<th>Change from previous submission</th>
<th>Notes</th>
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<td>£m</td>
<td>£m</td>
<td>£m</td>
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<tr>
<td>Strategy, Leadership and Organisational development</td>
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<td>£m</td>
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<td>TOTAL CASH INVESTMENT</td>
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<td>276.9</td>
<td>25.9</td>
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</table>
Overall, our budget has increased by £25.9 million since our previous submission. This includes:

- £12m from UK Government’s Strategic Investment Fund to invest in a new bioincubator facility at Edinburgh BioQuarter
- £12.5m of local regeneration expenditure, which was not included in previous submission as it relates to non-core SE activities
- £1.4m of minor adjustments to our income assumptions, which has allowed us to increase expenditure in certain areas.

We have also shifted our investment in particular areas in response to changing market conditions and in line with our priorities to accelerate economic recovery. These changes (noted in the table) include:

1. **Innovation and R&D support increased by £1.3 million** – independent evaluation evidence has demonstrated the success of our R&D programme in creating employment securing new inward investment.

2. **Enterprise Support Programmes increased by £1.7 million** - reflects an increase in demand for our Training Plus programme, which is typically used as part of a package of support (including RSA) to win inward investment.

3. **Commercialisation reduced by £3.2 million** – reflects our shift in focus to exploiting the intellectual assets that Scotland has available rather than generating new intellectual assets. Independent evidence shows this is where we can have the greatest impact for the Scottish economy.

4. **Industry Sector Project Support increased by £2.7 million** – this additional investment will allow us to capitalise on new opportunities in sectors such as renewable energy, life sciences and tourism.

5. **Business Infrastructure Projects increased by £15.7 million** – since the previous submission we have secured an additional £12 million from UK Government’s Strategic Investment Fund for Edinburgh BioQuarter. The remaining £3.7 million is primarily for infrastructure projects to support renewable energy sector.

6. **Equity Investment & Loans increased by £1.1 million** – the initial allocation left a significant level of unfulfilled demand for our support and this remains an area of budgetary pressure for 2010/11 so additional investment in this areas has been identified.

7. **Urban Regeneration Company and Local Regeneration Support increased by £12.5 million** - previously, local regeneration spend was excluded from the Business plan as it had been a ring-fenced element of the budget. It is now included for full transparency.

8. **Efficiency Investment reduced by £4.4 million** – we have been able to generate particularly significant efficiencies in recent years and the benefits will be continued to be felt in 2010/11 onwards. We have reduced our planned investment for next year as we believe this could be used more effectively in our operational budgets and as helped fund the increases noted above.
SDI Financial Summary
In response to the specific request from the Committee, the table below sets out the 2010/13 Budget for SDI activities:

<table>
<thead>
<tr>
<th>SDI Allocation</th>
<th>2010-11 (£m)</th>
<th>Indicative 2011-12 (£m)</th>
<th>Indicative 2012-13 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overseas Premises and Facilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas Premises and Facilities Manages overseas</td>
<td>5.1</td>
<td>5.1</td>
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<tr>
<td>Overseas local staff (inc. in the Direct Staff Costs)</td>
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<td>2.9</td>
<td>2.9</td>
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<tr>
<td>Overseas Marketing, Research and Stakeholder Engagement</td>
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<td>5.3</td>
<td>5.3</td>
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<tr>
<td>Internationalisation, including export market development and Global Scot</td>
<td>9.9</td>
<td>10.8</td>
<td>11.7</td>
</tr>
<tr>
<td>Total</td>
<td>23.2</td>
<td>24.1</td>
<td>25</td>
</tr>
</tbody>
</table>

**Overseas Premises and Facilities' Management, and overseas local staff**
SDI has a presence in more than 22 countries around the world. Our overseas field teams work to attract new investment for Scotland, developing strategic propositions to help attract new high value investment to support Scotland's key sectors. Their in-depth knowledge and vast range of contacts can open the door for many Scottish companies looking to develop new business within their markets. They are also developing links to Scotland’s science and education base. Through Scotland Europa we actively influence in Europe and support Scotland access substantial levels of EU funding.

**Internationalisation, including export market development and Global Scot**
We provide direct business support to help companies develop new business overseas. This support includes providing detailed market research; connecting companies with senior decision makers; support to attend exhibitions and trade missions; and international strategy development work. SDI's regional staff are co-located with SE/HIE staff in local offices to ensure we stay close to customers and provide seamless support that complements wider business support offered by SE and HIE.

**Overseas Marketing, Research and Stakeholder Engagement**
We promote Scotland and Scottish businesses at a global level. We deliver high quality marketing campaigns in specific international markets, promoting Scotland's capabilities and competitive advantage within its key sectors. We also promote the range of support available from SDI to Scottish Businesses and will be partnering with SCDI and Scottish Chambers International to reach out to more businesses to support their international ambitions. The Globalscot Network will continue to harness and utilise the talents of leading Scots across the world while through TalentScotland we will continue to support the attraction of globally mobile individuals to pursue their career in Scotland.
Efficiency Savings
In recent years, we have undertaken a comprehensive programme of efficiency savings and we are committed to finding new ways of working that will help us further reduce costs and increase our effectiveness. The table below demonstrates our success in exceeding the target of achieving 2% of efficiency savings per annum:

<table>
<thead>
<tr>
<th>Year</th>
<th>Target Cumulative Savings (2% per annum)</th>
<th>Actual / Projected Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/09</td>
<td>£ 5.2m</td>
<td>£ 8.3m</td>
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<tr>
<td>2009/10</td>
<td>£ 10.2m</td>
<td>£ 13.0m</td>
</tr>
<tr>
<td>2010/11</td>
<td>£ 14.2m</td>
<td>£ 14.3m</td>
</tr>
<tr>
<td>Totals</td>
<td>£ 29.6m</td>
<td>£ 35.6m</td>
</tr>
</tbody>
</table>

These savings have been generated by reducing our overall management expenditure and staff costs. This includes:
- reducing our headcount through targeted voluntary severance programmes;
- reducing our accommodation costs by sharing office space with other organisations,
- looking at new ways to increase efficiencies by reducing our expenditure in areas such as IT, marketing and research.

We continue to recognise the benefits that a shared services approach for public sector can generate. From 1 April 2010, along with Skills Development Scotland, will operate a shared approach to IT services. This will result in £2 million of annual savings for each organisation, totalling £20 million of savings for the Scottish public sector over the next five years. We believe this is an example of best practice and are already in discussion with another NDPB about potentially joining this shared service, which will help achieve further savings.

4. Future Budget Considerations
It is inappropriate to second guess any future changes in our budget. On the one hand, there is a strong case to be made in prioritising resources across the public sector that deal with the causes of economic decline, rather than its consequences. However, a sense of realism suggests that no organisation will be immune from likely reductions. As budget settlements become clearer in the coming months we will take a realistic and focused approach to managing any reductions.

Based on recent independent evaluations, we know there are number of areas where our support is having the biggest impact on Scotland’s economy, which will inform our prioritisation.

- **Focus on growth opportunities in Scotland's key sectors.** For example, the offshore wind sector offers huge opportunities and we need to make investment to ensure Scotland is positioned
- **Help more Scottish companies to raise their international aspirations and work more overseas.** We are also developing new partnerships with the private sector to increase the support available. The Smart Exporter Initiative with SCDI and Scottish Chambers International, for example, will deliver export training to up to 10,000 businesses over the next three years
- **Attract more new inward investment** to support the growth of our key sectors and increase employment
- **Improving access to finance** through our equity investment activities and developing the Scottish Investment Bank proposals
- **Deliver more specialist business support**, with a particular focus on areas such as R&D / innovation, business leadership development and business efficiency.
As mentioned above, our Business Plan 2010-13 sets out our priorities and objectives for the coming years. Indicative budget allocations for the three years are included in the plan and are also attached as Appendix 1. We will however, manage our budget in a flexible manner to allow us to respond to opportunities and threats that may arise from developments within the global economy.

Conclusion

This submission, along with our Business Plan, demonstrates that SE has a coherent and robust set of plans to address the challenges ahead. We do not underestimate these challenges and we will remain fully committed to delivering a set of programmes that can bring real benefits to our customers, their employee and for the wider economy.

We note that the Committee is also preparing a report for the Finance Committee on its inquiry into the public sector response to the predicted reductions in future Scottish budgets. We have submitted a formal response as part of the inquiry, and in order to support the EE&T Committee’s work we have included extracts of our relevant responses in Appendix 2.

We have presented our budget proposals in a clear and concise manner, and we would be pleased to provide any additional information or clarification that the Committee may require and look forward to amplifying on this submission during our forthcoming session.
Appendix 1 – 2010/13 Financial Summary

<table>
<thead>
<tr>
<th>Supporting Globally Competitive Business</th>
<th>2010/11 £m</th>
<th>2011/12 £m</th>
<th>2012/13 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy, Leadership and Organisational development</td>
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<tr>
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<tr>
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<td>6.3</td>
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<tr>
<td>Internationalisation, including export market development &amp; GlobalScot</td>
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<td>Commercialisation - Development &amp; Exploitation of Intellectual Assets</td>
<td>24.2</td>
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<td>Direct staff costs supporting globally competitive businesses</td>
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<td>Supporting Globally Competitive Business – Total</td>
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<tr>
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<td>Urban Regeneration Company and Local Regeneration Support (Ring fenced funding)</td>
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<td>Property Portfolio Operational Costs</td>
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<tr>
<td>Direct staff costs supporting a globally competitive business environment</td>
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<td>Globally Competitive Business Environment – Total</td>
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<td>Marketing, Research and Stakeholder engagement</td>
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<tr>
<td>Overseas, including promotion of Scotland</td>
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<tr>
<td>Marketing, Research and Stakeholder engagement – Total</td>
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<td>8.4</td>
<td>8.5</td>
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<tr>
<td>Running the Business</td>
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<tr>
<td>Support staff costs</td>
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<td>Premises and Facilities Management</td>
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<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Corporate services, including ICT, Legal, Travel etc</td>
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<td>12.3</td>
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<tr>
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<tr>
<td>Running the Business – Total</td>
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<td>42.6</td>
<td>42.3</td>
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<tr>
<td>TOTAL CASH INVESTMENT</td>
<td>276.9</td>
<td>285.1</td>
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</table>

Income Analysis

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<th>2010/11 £m</th>
<th>2011/12 £m</th>
<th>2012/13 £m</th>
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</thead>
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<td>EU Funds</td>
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<tr>
<td>Property Disposals</td>
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<td>20.0</td>
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<tr>
<td>Property Income</td>
<td>8.0</td>
<td>8.0</td>
<td>8.0</td>
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<tr>
<td>Co-Investment Fund</td>
<td>16.7</td>
<td>16.7</td>
<td>16.7</td>
</tr>
<tr>
<td>Other Business Income</td>
<td>6.9</td>
<td>6.4</td>
<td>6.4</td>
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<tr>
<td>TOTAL CASH INVESTMENT</td>
<td>276.9</td>
<td>285.1</td>
<td>285.1</td>
</tr>
</tbody>
</table>
Notes

(1) The budget allocations for Business Infrastructure activities reflect the impact of Scottish Enterprise’s share of the Scottish Government’s accelerated capital expenditure programme. This resulted in SE investing an additional £5m in 2008/09 and £30m in 2009/10 offset by a reduced baseline budget for capital investment in 2010/11.

(2) The budget allocations do not include the Regional Selective Assistance (RSA) grant scheme. Accountability for RSA will remain with the Scottish Government until the enabling legislation to affect the transfer of scheme to SE is passed by the Scottish Parliament.

(3) The budgets for 2011/12 and 2012/13 are provisional and dependent on the outcome of the Scottish Government’s Spending Review.

(4) The budget allocations are indicative only. SE manages its budgets in a flexible manner to allow us to react to opportunities and threats that may arise from developments.
Appendix 2

See below short extracts from SE’s recent written submission to the Finance Committee that relate to the questions raised by EE&T Committee.

Q3. Should any spending area be protected from real term cuts and, if so, what would the implications be for other areas of the public sector? Should there be an emphasis on seeking uniform efficiency savings, or are there particular bodies/ spending areas that should be targeted?

This is a very difficult question, but the easy option of ‘salami slicing’ all budgets is unlikely to have the best effect. Resources should be targeted to where they have the greatest impact and this should be identified through strong strategic prioritisation, based on robust evidence and the establishment of clear objectives for all areas of investment.

Clearly, it can be very difficult to make absolute choices. For example, it is almost impossible to prioritise between, say, education and health expenditure. However, it should be possible to identify relative priorities. It is also possible to identify such causal links for investment in sustainable economic growth.

There are opportunities for smarter prioritisation. For example, the ‘research pooling’ of the Scottish Funding Council has not only made their scarce resources go further, but they are increasingly aligned to economic development opportunities in niche areas where Scotland has global competitive advantage.

Q3. What are the best examples of efficiency savings being achieved by public bodies working together and across boundaries, for example, through procurement, and can these savings be replicated across the public sector?

We recognise the potential benefits from shared services and some areas lend themselves more easily to this approach. Some examples are noted below;

**Information Services - Shared Service with Skills Development Scotland**
From 1 April 2010, Scottish Enterprise and SDS have combined to jointly outsource the provision of IT services, resulting in an efficiency saving of around £20m over the next five years.

**Scottish Government Corporate Services Benchmarking**
The Scottish Government Efficiency & Transformational Government Division is conducting a study involving the Benchmarking of Corporate Services. The objective of the benchmarking exercise is to continuously evaluate the performance of corporate service delivery across participating to identify best practices, to facilitate improved management information leading to continuous improvement and to identify service delivery efficiencies and improved effectiveness.

Q4. Have efficiency savings had an impact on the quality of public services? To what extent can efficiency savings continue to be made while maintaining current levels of service delivery?

Since 2008, when Scottish Enterprise was reorganised, we have made considerable use of customer research to ensure that resources have been directed to areas where SE can make the greatest impact. Throughout the changes in our remit and in organisational structure we have maintained customer service standards. Reductions in staff numbers have been focussed on management levels and non-customer facing staff.
We recently undertook and achieved an independent external assessment of Customer Service Excellence to enable us to highlight areas of best practice and opportunities for continuous improvement.

5. What are the challenges to the successful delivery of the Scottish Government's national performance framework if public spending is reduced?

The Government's National Performance Framework measures and reports on the Scottish Government's progress towards its Purpose of sustainable economic growth. Scottish Enterprise has a particular focus on productivity.

A great deal of research and evaluation evidence has been analysed by Scottish Government and Scottish Enterprise staff to provide a better understanding of the drivers of productivity using the national performance framework. This has identified Scotland's challenges (and opportunities) for each of these drivers and what works in terms of addressing them. From this analysis, a clear strategy has been developed and a genuine focus on those areas of the economy that will have the biggest positive impact – and that need SE's help to realise that impact.

However, there are a range of challenges to this approach to prioritisation and such a framework should only be one element of the prioritisation process. Challenges can include: data availability, disaggregation and comparability.

Finally, it can be difficult to identify precise cause and effect relationships between data. As a result, prioritisation cannot be a mechanistic task solely driven by numbers and whilst the performance framework is very helpful in setting the context, it is not a substitute for high quality management and leadership. A range of further criteria are used in this prioritisation process:

1. strategic fit (contribution to the Government Economic Strategy)
2. meeting customer needs by addressing market failures
3. partnership working (understanding who is best placed to deliver activities)
4. economic impact (contribution to the National Performance Framework)
5. balancing short term and long term nature of impacts – and their sustainability
6. efficiency of delivery (cost/benefit analysis to ensure the best use of public funds, and independent evaluation of what works well).

16 April 2010
Economy, Energy and Tourism Committee

13th Meeting, 2010 (Session 3), Wednesday, 21 April, 2010

Budget Strategy 2011-12

Background

1. The Committee received the following written evidence submission from Highlands and Islands Development.

2. The submission is attached in the annexe to this paper and Members are invited to take it into account in their deliberations when questioning today's witness.

Stephen Imrie
Clerk to the Committee
April 2010
ANNEXE

WRITTEN EVIDENCE FROM HIGHLANDS & ISLANDS ENTERPRISE

1. Please find attached a copy of HIE’s Operating Plan for the period 2010 to 2013. This document has been approved by the Cabinet Secretary for Finance and Sustainable Growth but has not yet been published. It sets out the challenges associated with delivering the Government Economic Strategy (GES) in the Highlands and Islands, and articulates HIE’s priorities for action in doing so.

2. Within the Plan HIE has set out its vision for the Highlands and Islands, and its role in implementing that vision. Realisation of this vision will result in all parts of the Highlands and Islands having more people, a wider jobs base, higher incomes, dynamic businesses and stronger communities – thereby making an increasing contribution to Scotland as a whole. HIE will help the businesses and communities of the region to capitalise on their respective comparative advantages and invest in the infrastructure needed to take the area forward in a sustainable manner.

3. HIE is currently investing in a range of transformational projects which will make a considerable difference to long term local and regional growth rates. These types of investments receive priority funding from HIE. Remaining resources are allocated on the basis of need – with the parts of the region experiencing the greatest economic challenges receiving the highest per-capita budget. This area dimension to HIE’s approach is particularly important given the dispersed nature of the settlement pattern that makes up the Highlands and Islands, and the relatively weak linkages that exist between these individual economies. The extent of public sector intervention required in each part of the region will be influenced by a number of factors, including the way in which the economy is affected by global economic conditions in the coming months and years. This approach to resource allocation reflects the ‘golden rules’ as set out in the GES which requires that while increasing the rate of economic growth is a priority for all of the public sector – the growth generated should be both ‘shared and sustainable’.

4. Across the Highlands and Islands HIE is working to build a portfolio of around 500 Account Managed businesses and 100 social enterprises. Our support for these organisations will help them realise their growth potential over the next three to five years. The types of intervention we provide include: capital investment, specialist advice, bespoke property and leadership and management training. Where existing programmes and tools used by partner agencies such as Scottish Enterprise and Scottish Development International are appropriate for Highlands and Islands businesses, these are actively promoted as business solutions. These interventions, in all of the individual economies that make up this region, form a core part of HIE’s work and contribute directly to the strategic targets as set out in the GES.
5. While the recession has had an impact on economic growth rates overall, demand for HIE resources remains significant. Realising the benefits of our transformational investments coupled with support for Account Managed businesses and social enterprises is likely to considerably exceed available funds. In order to ensure the maximum number of high value added investments make progress in the coming years HIE will endeavour to identify new sources of funding to augment those made available to us by the Scottish Government. We have a strong track record in this area, attracting funding from Scottish, UK, European and National Lottery sources to invest in quality projects over a number of years, however, there is now a requirement to re-double our efforts and bring more private sector investors into the region with particular emphasis being placed on the potential offered by the life sciences and renewable energy sectors.

6. Given that resource provision beyond 2010/11 will be subject to the outcome of the next strategic spending review, the plan is written on the assumption that HIE’s budget will neither increase nor decrease. Any changes that are made will clearly have implications both for how HIE allocates resources and on its staffing structure.

7. HIE is a decentralised agency with a broad remit to deliver in an area encompassing half the Scottish landmass, including almost 100 inhabited islands. Focusing effort on ensuring effective use of resources therefore offers the greatest return on invested senior management time, notwithstanding the pursuit of efficiency savings. While the latter remain important and our use of technologies such as video conferencing contribute significantly to reducing our running costs, the real savings from this approach come in the form of having more senior staff time available to provide leadership, management and guidance to staff and partner agencies in the pursuit of sustainable economic growth.

8. Opportunities to reduce costs through the provision of shared services is an area where HIE has made considerable progress in recent years. Currently we share premises right across the Highlands and Islands with a range of other public sector bodies including Skills Development Scotland (SDS), VisitScotland, Scottish Natural Heritage, Job Centre Plus, Highland Council, Orkney Islands Council, Shetland Islands Council and Comhairle nan Eilean Siar. Savings made from this joint working amount to some £700,000 per annum.

9. HIE also provides local facilities management, IT and financial services for SDS in the Highlands and Islands and is in discussion with SDS and SE to determine how the shared services agenda can be extended further.

10. Over the past 45 years the economy and society of the Highlands and Islands have changed out of all recognition. The region’s population has grown in each census period since 1971, the economic base has been greatly diversified, the number of people in work has risen by around 50% and prosperity levels are now much closer to the national average. Sustained investment through the use of broad, discretionary powers over this time
period through HIE and its predecessor the HIDB has contributed greatly to these successes and the increasing return that the Highlands and Islands makes to Scotland as a whole. In a period of reduced budgets, the challenge of making the right investment decisions becomes both harder and more important. HIE is fully aware of the extent of this challenge and we will use our experience, knowledge and ambition for all parts of this region to ensure we contribute strongly to Scotland’s continuing economic recovery.

Highlands & Islands Enterprise
16 April 2010
OPERATING PLAN
2010-13
<table>
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<tr>
<th>CONTENTS</th>
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<tbody>
<tr>
<td>Chair’s Foreword</td>
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<tr>
<td>Introduction</td>
</tr>
<tr>
<td>Section 1 - HIE – A Visionary Regional Development Agency</td>
</tr>
<tr>
<td>Section 2 - Generating Sustainable Economic Growth</td>
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<tr>
<td>Section 3 - HIE’s Contribution to GES</td>
</tr>
<tr>
<td>Section 4 - Budget</td>
</tr>
<tr>
<td>Section 5 - Effective Governance</td>
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</table>
HIE: ambitious for Scotland

Times of change bring fresh opportunities as well as challenges.

As countries across the developed world recover from recession, it is imperative that we in Scotland lay the groundwork for a sustainable future by making the right investment choices today.

At Highlands and Islands Enterprise, our approach to economic and community development centres on working to build sustainable economic growth in all parts of the region. We are guided in this by the Scottish Government Economic Strategy, and by the Scottish Economic Recovery Plan, designed to support and accelerate the country’s fight back from the recent global economic downturn.

The recovery plan highlights a number of important themes which HIE will apply and develop during the lifetime of this Operating Plan – including low carbon economy; internationalisation, access to finance, and commercialisation. From the Highlands and Islands perspective, all are important, but the theme of low carbon economy is worth highlighting.

This region, home to some of the world’s richest sources of wind, wave and tidal power in particular, currently has a once-in-a-lifetime opportunity to fuel the growth of a renewable energy sector at regional and national levels. With pioneering research at the European Marine Energy Centre in Orkney, wind tower manufacturing in Argyll and the Outer Hebrides, and a growing supply chain involving many local businesses, HIE has already made many investments which have placed the Highlands and Islands in the vanguard of developing a renewables industry and creating new employment.

The further progress of the sector, and its potential to be a key driver in delivering a broader low carbon economy in Scotland, will be a prime focus for HIE in the coming years. The scale of the task is equalled by the potential rewards, both for this generation and others to follow.

As we pursue these rewards, HIE remains mindful of the fact that demand for our resources is likely to exceed the availability of public funding for some time to come. HIE will address this by working to secure further investment from a range of partners in the public, private and third sectors who can share our vision of the Highlands and Islands as a region with a strong, sustainable future.

As the pages which follow make clear, HIE remains a highly ambitious development agency. We are ambitious not only for our own performance, but for our client businesses and communities, for each of our local areas, for our region, and for Scotland.

Businesses and social enterprises of any size which share our ambition and have the prospects to grow sustainably will find HIE a committed and valuable partner, wherever they
are in the Highlands and Islands. We will also work closely with key community bodies, particularly in our most fragile areas to help them achieve their long-term ambitions.

Co-ordinated action from across the public sector will be critical to our success. HIE will play its part in strategic partnerships at national and regional level, including the Scottish Government-led Strategic Forum and the Convention of the Highlands and Islands. We will also work closely with local authorities and other key partners to implement the projects that will help transform our area economies, grow our businesses and strengthen our communities.
INTRODUCTION

The Government Economic Strategy (GES), which drives all HIE activity, clearly sets out the purpose of the Scottish Government:

*To create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.*

GES provides the essential framework for increasing sustainable economic growth across Scotland. The contribution HIE will make towards implementing the national strategy is articulated in this Operating Plan. The plan sets out HIE’s vision and outlines the organisation’s investment priorities for the three year period from April 2010 to March 2013.

HIE’s actions will also form an important contribution towards the public sector’s implementation of the The Scottish Economic Recovery Plan: Accelerating Recovery. Key priorities include developing the low carbon economy, increasing internationalism to boost the productivity of businesses, improving business leadership and management skills, and addressing labour market participation challenges across the region. Alignment of effort and collaborative partnerships across the public sector will help to ensure that these actions accelerate the pace of recovery. A focus on maintaining growth and business confidence in the economy will enable the region to be more resilient and better placed to achieve strong, sustainable growth.

The region’s dependence on the public sector both as an employer and key provider of infrastructure will mean that the expected reduction in public sector spending in forthcoming years is likely to impact disproportionately on the Highlands and Islands. In order to compensate for impending changes, effort will need to focus on those sectors showing greatest growth potential while also working creatively with public partners and the third sector to ensure provision of services is maintained right across the region.
SECTION 1
HIE – A VISIONARY REGIONAL DEVELOPMENT AGENCY

Our Purpose

HIE is the Scottish Government’s economic and community development agency for the north-west part of Scotland, from Shetland to Argyll and the Outer Hebrides to Moray. In line with the Government Economic Strategy (GES), HIE’s purpose is to generate sustainable economic growth in every part of the Highlands and Islands.

Our Vision

To be a highly successful region, the Highlands and Islands must be competing highly effectively for three essential components of growth:

- ideas
- investment
- people.

Over the next 5 to 10 years, this will require harnessing key regional drivers (which will bring benefits to all communities) and improving the growth of the area’s individual economies (with their differing challenges and opportunities). In short, we aim to see the Highlands and Islands with more people, a wider jobs base, higher incomes, dynamic businesses and stronger communities and to see success reflected in every part of the area.

Our Priorities

To achieve the vision will require HIE to perform outstandingly in generating economic and community development. Across the region we will pursue the following priorities:

- a world-leading, diversified renewable energy sector
- high-speed, universal digital connectivity and its exploitation
- a successful, growing universities sector
- a renowned life sciences sector
- the growth of tourism, food and drink, creative industries and business services
- increased internationalisation, innovation and entrepreneurship
- a strong and expanding social enterprise sector
- a low-carbon economy.

In individual economies, we will assist businesses and social enterprises to realise their ambitions to grow. These will include businesses of all sizes – those of local significance as well as those of regional/national importance. We will work to create the infrastructure and conditions to improve regional competitiveness. A key part of our work in strengthening communities will be implementing Growth at the Edge in the Fragile Areas.
Our Distinctiveness

As a regional development agency which has been working in the Highlands and Islands for nearly 45 years, we will offer a number of distinctive strengths:

- a deep and shared knowledge of how the area functions economically
- a breadth of remit which enables us to develop a wide range of solutions
- a focus on action to pursue opportunities and tackle problems
- a closeness to the people, businesses and communities we serve
- a demonstrable record of having assisted the turnaround of the area’s fortunes
- a passion to see the area achieve its full potential as a competitive region.

These sit at the heart of what makes HIE an internationally-respected agency.

Our Partners

We will bring long-sighted vision, ambition, leadership and determination to all of our work, recognising that the continuing improvement in the area’s economic contribution to Scotland will require these qualities. We will collaborate with our partners in this process:

- businesses who share our ambition for the area to grow – we will work with around 500 businesses to realise growth in the value of our economies
- communities who wish to build a better future – we will expand the role of community ownership and work with around 100 social enterprises
- government, national and local and its agencies, who wish us to succeed in our aspirations – we will tackle the challenges facing the area in partnership.

Our Resources

We will prioritise our activities to make the most effective use of the budget available to us. We will offer support, advice and financial assistance to businesses and communities and provide leadership and investment for major projects which will have transformational impact. In a period of public expenditure restraint, we recognise that our budget will be smaller than in the past, but we will extend its impact by increased leverage and by the best decision-making in the discretionary use of scarce resources.

Our People

We will invest in our staff who embody HIE’s values and our commitment to the area – and whose creativity and passion drive us forward. In equipping our staff for the challenges ahead, we will support their professional development. We will strategically supplement current staff resources with additional technical and professional expertise in our priority areas. Ultimately, our aim is to enable HIE to achieve a strong customer focus and encourage our people to be a source of the new ideas and innovation which will make the Highlands and Islands an even more competitive region.
SECTION 2
GENERATING SUSTAINABLE ECONOMIC GROWTH

This section of the plan sets out how HIE will address the challenges and opportunities under its three areas of focus:

- Supporting growth businesses, so raising regional and local growth rates
- Strengthening communities, especially in the fragile parts of the area
- Creating the infrastructure and conditions to improve regional competitiveness.

It also describes the Area Policy at the heart of HIE’s approach, recognising the role of key regional drivers and the need to improve the growth of the area’s individual economies.

Growth Businesses

HIE recognises the pivotal role of growth businesses in driving forward both the regional and local economies to meet GES targets and has re-focused its support through an account management approach. A portfolio of around 500 key customers is being built up to provide a deeper engagement with business and to target intervention where it can have the greatest impact. While effort to date has been on establishment of account management relationships and the generation of growth plans, emphasis will switch in 2010 to the conversion of these plans into business growth. This will provide the Highlands and Islands contribution to GES in the following terms:

- Acceleration of private sector led business investment
- Wealth creation through increased quality of jobs, as well as increased employment
- Improved productivity and resource efficiency
- A measurable impact on GVA.

A programme of staff development is nearing completion to ensure that HIE’s account managers have the skills and knowledge to provide this service and area teams have re-aligned their staff resource to this key area of activity. Where existing programmes and tools used by partner agencies such as Scottish Enterprise and SDI are appropriate for Highlands and Islands businesses, these are actively promoted as business solutions. This also builds on the success of developing joint account management teams for key clients with a presence in the Highlands and Islands and Scottish Enterprise areas. In addition, we will continue to work with colleagues in Scottish Government and Scottish Enterprise towards the creation and successful implementation of the Scottish Investment Bank.

Strengthening Communities

HIE’s Strengthening Communities remit stems from the statutory recognition that social and economic development are complementary in achieving growth in remote, sparsely-populated areas. In such communities, market failure, limited commercial opportunities and restricted provision of local services can lead to a release of the natural entrepreneurship and energy of communities in developing their own economic and social projects.

Creating stronger, more dynamic and sustainable communities is thus integral to the work of HIE and is totally aligned with the objectives of the Government Economic Strategy and its policies on community empowerment. In recent years, carefully-targeted HIE programmes and those of other public bodies have resulted in more confident communities taking on more responsibility for their own development.
However, challenges remain in many rural parts of the Highlands and Islands, especially away from the main settlements. These challenges are greatest in the fragile areas (see below) which lie predominantly in the islands and west coast (covering around 13% of the total population). The Strengthening Communities work will focus on three main activities:

**Social Enterprise**

HIE will assist this sector to grow and develop, maximising its contribution to the GES targets. Social enterprises support economic and population growth and enhance solidarity by offering opportunities for those more distant from the workforce. These organisations provide key services, employment opportunities and can generate income through utilising their land / asset base to best effect.

**Growth at the Edge / Fas aig an Oir**

HIE will utilise the full breadth of its powers in concert to deliver growth in the most fragile parts of the region. The account management model will be used to work with whole communities, fostering population growth, increased community capacity, economic participation and development of new revenue streams. In these areas HIE will work selectively with small businesses to implement projects which will deliver the dual outcome of developing the business while also making a contribution to wider community wellbeing.

**Cultural Activity**

Investment in community-based arts and cultural activity has contributed to the growth of the Highlands and Islands as an attractive and distinctive region. HIE will assist communities to develop dynamic, creative places utilising the area's unique environmental and cultural assets. Support for the Gaelic language will be provided through the implementation of HIE’s Gaelic Plan in liaison with Bord na Gaidhlig, with an emphasis on realising the potential commercial and business elements of the language.

**Regional Competitiveness**

The types of interventions required to deliver our Regional Competitiveness aspirations will include strategic alignment of priorities with partner agencies and investment in a series of transformational projects. The programmes and projects articulated under this heading often require a very long lead-in time prior to investment, and a considerable degree of strategic leadership afterwards to ensure the full benefits to the wider economy are capitalised upon. In an era where demand for resources exceeds available public funds HIE will seek to attract new investment into the region. New public, private, foundation and other potential funding streams will be explored and encouraged to consider the Highlands and Islands of Scotland as the place to invest.

Provision of ubiquitous and affordable high quality telecommunications service forms an essential element of creating a competitive region. HIE will work closely with Scottish Government and play an influential role in ensuring coverage across the region matches the best available elsewhere. It will also be important to work with businesses and social enterprises to maximise the economic benefit that is derived from its use.

The transition to a low carbon economy will capitalise on this region’s comparative advantages, creating new business opportunities, reducing operating costs and stimulating greater resource efficiency. HIE will ensure the provision of new infrastructure meets the requirements of the low carbon economy, and through targeted support to account managed businesses will increase the rate at which this region engages in this new area of activity.
A key focus for HIE is the stimulation of the high growth sectors identified in GES. A critical component of sectoral development will be joined-up working between the public agencies and in particular HIE, Scottish Enterprise, SDI and in the case of tourism, VisitScotland. HIE will work with Government and Scottish Enterprise in the delivery of sectoral plans for Scotland and use these to guide sectoral implementation within the Highlands and Islands.

In all of these activities HIE will seek to maximise the use and positive impact of European funding, through its role as a Strategic Delivery Body (SDB) for European Structural Funds and through intelligent and innovative use of other European funding streams.

The challenges and opportunities in the key sectors across the Highlands and Islands are summarised below:

**Energy**

The natural resources of the Highlands and Islands constitute the greatest concentration of potentially exploitable renewable energy resources in the UK. Whilst biomass, hydro and onshore wind are relatively established technologies, others, particularly wave and tidal, still face considerable technical and commercialisation challenges before their potential will be fully realised. The Highlands and Islands has taken a lead role in the renewable energy sector, being home to a number of globally significant projects, such as the development of the European Marine Energy Centre (EMEC) in Orkney. The area also plays host to the Crown Estate’s Pentland Firth and Orkney Waters Wave and Tidal leasing round which is the first marine area designated for commercial scale wave and tidal deployment. The Talisman Beatrice Offshore wind farm, which is the first deepwater offshore demonstrator wind farm, is also located within the area.

HIE has adopted a collaborative approach, focussed on capitalising on opportunities presented by Scotland’s favourable policy and support environment for renewable energy. In particular, the offshore wind, wave and tidal generation leasing programmes around the coasts of the region and the planned introduction of the Renewable Heat Incentive, offer the potential for major infrastructure investments, local supply chain opportunities and downstream opportunities from green energy generation. In order to maximise these, HIE will concentrate on the key areas of industry capacity building, influencing policy direction, awareness raising and education, stimulating research, development and deployment, as well as ensuring that the sector has access to a skilled and trained workforce.

**Universities**

The universities sector offers the Highlands and Islands some future proofing of its economy. It is a sector not reliant on low capital or labour costs but rather benefits from high value skills and intellectual assets. The long term sustainability of the comparative advantage of the universities sector makes it a crucial part of a forward looking strategy for industry development and business growth in the Highlands and Islands and Scotland. Furthermore, a skilled and educated workforce is essential for building sustainable economic growth.

The growth and development of the universities sector in the Highlands and Islands is critical to the long term success of the regional economy. In addition to our priority for supporting the development of the University of the Highlands and Islands, HIE will work to attract further investment and engagement in the region with other academic institutions.

**Life Sciences**

The life sciences sector has a twin geographic focus – Inverness for medical and health science and Oban for marine bio-science. There are also important research nodes in
Caithness and specific companies based in the Outer Hebrides and the region has a growing number of IT businesses now specialising in e-health products. Whilst the Highlands and Islands have one dominant business in this emerging sector, Inverness based LifeScan, there has been significant growth in the number of new life sciences firms starting or locating within the region, as well as growth in academic and commercial research. Key stakeholders in this sector include those undertaking academic and/or commercial research and development, manufacturing organisations, contract research organisations and the NHS.

HIE’s priorities in life sciences focus on three areas: remote healthcare and digital health, natural products, and well being plus preventative medicine. In addition to sectoral development activities, HIE will support business growth opportunities through account management. Working with key partners, we will also explore growth prospects in marine bio-discovery, bioinformatics, mental health, diagnostics, medical devices plus remote and rural health products and services.

**Tourism**

The tourism sector generates an annual gross output of around £735m in the Highlands and Islands and is characterised by many small companies, with nearly 90% of the workforce employed in businesses with fewer than 50 employees. Around 80% of visitors to the region are from the UK and 20% from overseas. In a growing world tourism sector, many aspects of the Highlands and Islands tourism product offer strong prospects for growth, with the potential to make a significant contribution to a competitive region.

Working closely with VisitScotland, HIE’s tourism approach focuses on three key areas, developing world class destinations, accelerating targeted inward investment propositions and developing support mechanisms to enhance business leadership and productivity. HIE will also support the delivery of a select number of larger projects that offer significant growth opportunities at the regional level, such as the development of the marine tourism product and the cruise ship market.

**Food and Drink**

Within the Highlands and Islands, food and drink is a significant economic driver, with over 7,000 employees and generates a turnover of approximately £1bn per annum. The sector comprises over 1,900 businesses operating in value-adding processing and primary producing, notably aquaculture, fisheries and agriculture. The diverse range of produce generated within the region includes whisky, fish and shellfish, meat, bottled water, jams and preserves, dairy, biscuits and confectionery. The product range has expanded in recent years to include speciality alcoholic beverages. Equally diverse is the profile of producers, ranging from world renowned businesses, such as Baxters and Walkers, to small innovative producers successfully supplying niche markets and who have growth potential.

HIE is fully engaged in taking forward a national strategy for food and drink and works closely with industry bodies on business engagement and growth. To achieve HIE’s growth aspirations there will be a sectoral focus on business leadership, collaborative supply chains, industry communication and sustainability.

**Creative Industries**

The creative industries sector in the Highlands and Islands is closely linked to the region’s heritage and culture and is developed by HIE through its dual economic and social remit, supporting the creative industries plus arts and culture. Comprising a wide variety of business models and processes, the sector in the Highlands and Islands has strengths in the areas of music, screen and television, writing/publishing, designer fashion and software. The
supply chain that supports the creative industries in the region employs 8,300 people in over 1,000 businesses and generates an annual turnover of £286m.

A distinctive feature of the sector is that it comprises mainly sole traders and micro businesses. As a result, collaboration with other businesses is vital to the growth and scale of the sector, access to new skills, knowledge and market development. Also key is the encouragement and growth of networks. HIE supports and works with a range of trade networks and industry organisations, at a local, national and international level. Examples include groups such as goEVENTS, which manages the local music industry network, through to PRS for Music who are the official royalties collection agency in the UK for performing rights. Within the public sector, HIE takes cognisance of the Creative Industries Framework Agreement, encouraging partnership working between the Scottish Government, Creative Scotland, Scottish Enterprise, COSLA, Skills Development Scotland and the Scottish Funding Council.

HIE will continue to seek to address structural issues and market failure in the creative industries sector. In addition to networking and collaborative working, we will also focus on creating the conditions for business growth through idea development, attendance at trade events and showcasing, effective distribution and targeted internationalisation programmes.

Financial and Business Services

The strength of the financial and business services sector in the Highlands and Islands is in the area of business services, with most activity in financial services being in retail banking. In particular, outsourcing services across financial, utilities, retail, ICT and public sector markets offers opportunity for the area to exploit its proven strengths in customer service, quality and cost through the growth of existing players and by attracting new business.

The growing demand for specialist data centres, shared services and cloud computing, as well as the current movement towards home and community shoring models of employment provides a further opportunity for the Highlands and Islands to take a leading role in developing key aspects of the business services sector in Scotland. HIE will focus on new models of shared service centres and distributed outsourcing centres will be explored. The potential for energy-intensive, green data centres will also be pursued.
Area Policy

Delivering sustainable growth with opportunities for all is at the heart of the Government's Purpose. The three ‘golden rules’ of growth – solidarity, cohesion and sustainability – reflect the intrinsic importance of social equity, regional balance and respect for the environment. Addressing social, regional and inter-generational equity is also a key driver of economic growth. These factors are at the heart of HIE’s area policy.

The Highlands and Islands cover 50% of Scotland’s landmass (including over 90 inhabited islands) but account for less than 10% of the population. The dispersed settlement pattern across such a large area and the associated infrastructural challenges mean that the ‘regional economy’ in practice comprises a number of individual, local economies. The small scale of these economies and the relatively weak linkages between them dictate that the approach required to stimulate growth involves sustained effort over a long period of time.

To improve regional cohesion, HIE will continue to support projects in the less prosperous parts of the area. Our approach to cohesion recognises greater difficulties encountered in bringing forward projects in remote areas and the additional costs which living and operating in remote locations involve. Area targeting aids the process of resource allocation and provides broad operational guidance on priorities for area business units.

In pursuit of cohesion, HIE will continue to collaborate with partners and stakeholders. This approach has been central to HIE’s development effort for many years and our engagements, too numerous to mention, extend from Government departments to local area partnerships. Recent examples of our work with local authorities include Comhairle nan Eilean Siar to retain vital employment associated with the MOD presence in Benbecula; work with Orkney Islands Council and The Highland Council to develop the marine renewable energy sector in the Pentland Firth and Orkney Waters; and with Argyll and Bute Council to deliver the infrastructure of support the Skykon Campbeltown inward investment project.

HIE’s area policy recognises two types of priority area facing particular challenges:

**Fragile areas** are characterised by a number of factors including weakening of communities through population loss; low incomes; limited employment opportunities; poor infrastructure and remoteness. Over 56,000 residents (or 13% of the Highlands and Islands population) are domiciled within the fragile areas. HIE gives these areas the greatest priority, increasing intervention rates and supporting a broader range of projects than it would consider in the more prosperous parts of the region.

**Areas of employment deficit** are characterised by over-reliance on a single employer (or sector), or have experienced (or are at risk of) significant job losses resulting from major closures and/or persistent long-term unemployment caused by structural change. The areas currently designated as areas of employment deficit are home to a further 64,000 people (approximately 14% of the region’s population).

Delivery of support

HIE is structured around eight area teams, each responsible for delivery in their respective local geographies. The discretionary budget allocated to each area is determined by the size of its population and the proportion of the population living in either fragile areas or areas of employment deficit. Our approach to delivery is summarised as follows:
Fragile Areas

Our approach will deliver increased community confidence and capacity, sustainable community revenue streams, enhanced participation in development, employment, social and cultural activity as well as locally significant business development. To deliver this, HIE will work with social enterprises and identified whole communities. In addition, HIE will selectively assist small businesses to implement development projects which demonstrate sufficient benefit to the client business, whilst making a contribution to wider community.

Whilst recognising the challenges we face in generating development of a transformational nature in the fragile parts of our region, we will continue to seek such opportunities wherever possible. Substantive investments in recent years include support for the Storas Uibhist community land acquisition and the Connected Communities project to provide broadband services throughout the Outer Hebrides. These investments complement other private sector led projects, including those involving account managed businesses.

Areas of Employment Deficit

In areas of employment deficit, our challenge is to broaden employment opportunities, both to address the jobs gap and also to reduce dependencies on particular employers or sectors. Inward investment is key to success and HIE, working closely with SDI, will continue to pursue opportunities for the region, particularly in light of the current depreciation of Sterling which makes our proposition more attractive to certain markets.

More Accessible Rural Areas

Beyond the designated priority areas lie a wide range of more accessible rural communities, many of which nevertheless demonstrate characteristics of fragility. Once again, this necessitates a specific approach to ensure that efforts are clearly focussed on improving the lives and prospects of residents in these parts and thereby addressing issues of cohesion. It is particularly important that interventions here are cross-cutting and consider both economic and social development. This will involve working with locally significant businesses, with social enterprises providing services to improve the quality of life for residents and improving access to opportunities and services within the major settlements.

Major Settlements

HIE recognises the important role cities play in regional development and see Inverness as fulfilling that function for much of the area, though Aberdeen and Glasgow provide city services to parts of our region, most notably Shetland, Orkney and Argyll. In contrast to other Scottish cities, Inverness is relatively small, serves a large, sparsely-populated hinterland and has a narrower economic base than the cities of the Central Belt.

While Inverness and the Inner Moray Firth area currently offers the greatest potential for significant growth opportunities, there are a number of key settlements across the Highlands and Islands, including Kirkwall, Lerwick, Stornoway, Thurso, Elgin, Oban and Fort William. The economic profile of these major settlements necessitates an area-specific approach where HIE will work to develop the regional infrastructure, support those businesses that aspire to provide new wealth and prosperity and the social enterprises that will provide services and opportunities to those most in need. Achieving growth in every part of the region is the key to success, enabling the Highlands and Islands in turn to raise its contribution to national economic growth.
Area Challenges 2010

- Fragile areas
- Areas of employment deficit

Map © Ashworth Maps and Interpretation Ltd 2009. Based on Ordnance Survey mapping
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SECTION 3
HIE’S CONTRIBUTION TO GES

The Government Economic Strategy sets out high-level targets for increasing sustainable economic growth.

HIE has a central role in ensuring that the Highlands and Islands makes a strong contribution towards the achievement of the national targets. These targets, along with the 15 national outcomes, have informed the development of desired outcomes for the region and, in turn, the choice of transformational projects and enterprise programmes that HIE delivers.

Our delivery of these outcomes for the Highlands and Islands and for Scotland is dependent on effective partnerships. HIE has a long history of effective partnership working with established relationships across and outwith the region. In order to continue to maximise the effectiveness of public sector activity, we will work closely with partners such as Scottish Enterprise, Scottish Funding Council, Skills Development Scotland and VisitScotland on areas where strategic engagement will deliver mutually beneficial outcomes. In addition, we will play an active role in the Strategic Forum.

Within the region, we will work through the Convention of the Highlands and Islands to establish regional consensus around issues of strategic importance to regional development. We will also work through the framework of Community Planning, an engagement which is a fundamental principle of our operation and one which cuts across all areas of activity. A critical component of our engagement with local authorities will be through Business Gateway, which is now the main support body for the provision of one-to-many advice and guidance and, through its engagement with new business starts, will supply the pipeline of new businesses with which HIE can establish an account management relationship.

HIE will contribute to the development of single outcome agreements in each local authority area across the Highlands and Islands. We will ensure that the agreements reflect accurately the aspirations we have for every part of the region. This stage of the process is about taking ownership of the strategic outcomes contained within the SOAs and ensuring that they are delivered. In addition to reporting directly to the Scottish Government through our sponsor team, we will produce regular reports on our activity at local authority level in a format consistent with the National Performance Framework to allow the formulation of local area reports from across the public sector.

We will maintain a responsive relationship with the Scottish Government, local government, Scottish Parliament, UK Parliament and the European Union. The management of these relationships requires commitment to planned pro-active engagement and will also provide us with the opportunity to contribute to local, national and European policy developments which affect economic and social progress in the Highlands and Islands.

HIE’s Contribution to the GES Purpose Targets – Regional Level

HIE harnesses its resources to maximise the contributions the Highlands and Islands make towards the GES Purpose Targets. The contributions summarised in the following table represent realistic aspirations:
As the table makes clear, HIE plays a major role in achieving the target for five of the seven Purpose Targets, while fulfilling a support role in achieving the remaining two. A key partner in realising economic growth is the private sector and HIE is working to ensure that the ambition of the targets is fully shared with individual businesses and their representative bodies.

Though limitations in availability and robustness of regional statistics constrains the extent to which measurement can take place at the Highlands and Islands level, HIE is monitoring progress towards the above targets on an annual basis to give an overview of the contribution which the area is making to the GES targets.

**HIE’s Contribution to the GES Targets – Programme Level**

A further component of HIE’s work lies in the enterprise programmes which it delivers, primarily through area teams. These relate to our work with Account Managed Businesses, Account Managed Social Enterprises and Account Managed Communities. The following table shows the set of growth measures for the main programmes over the three-year planning period. It includes targets for the stock of Account Managed organisations with which we will be working, and for the flow of activities that will stem from those relationships, alongside the desired outcomes to be achieved within three years. Each measure is based on a clear definition and data for each individual assistance package are gathered in a systematic and transparent way through the HIE Management System (HMS):

<table>
<thead>
<tr>
<th>Growth Measures</th>
<th>2010/11</th>
<th>2011/12*</th>
<th>2012/13*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative number of businesses with which HIE has an account managed relationship</td>
<td>350</td>
<td>450</td>
<td>500</td>
</tr>
<tr>
<td>No of account managed businesses supported to implement growth plans in year</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Anticipated added value to national growth generated through new growth plans agreed with account managed businesses (£m at year 3)</td>
<td>50</td>
<td>52</td>
<td>55</td>
</tr>
<tr>
<td>Anticipated average wage of jobs supported (at year 3)</td>
<td>£25,000</td>
<td>£25,500</td>
<td>£26,000</td>
</tr>
<tr>
<td>Cumulative number of social enterprises with which HIE has an account management relationship</td>
<td>60</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td>No of account managed social enterprises supported to implement growth plans in year</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Anticipated increase in turnover through new growth plans agreed with account managed social enterprises (£m at year 3)</td>
<td>2</td>
<td>2.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Cumulative number of account managed communities supported to implement growth plans</td>
<td>18</td>
<td>30</td>
<td>42</td>
</tr>
</tbody>
</table>

*Targets for these years are provisional and dependent on outcome of SG’s 2010 spending review.
HIE’s Contribution to the GES Targets – Project Level

A key part of HIE’s work lies in the transformational projects which it undertakes. These investments have been selected on the basis of the long term impact they will make on the structure of the economy and the value of wealth they will create within it.

Programmes and projects designated transformational, with anticipated spend in this Operating Plan period, are set out in the following tables. The desired outcome from each project is shown, together with its wider contributions to the purpose targets. The GVA figures referred to relate to the estimated additional GVA the projects will generate in 2017 (and do not include any existing impacts). The figures include impacts associated with construction and other capital expenditure (up to 2017), the impact of a full operational year (in 2017) and any further generated developments (by 2017) attributable to investments made by HIE and are based on the most up to date business plans and other appraisal evidence available in March 2010.

The delivery of these impacts will require continued support from HIE in the years beyond the three-year time horizon within this plan and in some cases, the full impacts will not be realised until into the following decade. This continued support from HIE will build upon investments made in previous years, maximising the benefits that can be realised for the regional and national economy.

### TRANSFORMATIONAL INFRASTRUCTURE INVESTMENTS

<table>
<thead>
<tr>
<th>Sector / Project / Outcome</th>
<th>Original Approval (£m)</th>
<th>Balance of Approval (£m)</th>
<th>Anticipated Spend Profile (£m)</th>
<th>Anticipated Added Value to National Growth in 2017 (£m) Range (see above)</th>
<th>Other GES Impacts</th>
<th>Project Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inverness Campus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A vibrant university attracting students from the UK and beyond</td>
<td>25.0</td>
<td>25.0</td>
<td>3.0</td>
<td>12.0</td>
<td>10.0</td>
<td>60 - 70 Productivity Population Cohesion</td>
</tr>
<tr>
<td>Research</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A strong research capacity underpinning knowledge based growth sectors</td>
<td>9.5</td>
<td>7.2</td>
<td>4.4</td>
<td>1.7</td>
<td>1.1</td>
<td>8 - 10 Productivity</td>
</tr>
<tr>
<td>Energy</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>EMEC</td>
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</tr>
<tr>
<td>A world class marine energy research facility, supporting the marine renewables sector</td>
<td>3.6</td>
<td>1.0</td>
<td>1.0</td>
<td>1.5</td>
<td>2.0</td>
<td>33 - 38 Sustainability</td>
</tr>
<tr>
<td>Machrihanish</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A successful wind tower manufacturing operation offering high-value employment and supply chain opportunities</td>
<td>3.6</td>
<td>2.1</td>
<td>2.1</td>
<td>18 - 22 Productivity</td>
<td>Argyll &amp; Bute Council MOD Scottish Water Kintyre Initiative Working Group</td>
<td></td>
</tr>
<tr>
<td>Life Sciences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argyll Marine Science Initiative</td>
<td>13.7*</td>
<td></td>
<td>5.7</td>
<td>4.0</td>
<td>4.0</td>
<td>14 - 18 Productivity Population Sustainability</td>
</tr>
</tbody>
</table>
### ANTICIPATED SPEND PROFILE (£m)

<table>
<thead>
<tr>
<th>Sector / Project / Outcome</th>
<th>Original Approval (£m)</th>
<th>Balance of Approval (£m)</th>
<th>Anticipated Spend Profile (£m)</th>
<th>Anticipated Added Value to National Growth in 2017 (£m) Range (see text)</th>
<th>Other GES Impacts</th>
<th>Project Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Industries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Media Centre, Stornoway</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A catalyst for the development of successful creative industries activity</td>
<td>0.7 0.7 0.7</td>
<td>3 - 4</td>
<td>Productivity Population</td>
<td>Comhairle nan Eilean Siar MGA LBA BBC Scotland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mareel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A hub for the growth and development of the creative industries sector in Shetland</td>
<td>1.0 0.5 0.5</td>
<td>1 - 2</td>
<td>Productivity Population</td>
<td>Shetland Arts Development Agency Shetland Islands Council</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Digital Connectivity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Connected Communities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ubiquitous and affordable access to high quality broadband connectivity including an upgraded off-islands telecoms link</td>
<td>1.8 0.7 0.7</td>
<td>3 - 4</td>
<td>Productivity Cohesion Participation Solidarity</td>
<td>NHS Comhairle nan Eilean Siar Hebridean Housing Partnership HIAL Caledonian MacBrayne UHIMI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>62.4 37.2 19.6 19.7 15.1 140 - 168</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Pipeline

### TRANSFORMATIONAL BUSINESS INVESTMENTS

<table>
<thead>
<tr>
<th>Project / Outcome</th>
<th>Principal National Outcome supported</th>
<th>Original Approval (£m)</th>
<th>Balance of Approval (£m)</th>
<th>Anticipated Spend Profile (£m)</th>
<th>GES Impacts</th>
<th>Project Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kintyre Development Company</td>
<td>A world class hotel and golf destination experience.</td>
<td>2 1.1 1.1 0.7 0.4</td>
<td>Economic Growth Productivity</td>
<td>Private Sector Skills Development Scotland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BSW Sawmills Ltd</td>
<td>Expansion and relocation of sawmilling operations for BSW’s Fort William operation.</td>
<td>2 2.1 1.3 0.6 0.7</td>
<td>Economic Growth Productivity</td>
<td>Private Sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lifescan Scotland Ltd</td>
<td>Securing R&amp;D activity to Inverness and consequent commercialisation of products and services with a worldwide market.</td>
<td>3 1.2 0.3 0.3</td>
<td>Economic Growth Productivity</td>
<td>Private Sector Scottish Development International</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Total             | 4.4 2.7 1.6 1.1 |                      |                          |                               |             |                  |

In addition to the above, HIE continues to progress a number of diverse legacy transformational projects, including UHI Clinical Research Facility, Moray 2020, Caithness and North Sutherland Action Plan, Kintyre Action Plan, Arnish, Storas Uibhist and Cairngorm Mountain where our focus is on project implementation and realisation of benefits.
Each transformational project undertaken by HIE has had a Benefits Realisation and Risk Management Plan devised specifically to provide a practical tool for programme and project management and to help inform HIE’s corporate reporting framework. The benefits realisation process aims to ensure that desired outputs and outcomes from HIE’s investments have been clearly defined, are measurable and that the processes and activities through which they will be delivered are understood, owned and time-bound.

A number of potential future transformational projects are under development by HIE, with projects progressing to implementation as circumstances permit. The following table provides details of those projects which HIE is currently appraising and may implement over the period covered by this document.

## PROSPECTIVE TRANSFORMATIONAL INVESTMENTS

<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
<th>Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caithness and North Sutherland Action Plan</td>
<td>Development of the Caithness and Sutherland economy to offset economic impact of decommissioning of the Dounreay nuclear facility. Projects under consideration include: • Development of Scrabster Harbour as a marine renewables base • Maximising local benefits from developments in the Pentland Firth • Development of John O’Groats as a world class visitor destination</td>
<td>Scottish Government Highland Council Nuclear Decommissioning Authority</td>
</tr>
<tr>
<td>Moray 2020</td>
<td>Diversification of Moray economy to reduce dependence on RAF bases. Projects under consideration include: • Creation of a life science centre • Development of new business park in Buckie • Development of new business park in Elgin • Provision of additional high quality business premises at Enterprise Park Forres</td>
<td>Moray Council Private Sector UHI Moray College NHS Grampian</td>
</tr>
<tr>
<td>Hebrides Range Task Force</td>
<td>Initiate a local development plan to stimulate defence diversification activity, regenerate the indigenous economy and support the growth of key social enterprises.</td>
<td>Comhairle nan Eilean Siar Storas Uibhist Trade Unions – Prospect &amp; Unite Skills Development Scotland Scottish Natural Heritage National Trust for Scotland MoD Scottish Development International Scottish Enterprise</td>
</tr>
<tr>
<td>Shetland Decommissioning Infrastructure</td>
<td>Deep-water port infrastructure to support North Sea oil platform decommissioning which offers high-value employment and supply-chain opportunities.</td>
<td>Lerwick Port Authority Shetland Islands Council</td>
</tr>
<tr>
<td>EMEC Forward Units Hatston, Kirkwall, Orkney</td>
<td>Provision of industrial units to provide a forward base for developers accessing tidal test sites to the north of Kirkwall.</td>
<td>Carbon Trust Orkney Islands Council Scottish Government Scottish Enterprise Dept of Energy &amp; Climate Change</td>
</tr>
<tr>
<td>Marine Renewable Energy Business and Research Centre</td>
<td>Development of a world class marine energy research facility supporting EMEC, the marine renewables sector and university teaching and research work.</td>
<td>Carbon Trust Orkney Islands Council Scottish Government Scottish Enterprise Dept of Energy &amp; Climate Change</td>
</tr>
<tr>
<td>Project</td>
<td>Description</td>
<td>Partners</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Invergordon Harbour Area</td>
<td>Investment projects to increase the competitiveness and attractiveness of the facility for both oil and gas work and to service anticipated offshore renewable energy markets.</td>
<td>Cromarty Firth Port Authority Private Sector</td>
</tr>
<tr>
<td>Centre for Health Science – Phase 4</td>
<td>Provide facilities for commercial scale incubation and research facilities into wellbeing, natural products and primary care.</td>
<td>Health Science Management Company NHS Private Sector</td>
</tr>
<tr>
<td>Inverness College</td>
<td>Provision of new campus buildings for Inverness College.</td>
<td>Inverness College Scottish Funding Council</td>
</tr>
<tr>
<td>Harris Tweed Strategy</td>
<td>Implement a comprehensive industry growth strategy through sectoral research and marketing, workforce development and the upgrading/acquisition of production equipment.</td>
<td>Comhairle nan Eilean Siar Harris Tweed Authority Skills Development Scotland Scottish Enterprise Scottish Development International</td>
</tr>
<tr>
<td>Arnish Point Estate</td>
<td>Instigate a comprehensive development plan to upgrade estate land, premises and access, enhance heritable commercial assets and support business growth opportunities.</td>
<td>Private sector</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Private sector-led projects</th>
<th>Description</th>
<th>Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cairngorm Visitor Attraction</td>
<td>Investment to develop the non winter sports facilities available at Cairngorm.</td>
<td>Private Sector Cairngorm National Park Authority Highland Council</td>
</tr>
<tr>
<td>Underwater Centre, Fort William</td>
<td>Development of world class diver training facility, supporting oil and gas and marine renewables sector.</td>
<td>Private sector</td>
</tr>
<tr>
<td>Nigg Base</td>
<td>Development of facilities to enable the manufacturing of offshore wind turbine foundations, nacelles and the decommissioning of floating structures.</td>
<td>Private Sector Highland Council SNH SEPA</td>
</tr>
<tr>
<td>Ardersier</td>
<td>Development of facilities to enable the manufacturing of offshore wind turbine structures.</td>
<td>Private Sector Highland Council SNH SEPA</td>
</tr>
</tbody>
</table>
Outcome Focused Development

The diagram which follows highlights the areas where HIE interventions contribute to the National Outcomes and Purpose Targets as set out in the National Performance Framework.

HIE activities – links to targets and outcomes

<table>
<thead>
<tr>
<th>15 National Outcomes</th>
<th>7 Purpose Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIE's purpose is to implement the Government Economic Strategy</td>
<td>Economic Growth (GDP)</td>
</tr>
<tr>
<td></td>
<td>To match the growth rate of small independent EU countries by 2017</td>
</tr>
<tr>
<td>HIE activities</td>
<td>Productivity</td>
</tr>
<tr>
<td>Supporting high-growth businesses and sectors, so raising growth rates across the area</td>
<td>Participation</td>
</tr>
<tr>
<td>Creating the infrastructure and conditions to improve regional competitiveness</td>
<td>Population</td>
</tr>
<tr>
<td>Strengthening communities, especially in the fragile parts of the area</td>
<td>Solidarity</td>
</tr>
<tr>
<td>“Organised around Outcomes”</td>
<td>Cohesion</td>
</tr>
<tr>
<td></td>
<td>Sustainability</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

HIE’s remit is a broad one and as a result its interventions impact on a significant number of the national outcomes. The following section articulates the way in which these outcomes influence HIE’s choice of activities and the contribution it makes to their achievement. This contribution is expressed as ‘Major’ or ‘Support’ in the context of the Highlands and Islands, and the region’s contribution to Scotland. The level and extent of HIE’s interventions will be guided by our area policy and the additional impact we believe can be generated through our investment.
### National Outcome 1

**We live in a Scotland that is the most attractive place for doing business in Europe**

<table>
<thead>
<tr>
<th><strong>HIE focus</strong></th>
<th><strong>HIE contribution</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Transformational investments</td>
<td>Principal Measures:</td>
</tr>
<tr>
<td>• Bespoke property</td>
<td>• Population growth</td>
</tr>
<tr>
<td>• Key sector development</td>
<td>• GVA growth</td>
</tr>
<tr>
<td>• Connectivity</td>
<td>Support Measures:</td>
</tr>
<tr>
<td>• Attraction of new investment</td>
<td>• Broadband coverage</td>
</tr>
<tr>
<td></td>
<td>• Established research specialisms (UHI)</td>
</tr>
<tr>
<td></td>
<td>• Supply of graduates to the labour market (UHI)</td>
</tr>
<tr>
<td></td>
<td>• No of mobile investment projects attracted</td>
</tr>
</tbody>
</table>

With greater global competition for ideas, investment and people, building sustainable growth requires increased performance across the economy and requires success at two levels – through regional drivers, and through improving the growth of the area’s individual economies with their different challenges and opportunities. In developing a globally attractive Highlands and Islands, HIE will focus on issues of transformational investments, developing the University of the Highlands and Islands and capitalising on the comparative advantages of the key sectors. Through targeted marketing activity with SDI, we will lever these economic advantages to attract high value mobile investment and as a result, grow employment, productivity and GVA. New sources of investment will be sought to make the region’s infrastructure as modern and competitive as possible.

### National Outcome 2

**We realise our full economic potential with more and better employment opportunities for our people**

<table>
<thead>
<tr>
<th><strong>HIE focus</strong></th>
<th><strong>HIE contribution</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Growth businesses</td>
<td>Principal Measure:</td>
</tr>
<tr>
<td>• Effective partnership working</td>
<td>• GVA growth</td>
</tr>
<tr>
<td>• Employment deficit area actions</td>
<td>Support Measures:</td>
</tr>
<tr>
<td></td>
<td>• No of account managed business supported to implement growth plans</td>
</tr>
<tr>
<td></td>
<td>• Productivity improvements</td>
</tr>
<tr>
<td></td>
<td>• Proportion of growth generated through exports</td>
</tr>
<tr>
<td></td>
<td>• No of jobs supported</td>
</tr>
<tr>
<td></td>
<td>• Average wage of jobs supported.</td>
</tr>
</tbody>
</table>

HIE recognises the pivotal role of significant and high-growth businesses in fuelling the economic growth required to meet the GES targets. Our focus for 2010 and beyond will be to provide support to our account managed businesses to accelerate private sector led business investment. Our support will focus on fostering innovation and enterprise; creating wealth through increased quality of jobs as well as increased employment in real terms; improved productivity and efficiency; increased internationalism and a measured impact on GVA. We will maintain close working relations with other public sector partners to ensure maximum benefit both to client businesses and to the region. The number of businesses in our account managed portfolio is an indicative one only and we will continue to recruit businesses whose ambitions are to pursue significant growth, whilst ensuring a balance of distribution of client businesses across the different economies that make up the Highlands and Islands.
### National Outcome 3

#### MAJOR

We are better educated, more skilled and more successful, renowned for our research and innovation

<table>
<thead>
<tr>
<th><strong>HIE focus</strong></th>
<th><strong>HIE contribution</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• UHI title achievement</td>
<td>Principal Measure:</td>
</tr>
<tr>
<td>• Development of a strong research capacity underpinning knowledge-based growth sectors</td>
<td>• Achievement of title for UHI</td>
</tr>
<tr>
<td>• Growth of number of HE students including international</td>
<td>Support Measures:</td>
</tr>
<tr>
<td>• Higher levels of KT between business and academia</td>
<td>• No of graduates working in the economy</td>
</tr>
<tr>
<td>• Increased levels of innovation amongst businesses leading to commercialisation/spin outs(ins)</td>
<td>• RAE ranking and value of RAE research grants to the region</td>
</tr>
</tbody>
</table>

Developing the University of the Highlands is a regional aspiration that stands on the brink of fulfilment. The UHI’s potential contribution to the Highlands and Islands is of regional significance, but our aspirations go beyond title to support the development of a high-quality institution, distinctive in its form as a higher education provider with a strong research capacity. Additionally, the development of the wider universities sector will augment the impact of UHI by bringing new and relevant knowledge to the region to underpin our knowledge based growth sectors. The development of a renowned life sciences sector will require strong collaboration with a range of universities.

### National Outcome 4

#### SUPPORT

Our young people are successful learners, confident individuals, effective contributors and responsible citizens

<table>
<thead>
<tr>
<th><strong>HIE focus</strong></th>
<th><strong>HIE contribution</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Access to learning</td>
<td>Principal Measure:</td>
</tr>
<tr>
<td>• Enterprise education</td>
<td>• No of degrees awarded by UHI</td>
</tr>
<tr>
<td>• STEM</td>
<td>Support Measure:</td>
</tr>
<tr>
<td>• Implement findings of youth migration research</td>
<td>• No of graduate placements supported by HIE</td>
</tr>
<tr>
<td>• Community capacity building</td>
<td></td>
</tr>
</tbody>
</table>

Creating the conditions and essential prospects to enable young people to realise their full potential is dependent on deployment of our regional competitiveness and strengthening communities activities in concert. HIE’s support for creating stronger, more dynamic and sustainable communities is critical to our contribution to this outcome.

### National Outcome 6

#### SUPPORT

We live longer, healthier lives

<table>
<thead>
<tr>
<th><strong>HIE focus</strong></th>
<th><strong>HIE contribution</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Health science research and development</td>
<td>Principal Measure:</td>
</tr>
<tr>
<td>• Provision of sports / recreation facilities in fragile areas</td>
<td>• No of health related research papers from CfHS</td>
</tr>
</tbody>
</table>

HIE makes a support contribution to this outcome through investment in projects such as the Centre for Health Science and the Centre for Rural Health which, through research into remote and rural health issues, aim to improve healthcare provision across the Highlands and Islands. Whilst our rationale for support is principally focussed on the economic and sectoral development benefits of these innovative projects, the potential downstream health and social benefits are directly aligned with the GES. In addition, aspects of HIE’s Strengthening Communities remit make a support contribution, through provision of sports and recreational facilities in fragile areas.
**National Outcome 7**

We have tackled the significant inequalities in Scottish society

<table>
<thead>
<tr>
<th>HIE focus</th>
<th>HIE contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fragile areas</td>
<td>Principal Measure:</td>
</tr>
<tr>
<td>Areas of employment deficit</td>
<td>No of social enterprises providing employment opportunities for those furthest from the labour market</td>
</tr>
<tr>
<td>Equality and diversity</td>
<td></td>
</tr>
</tbody>
</table>

To improve cohesion we will continue to support projects in the less prosperous parts of our area to ensure balanced development across the entire Highlands and Islands. To improve solidarity, we will work to reduce inequality by promoting our services to the most disadvantaged and peripheral communities and to those who are disadvantaged within communities. There is no single answer to the low earnings challenge facing many parts of the area, but we will continue to focus on expansion of employment opportunities in higher-paying economic activities and on stimulating the growth of the social enterprise sector.

---

**National Outcome 10**

We live in well-designed, sustainable places where we are able to access the amenities and services we need

<table>
<thead>
<tr>
<th>HIE focus</th>
<th>HIE contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community account management</td>
<td>Principal Measures:</td>
</tr>
<tr>
<td>Support for social enterprise</td>
<td>Population growth</td>
</tr>
<tr>
<td>Community assets</td>
<td>Support Measures:</td>
</tr>
<tr>
<td></td>
<td>No of account managed communities supported to implement growth plans</td>
</tr>
<tr>
<td></td>
<td>No of account managed social enterprises supported to implement growth plans</td>
</tr>
</tbody>
</table>

The development of dynamic, creative and attractive places is central to the achievement of our ambitions for population growth. Community-based organisations have an important role in achieving this by providing enhanced infrastructure and improved services. Asset-based community development is a key component of this process, improving local amenities, enhancing quality of life and reducing grant dependency through income generation.

---

**National Outcome 11**

We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others

<table>
<thead>
<tr>
<th>HIE focus</th>
<th>HIE contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth at the Edge</td>
<td>Principal Measure:</td>
</tr>
<tr>
<td>Crofting community development</td>
<td>Increase in turnover in the social economy</td>
</tr>
<tr>
<td>Equality and diversity</td>
<td>Support Measures:</td>
</tr>
<tr>
<td></td>
<td>No of small businesses supported in fragile areas</td>
</tr>
<tr>
<td></td>
<td>No of crofting communities supported</td>
</tr>
<tr>
<td></td>
<td>No of hate incidents reported</td>
</tr>
</tbody>
</table>

HIE’s approach to development in our fragile areas seeks to deliver stronger demographic structures, increased community capacity, sustainable community revenue streams and enhanced participation in development, employment, social and cultural activity. Through this approach, we will work with client groups to support the growth of social enterprises, thereby increasing turnover in the social economy; support the implementation of community growth plans; and in fragile areas, selectively assist small businesses to implement development projects which demonstrate sufficient benefit to the client business, whilst making a contribution to wider community well-being. HIE will also encourage and assist projects supporting non-traditional working practices and more generally promote an inclusive culture which welcomes people into our communities and encourages diversity.
## National Outcome 12  
**SUPPORT**

**We value and enjoy our built and natural environment and protect it and enhance it for future generations**

### HIE focus
- Sustainable construction policy
- Crofting community development
- Community land management

### HIE contribution

**Principal Measure:**
- BREEAM score for new buildings

**Support Measures:**
- No of environmental land management projects supported
- No of community owned renewable energy projects supported

Delivery of HIE’s growth objectives is in the context of sustainable development. Our efforts will be environmentally responsible and appropriate to the needs of the communities of the Highlands and Islands as we seek to leave a legacy for future generations. Construction projects to support business growth and transformational projects are governed by a sustainable construction policy. HIE continues to engage with Community Energy Scotland to assist communities to develop community-owned renewable energy projects.

## National Outcome 13  
**MAJOR**

**We take pride in a strong, fair and inclusive national identity**

### HIE focus
- Arts and cultural development
- Gaelic language
- Population growth
- Equality and diversity

### HIE contribution

**Principal Measure:**
- Population growth

**Support Measures:**
- No of cultural social enterprises supported
- Diversity of population base

Investment in community-based arts and cultural activity has contributed to the growth of the Highlands and Islands as an attractive and distinctive region and we will continue to assist the development of dynamic, creative places, utilising the area’s unique environmental and cultural assets. HIE will work with partners to bring forward new Gaelic developments which contribute to the National Gaelic Plan targets. HIE will implement its Gaelic plan with an emphasis on realising the potential commercial and business elements of the language and a focus on fragile areas and crofting communities. HIE will also develop a framework of community engagement which will ensure that all sectors of the population feel part of a diverse and inclusive culture.

## National Outcome 14  
**SUPPORT**

**We reduce the local and global environmental impact of our consumption and production**

### HIE focus
- Development of renewable energy sector
- Low carbon economy
- Resource efficiency

### HIE contribution

**Principal Measure:**
- GVA growth from renewables sector

**Support Measures:**
- No of carbon reduction projects supported

Development of the renewable energy sector continues to be a priority for HIE, not only in terms of the immediate economic growth opportunities it presents, but the longer term potential for contributing significantly to reducing global reliance on fossil fuels. Considerations of economic, social and environmental aspects of sustainability are integral to our investment decisions, both in terms of projects at our own hand and support for business and community led developments. These considerations underpin HIE’s policy to protect our unique natural environment. Our enterprise programme activity includes advice and support to businesses, social enterprises and whole communities to encourage consideration of low carbon production processes, energy efficiency and waste minimisation.
### National Outcome 15

Our public services are high quality, continually improving, efficient and responsive to local people’s needs

<table>
<thead>
<tr>
<th>HIE focus</th>
<th>HIE contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Best value</td>
<td>Principal Measure:</td>
</tr>
<tr>
<td>• Continuous improvement</td>
<td>• Evaluation evidence</td>
</tr>
<tr>
<td>• Benefits realisation</td>
<td>Support Measures:</td>
</tr>
<tr>
<td>• Business systems development</td>
<td>• Cash releasing efficiency savings of 2%</td>
</tr>
<tr>
<td>• Social enterprise</td>
<td></td>
</tr>
</tbody>
</table>

To maximise the effectiveness of public sector activity HIE will work closely with stakeholders and partner organisations on areas where strategic and collaborative partnership working will deliver mutually beneficial outcomes. HIE will play an active role in various national, regional and local fora, including the Strategic Forum, National Economic Forum, Caithness and North Sutherland Partnership and Hebrides Range Taskforce. The organisation is committed to continually reviewing how it delivers its activities and services to ensure that Best Value is achieved. A continuous improvement process is in place to identify and implement business improvement opportunities across the organisation. In addition, HIE will work with social enterprises, building capacity for the delivery of public services through new mechanisms in areas such as care, recycling and community transport.
The projected position is currently as follows:

<table>
<thead>
<tr>
<th></th>
<th>Budget 2010-11 £'000</th>
<th>Budget 2011-12* £'000</th>
<th>Budget 2012-13* £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G-I-A funding</td>
<td>54,600</td>
<td>54,600</td>
<td>54,600</td>
</tr>
<tr>
<td>Resource (non-cash)</td>
<td>14,000</td>
<td>14,000</td>
<td>14,000</td>
</tr>
<tr>
<td>European Union funding</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Business receipts – capital</td>
<td>3,100</td>
<td>3,600</td>
<td>4,100</td>
</tr>
<tr>
<td>Business receipts – revenue</td>
<td>6,300</td>
<td>6,300</td>
<td>6,300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>83,000</td>
<td>83,500</td>
<td>84,000</td>
</tr>
<tr>
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<td>84,000</td>
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* Budgets for these years are provisional and dependent on outcome of SG’s 2010 spending review.

The budget allocations shown in the table above are indicative only. HIE manages its budgets in a flexible manner which allows us to react to opportunities that may arise during the course of the year.

In order to ensure balanced economic and community development across the entire region, HIE allocates its Growth Investment budget on a geographic basis. The size of the budget allocated to each area is determined by a Cohesion Index, which takes into account total population, and the proportion of the population living either in fragile areas or areas of employment deficit. This model ensures that resource is directed towards the areas facing the most significant economic challenges. Discretion is then devolved to local area teams to decide on how best to address the specific challenges they face and to respond to opportunities as they arise. The balance of resources used to support business growth, social enterprise growth or provision of new infrastructure will be correspondingly different in each part of the region, year on year.
SECTION 5
EFFECTIVE GOVERNANCE

HIE will operate as a single organisation with its functions dispersed and delivered across the eight local areas that make up the region as a whole. Central support functions will continue to be located in Inverness, Dingwall and Benbecula, but discrete elements (including a number of senior management positions) will be located in other offices around the region.

In order to operate effectively as a single organisation, we will take a collaborative approach to our work, based on clarity of functions and shared objectives.

Human Resources

Last year’s prevailing theme was about refining current skills and building new competencies to deliver on HIE’s new remit. With the principles of account management now firmly anchored in HIE’s approach to business development, our focus this year will turn to leveraging the power of collaboration across the organisation. HIE is privileged to employ expert strategists in several key areas, including renewable energy, education, health sciences, food and drink, tourism, financial and business services, creative industries, community and social development. These staff are dispersed across HIE’s geography working out of Inverness and local area offices, some working in policy and product development, while others are engaged in directly client-facing roles. Informed by global economic trends and with an in-depth understanding of the unique characteristics of our region, they identify the tools and strategies that support the development and expansion of innovative and successful Highland-based businesses.

Our challenge in 2010/11 is to create an effective, collaborative environment within HIE, connecting strategists with client-facing account management staff across our geography. Our aim is to facilitate seamless collaboration, allowing all HIE staff regardless of role or location to leverage each others' talents, providing HIE’s clients with the best resources to deliver significant and sustainable economic and social impact. We will achieve this by uniting under the banner of a shared vision for the organisation and by optimising our use of technology.

Financial Resources

Striking the balance between need and opportunity, and comparing the value of short term and long term benefits from investment is a continuing challenge for HIE. In order to ensure maximum impact across the challenges set out in GES, HIE will continue to prioritise financial support for a select number of projects where implementation will have a transformational effect on the economy at the regional or national level. These investments shall augment HIE’s core enterprise programme activity which provides support to significant and high-growth businesses and strengthening communities.

HIE is committed to achieving the SG public sector efficiency saving of 2% cash per annum.

Governance and Accountability

Corporate Governance is the system by which organisations are directed and controlled. HIE aims to operate the highest standards of corporate governance at all times.

The key components of HIE’s corporate governance arrangements are: effective leadership and management; responsible transparent and objective decision making; effective risk management arrangements; and effective monitoring arrangements. These elements of
good governance sit within a culture which empowers staff to be dynamic, innovative and take well thought through risks in pursuit of an agreed vision and strategy and in an environment where supporting systems are operating effectively.

HIE’s corporate governance arrangements are underpinned by:

- The existence of a **strong accountability framework** including clear roles and responsibilities and delegated authority arrangements.
- **Effective assurance arrangements** which provide evidence to those charged with overseeing the governance and control arrangements that they are operating effectively and that opportunities for continuous improvement and more effective delivery are identified and realised. These arrangements include:
  - An **Internal Audit and Compliance function** which provides independent assurance to the HIE Chief Executive on the effectiveness of HIE’s internal controls. The work of this team also makes a significant contribution to HIE’s continuous improvement activities.
  - **Board sub-committee structure** which includes an Audit Committee, Health and Safety Committee and a Remuneration Committee.
  - A **holistic corporate reporting framework** which integrates business planning, risk management, performance review (financial and non-financial) and assurance and provides regular reports for Senior Management and the HIE Board highlighting performance against Key Performance Indicators on an exception basis.
  - **Comprehensive risk management arrangements** which support the implementation of HIE’s risk management strategy. This strategy aims to support the identification of opportunities which may offer an improved way of achieving objectives or of risks which may threaten the achievement of HIE’s operational objectives.

**Business Improvement**

HIE is committed to continually reviewing how it delivers its activities to ensure that Best Value is being achieved. A continuous improvement group, chaired by a HIE Director, exists to identify and implement business improvement opportunities across the organisation. The Group have identified a number of business improvement activities which will be implemented over the next three years. These are aimed at ensuring that HIE’s processes are in line with best practice and that they meet the changing requirements of the organisation particularly with respect to the delivery of transformational activities. Key work streams being overseen by this group include reviews of arrangements in place for project appraisal, project management and information management.

A number of benefits will be derived from work currently underway to upgrade and re-align the HIE Management System. Encompassed within this development will be the introduction of better controls and financial management support for managers of large and complex projects, enhanced measurement and monitoring capability in relation to account management activity and client growth and measures to improve information management through tighter integration with HIE’s document management system.

**Equality and Diversity**

Increasing sustainable economic growth and equality for the people who live and work in our area are consistent and mutually beneficial aims. Much of the work we do is not direct service delivery and we achieve this aim through influencing and the promotion of equality and diversity to high growth businesses and sectors and the communities of the Highlands and Islands, particularly those in fragile areas. Our equality scheme, published at http://www.hie.co.uk/equality.html, reflects this approach, differentiating outcomes we can
achieve through direct action (projects at our own hand and as an employer), through specifying equality requirements in our procurement function, in our partnership activity and in the provision of advice and assistance to the businesses, communities and sectors represented in our area.

HIE’s focus on equality and diversity goes beyond the legislative requirements of the public sector duties on race, disability and gender, by considering sexual orientation, religion or belief and age in the work we do. We also extend the principles of equality and diversity to aspects equally relevant to many of those living and working in our area - rurality, Gaelic language and social inclusion. In doing so we aim to ensure that achieving equality and recognising the business and social benefits of diversity are integral to our delivery of the Government Economic Strategy, resulting in positive changes in outcome for the diverse range of people of the Highlands and Islands.
Economy, Energy and Tourism Committee

13th Meeting, 2010 (Session 3), Wednesday, 21 April 2010

Budget Strategy Phase 2011-12 – Written evidence from external bodies

Introduction

1. As outlined in paper EET/S3/10/13/1 for this Committee meeting, in addition to the briefing paper from SPICe and the written evidence from Scottish Enterprise, Highlands and Islands Enterprise and Scottish Development International, other submissions of evidence have been solicited and received from external organisations, namely:

   - CBI Scotland
   - Scottish Building Federation
   - Reform Scotland
   - Federation of Small Business Scotland

2. These submissions are set out in the Annexe to this paper. Please note that some organisations chose to send the Committee a copy of their previous submissions to either the Independent Budget Review group of the Finance Committee itself, given the closeness of its work to that being carried out by this Committee as part of the budget strategy phase.

Recommendation

3. Members of the Committee are asked to take these submissions into account during their deliberations at today’s and future meetings of the Committee.

Stephen Imrie
Clerk to the Committee
April 2010
OTHER WRITTEN SUBMISSIONS OF EVIDENCE

CBI Scotland

INTRODUCTION

1. CBI Scotland is an independent organisation funded by its members in industry and commerce and representing firms of all sizes and from all sectors. We welcome the opportunity to respond to the Committee’s inquiry into efficient public services, whose funding and provision deserve new scrutiny due to the budgetary pressures ensuing from the crisis in the public finances.

2. Business has a crucial interest in ensuring efficient and effective public services. As users of services, funders of services through corporate taxes and often as providers of services, CBI members are keen to help shape the debate. CBI Scotland has recently established a Public Services Group of both larger and SME members to develop our policy agenda on this issue and to highlight the case for and benefits of greater public service reform. Our Public Services Strategy Board leads the CBI’s UK-wide campaign on these issues.

EXECUTIVE SUMMARY

3. In a letter to the Chancellor of the Exchequer ahead of the recent 2010 Budget, the CBI called for a detailed and credible plan for balancing the books by 2015-16, two years earlier than planned, to address concerns about the UK’s public finances. The letter argued that this should be achieved through a combination of lower overall spending and public service reform rather than tax rises. Clearly this will be challenging for the next UK government and the devolved institutions to fulfil, but it also represents an important opportunity to address public service reform. As CBI Scotland outlined in our submission¹ to the Scottish Government on their spending plans for the coming year, radical re-engineering is needed; salami-slicing budgets will not suffice. By using competition to deliver services more efficiently, the quality that users demand can be maintained while spending is reduced.

4. The Scottish government has a strong role to play in setting the political and regulatory environment in which service re-engineering can be achieved. Firstly, the government must ensure best value for money through competition, in which the best provider is selected to deliver the service. Secondly, those public authorities which commission services should seek to transform the way in which services are delivered to raise productivity and save costs. Thirdly, new models for funding and delivery should be used to

¹ CBI Scotland submission on the Scottish Government’s Draft Budget for 2010/11
harness experience from all providers and to capture innovation. And finally, government and other commissioners should use the power of procurement to drive constant improvement in public services.

**ENSURE BEST VALUE FOR MONEY THROUGH COMPETITION**

5. More competition can increase value for money in public services and help achieve the cost reductions that are urgently needed. Competition can also improve overall public service quality, as existing providers are challenged and performance is driven upwards; this positively benefits users, who welcome the degree of choice they are given by a range of providers competing to meet their needs. Competition can also result in high levels of productivity as private sector best practice is imported to public sector providers to create an upward performance spiral.

6. In the prisons sector in England and Wales for example, competition has had the effect of improving outcomes in all prisons, as the publicly run establishments have adopted best practice from their competitors. The Laming report highlighted the advantages of privately managed prisons in providing useful performance benchmarks, and the Carter report stated: “It is widely accepted, by management and unions alike, that the competition offered by the new private prisons and the market testing of existing establishments has made the prison system more efficient and effective as the public sector has sought ways to improve its working practices and become more competitive.”

7. Competition is not working as it should, and without concerted action from government to ensure markets are fair and barriers to entry are removed, the benefits to service quality and value will be lost. A level playing field is needed to allow all providers to compete on a fair basis, with no institutional bias against any sectors. The CBI is firmly opposed to the UK Department of Health’s ‘preferred provider’ policy which favours in-house provision in the NHS, which is anti-competitive and represents a step backwards in the development of a vibrant public services market. Similarly, we believe the Scottish Government’s decisions to ban alternative providers of GP services, hospital services, hospital catering and cleaning, and prisons, are misguided.

8. The Scottish Government should ensure that it does not make it more difficult or costly for itself, local authorities and other public bodies to obtain value from commissioning new providers for public services, and the CBI has published advice on how this can be done better. For example, CBI Scotland has voiced reservations recently over Scottish Government proposals that new Freedom of Information (FoI) obligations be placed on those firms which supply services on behalf of public authorities, not least as the public authorities who let the contracts are themselves already subject to and accountable to existing FoI rules. Additionally, CBI members have voiced concern that the overall pace of reform remains slow, hampered in part due to a lack of sufficient capability in terms of available skills, as

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2 ‘Choice and Competition in Public Services, A Guide for Policymakers,’ The Office of Fair Trading, March 2010
3 ‘Modernising the Management of the Prison Service,’ Lord Laming, 2000
5 See CBI Scotland’s submission to Health Committee on Tobacco & Primary Medical Services Bill, 2009
6 Commissioning strategically for better public services across local government, CBI and LGA, July 2009
7 See CBI Scotland’s 2009 submission to the Scottish Government on its Discussion Paper on extending the coverage of the FoI Act
well as public sector terms and conditions which restrict the ability to bring in talent
from outside.

9. Entry barriers exist that exclude or discriminate against potential providers from
certain sectors and thus reduce competition and compromise value for money for the
public purse. For example, private providers must account for public sector pension
costs in their bids which include staff transfer, while in-house teams must price in
only a notional cost for these payments. Different VAT regimes also apply; private
providers of social housing management services for example must pay VAT while
their public and third sector competitors do not, thus requiring them to be 17.5 %
more efficient just to compete. Despite existing legislation which allows for
independent verifiers to be appointed to deliver building control services, Scottish
Ministers have to date only licensed local authorities to do this work.

10. The 32 Scottish local authorities currently run virtually identical back office
services – finance administration, HR, payroll, procurement, revenues &
benefits etc. Despite much talk of shared services, there has been only
modest progress towards any sharing of significant back office services
between councils. Some local authorities have made progress with internal
shared services, gaining from the efficiency of centralisation. Some councils
have incorporated other local bodies in these arrangements. CBI members
perceive that a fundamental barrier to significant cross-boundary sharing is
local employment – that councillors are unlikely to sanction moving jobs to a
shared facility outside his or her local area. The Scottish Government ought to
consider how it can drive the agenda for the procurement of cross boundary
shared services so that the greater efficiency can be achieved. Sir John
Arbuthnott’s review of shared services was welcome but has yet to prove a
catalyst for change across Scotland. The private sector can be a part of the
solution. For example, several different companies in the oil and gas sector
contract-out their back office finance function to a separate firm’s dedicated
shared service centre located in Aberdeen. All public authorities should
consider whether they too could contract-out their payroll and other back-
office work to specialist firms in order to benefit from economies of scale and
their expertise.

11. Competition has the potential to drive up performance and lower the cost of
public services; however a firm commitment is needed from government – both
Whitehall and Holyrood - for a fair and consistent approach to competition in which
the private sector is given the opportunity to prove its worth on a level playing field.
Acting on these areas would enable the Scottish government to unlock the efficiency
savings available through competitive public service markets and ensure that the
services they commission offer good value to taxpayers.

TRANSFORM SERVICES TO RAISE PRODUCTIVITY AND SAVE COSTS

12. Improving productivity has the potential to radically improve service
outcomes and save costs for public bodies. Public service productivity
decreased during the decade to 2007, which means that each extra pound
spent has been working less hard than the previous one. Had productivity
risen by 1% a year as was the case in the private sector, the cost of public
services by 2007-08 would have been £31bn a year lower.\(^8\) This would in any
event warrant action, but the urgency of the issue is greatly magnified by the
state of public finances, which makes introducing measures to raise
productivity an essential task for the government, which must show a
willingness to do things differently in public services.

13. Public service providers from the private sector are already raising
productivity in their operations to reduce costs and improve outcomes for
users:

14. In InterHealth Canada’s Runcorn-based Independent Sector Treatment
Centres (ISTCs), most patients have all pre-operative assessments and
diagnostics undertaken in a single visit – elsewhere the same procedures
often involve multiple visits. Easily accessible satellite clinics are also run to
handle pre-operative stages closer to patients’ homes, reducing the risk of
missed appointments and playing an important part in achieving a median
referral-to-treatment time of just 5.5 weeks, compared to the English NHS
target of 18 weeks.\(^9\)

15. In a street-cleaning and grounds maintenance contract with Castle Point
Borough Council for example, Pinnacle re-organised the large street cleaning
team into a series of smaller teams with responsibility for their own areas,
generating a healthy sense of competition between teams and engendering a
strong sense of mutual responsibility within teams. It also led to the benefit of
decreased levels of sickness absence. At Russells Hall Hospital in Dudley,
Interserve also arranged its cleaning staff into teams, each with responsibility
for particular zones. This resulted in a 25 per cent increase in time spent on
cleaning activities rather than on moving around the hospital and also imbued
a sense of ownership and engagement with specific wards.\(^10\)

16. Working with Serco, Glasgow City Council has overhauled its internal
systems and processes. With an ageing infrastructure, 200 disparate legacy
systems and increasingly complex reporting requirements, there was need for
system and business process integration across the council’s ten service
departments. Over 70 business processes have been redesigned resulting in
reduction to costs, lifecycles and errors and providing citizens with faster,
more effective services. Savings have been significant with £1.7m from the
sales stream alone by the end of 2008\(^{11}\).

17. Since taking on management of a range of activities at HM Naval Base
Clyde at Faslane in 2002, Babcock has embarked on a four-stage strategy to
transform efficiency over an eight year timescale. Using a wide variety of
improvement techniques, the company has so far delivered savings of £114m
against an initial target of £76m and has exceeded performance targets. The
savings have come from a variety of sources, including a more active

\(^8\) CBI calculation based on ONS figures for UK public expenditure on goods and services in 2007-08
\(^9\) ‘Leaner and Fitter: Boosting Productivity in Public Services,’ CBI, 2010
\(^10\) Ibid.
\(^11\) ‘Doing more with less: a credible strategy for restoring the public finances’, CBI, October 2009
attendance and absence management, slimmed-down management team, and changes in working practices and operations\textsuperscript{12}.

18. Clearly some good examples do exist, but these need to become much more widespread across the public sector. To effect change, service providers must act to re-organise services and also engage staff in the drive for improvement. Re-engineering services includes having clarity on the purpose and intended outcomes of all services; having the right managers in place with specific accountabilities; being ready to re-think processes and jobs; using new technology effectively; avoiding reliance on targets; and protecting outcomes rather than budgets. On the staff side, necessary measures include generating a positive climate for change; engaging and empowering staff; and managing performance actively to help staff develop their skills.\textsuperscript{13} Making small and incremental changes can have bigger impacts than expected, however an overall plan from government is needed to push through these reforms that can secure more efficient public services for the long-term.

**USE NEW MODELS TO HARNESS EXPERIENCE AND CAPTURE INNOVATION**

19. The involvement of the private and third sectors in delivering public services has led to the development of a range of models and approaches which have brought significant improvement and complemented the public sector’s offering to make services more modern and responsive. However the extent of the challenges ahead means that evolution in models and approaches must continue. By adapting the funding and delivery of public services to meet new fiscal, social and environmental realities, service quality can be maintained without raising the cost for taxpayers.

20. The outcomes-based commissioning model is increasingly being used in public service contracts to transfer more risk to providers and challenge them to use innovative approaches to achieving better outcomes. Providers design packages of services to meet user needs and achieve broad outcomes as defined by the public body, such as lower re-offending rates or better results in higher exams. As payment is dependent on success, providers are held to account - an escaped prisoner or low rates of smoking cessation will trigger financial penalties, and user satisfaction can be used to ensure services are responsive to the public.

21. Co-production uses the knowledge and skills of users to help design and deliver services, and can result in a more personalised approach that users find appealing. The parts of the existing services that meet people’s needs can be identified and increased, and those that don’t can be altered accordingly. Trials from youth services and adult social care down south show how granting individual budgets to users achieves significantly better results and also leaves users feeling empowered and engaged. Over time, this will reduce spending as services that had been provided on a universal basis will become more tailored to the needs of individuals.

\textsuperscript{12} Leaner and fitter: boosting productivity in public services, CBI, March 2010

\textsuperscript{13} Doing more with less .... CBI 2009
22. Involving staff in the management of the services they deliver can embed a public service ethos and enhance their dedication to improving outcomes. There is a spectrum of employee involvement arrangements that can harness the drive and enthusiasm shown by public service workers to improve efficiency and achieve better outcomes. Some providers allow employees high levels of freedom to participate in community activities for example, which helps build their involvement with service users and increase levels of satisfaction. Others offer their employees a share in company ownership, giving them a long-term stake in its financial success and increasing cohesion between staff and management.

23. The invest-to-save model, which sees money spent up-front to help individuals address complex challenges such as unemployment or long-term illness, can save significant sums over time and can also make investment in these services more effective, reducing cycles of dependency which require repeated expenditure on a small cohort of individuals. In the welfare-to-work market, a new regime soon to be implemented will see providers who move the long-term unemployed into sustained employment paid from funds provisionally allocated for benefit spending. To ensure risk is transferred to the provider and public funds are protected, the initial investment in unemployed clients will be funded by providers, who are paid at intervals on the basis of their client staying employed. This model has the potential to achieve transformative, sustainable outcomes and deliver long-term cost savings to the public sector.

24. As demand for services rises while the tax base reduces, new models of public service funding will need to be used. In some cases, services may best be funded at least in part by users; the line levy to widen access to high-speed broadband infrastructure shows how vital services can be maintained and upgraded without increasing public spending levels. In transport, the CBI has supported a mixture of funding structures, for example meeting the cost of road maintenance from the transport budget, while using toll roads to fund new routes. Where state funding will apply, sophisticated financing options can attract capital for long periods and ensure a fair return on taxpayer investment. Pension funds for example are likely to feature more for public service projects, and several Scottish projects are considering Tax Increment Financing as a means of raising capital now against future growth.

25. All of these models and approaches could help make public services more efficient and maintain or enhance their quality during the leaner fiscal period ahead. The government should monitor progress on these emerging types of contracts and identify what works best in each instance. They should also focus on disseminating best practice, rolling out new models and approaches where they can be proven to improve value and outcomes. Nominating a Cabinet champion to drive this across the public sector would help to ensure this happens, and that public service users can benefit from expertise developed from all parts of the public services market.

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DRIVE IMPROVEMENT THROUGH BETTER PROCUREMENT

26. Better and more strategic procurement is crucial to achieving the efficiencies needed by the Scottish government. While there are pockets of good practice in government, many public bodies still lack the skills that are needed to conclude contracts that achieve value for money for the taxpayer. A recent NAO study on complex projects\(^{15}\) such as roads, schools and hospitals found that there is a considerable skills deficit in procuring and operating these services. The creation of the Scottish Futures Trust, as a centre of procurement expertise, should assist.

27. There is also a role for government as a market manager and shaper; by creating economies of scale on the demand side to secure better value from the supply side, the public sector can become an ‘intelligent client’ and maximise value from its spend. This requires a coordinated approach from the top of government however, and strong leadership at board level of all public authorities. Structures in government must also become much more intertwined, allowing collaboration to become a natural occurrence rather than one requiring constant political will.

28. The UK Department of Health illustrated just this type of leadership when it established a joint venture with DHL to create NHS Supply Chain to look after around one quarter of NHS procurement spend, totalling around £5bn. With around 2,400 people, this venture manages the procurement and delivery of over 620,000 products and services for more than 600 English NHS trusts, hospitals and other healthcare organisations, working with a range of suppliers across diverse product categories to deliver high-quality, cost-effective products. To incentivise the provider, the NHS has contracted them to find £1bn of savings over 10 years; and as buying from the NHS Supply Chain is not compulsory for NHS trusts, the provider must compete alongside other suppliers in the market.

29. Without a strong push from government however, contracts cannot maximise savings. An innovative communications contract between the Ministry of Defence and BT was extended to the Fire and Rescue Service through Firebuy, their central purchasing body. While potential savings of up to 20 per cent were available to all 47 Fire and Rescue Authorities (FRAs) by joining this contract, only 10 authorities signed up, with the remainder using a range of individually-procured services that are unlikely to match the national contract on quality or cost.

30. The government must make better use of these types of arrangements in order to reduce waste and duplication in procurement. The provider market welcomes large and long-term contracts and can deliver bigger savings to those customers who have aggregated need over the widest possible area and come to the market with a solid proposal. This type of demand management and aggregation happens every day in the private sector and

\(^{15}\) ‘Commercial Skills for Complex Government Projects,’ National Audit Office, Nov 2009
drives constant efficiencies. Government is making some progress; by maximising the opportunity for reform accorded by the fiscal crisis, they can really push the structural and cultural changes needed to make better procurement a reality.

CBI Scotland
March 2010
Scottish Building Federation

Q1. In light of the current economic climate and the strategic challenges ahead in terms of public expenditure, what in your view are the priorities in terms of the remit covered by the Economy, Energy and Tourism Committee?

SBF response
In assessing those priorities relevant to the Committee’s remit, SBF would wish to draw attention to the critically important contribution the construction sector has to make towards achieving the Scottish Government’s overarching purpose of achieving long-term sustainable growth of the Scottish economy:

1. Its contribution to Scottish GDP: Around £10 billion of added value annually, or 10% of total GDP;
2. Its contribution to employment: More than 200,000 workers or around 8% of Scotland’s working population;
3. Its contribution to skills and apprenticeships: Employing 42% of all modern apprentices in training in Scotland last year;
4. The prospects for significant employment growth in the longer term: it is predicted that the industry will need to recruit 36,000 additional workers by 2015 to avoid a skills shortage;
5. The multiplier effect of investing in construction: Every £1 invested has the potential to generate as much as £5 in added value to the wider economy (www.cbi.org.uk/lekreport).

Q2. Should any spending area be protected from real term cuts and, if so, what would the implications be for other areas of the public sector? Should there be an emphasis on seeking uniform efficiency savings, or are there particular bodies/ spending areas that should be targeted?

SBF response
A sustained and comprehensive programme of capital investment is a prerequisite for achieving long-term sustainable economic growth. While we accept that it may not be possible to protect this area of spending entirely from real term cuts, there should be a focus on innovative funding mechanisms to make up any shortfall. We have suggested the creation of a National Infrastructure Investment Bank as a means of generating private capital to help fund major infrastructure projects. We also believe that Scottish Water should be restructured to allow it to raise funds on the open markets. This could generate savings to the Scottish Budget of between £180m and £360m annually, which we would argue should be ploughed back into sustaining levels of ongoing capital investment.
Q3. What are the best examples of efficiency savings being achieved by public bodies working together and across boundaries, for example, through procurement, and can these savings be replicated across the public sector?

**SBF response**

Significant savings could be realised if the system for public procurement of contracts were reformed. Currently, costly, time-consuming pre-qualification for tender lists is costing larger construction firms significant sums of money and forcing many smaller firms out of public procurement altogether. A recent SBF membership survey found less than one in six small building firms participated in a public tender in the past year. This situation could be alleviated if compliance with the Construction Procurement Manual were made an automatic prerequisite to be shortlisted for a public tender.

Q4. Have efficiency savings had an impact on the quality of public services? To what extent can efficiency savings continue to be made while maintaining current levels of service delivery?

**SBF response**

We note that public expenditure reductions in the Scottish Government DEL budget of approximately £1 billion (3.6%) per year are anticipated over the period 2011-2014.

We are concerned about the potential impact of a reduction of this scale on the availability of capital funding within the Scottish Budget. If capital investment is cut, the knock-on impact on the construction industry is likely to be particularly acute given that the industry’s reliance on public sector investment is particularly high at the current time. This is due to a major fall in private sector construction work in 2009:

- Private house building down 27%
- Industrial output down 33%
- Commercial output down 38%
- Overall, a 15% contraction in the Scottish construction sector, wiping £1.65 billion off its value to the Scottish economy

A difficult situation is further compounded by the Scottish Government’s unwillingness to use existing models of partnership financing to mobilise private capital to supplement public capital investment programmes. This has the effect that the capital funding that is available will not stretch as far as it otherwise would. We are also concerned that this situation is having an adverse impact on the quality and durability of publicly funded construction projects as public authorities seek to derive maximum value from contracts.
In this context, any reduction in capital investment and the associated loss of skills and capacity from the construction sector would be extremely unwelcome.

**Q5. What progress is being made in delivering on the policies and targets set by the Scottish Government in terms of sustainable economic growth and what are the challenges to the successful delivery of the Scottish Government’s national performance framework if public spending is reduced?**

**SBF response**

Within the National Performance Framework, there are three specific National Indicators of particular relevance to the construction sector:

**National Indicator: To increase the rate of new house-building:**

In its consultation document “Firm Foundations”, published in 2007, the Scottish Government argued that the rate of new house-building would need to increase to 35,000 units per year by 2015 in order to meet demand.

In reality, housebuilding fell by 18% between 2007-08 and 2008-09 as a consequence of a collapse in private housebuilding due to the economic downturn.

Meanwhile, there are currently a record 140,000 households on waiting lists for affordable housing in Scotland.

Although the sector has seen some short-term benefit from the £300 million of capital spending accelerated into the 2009-10 budget, the practical effect has been a 33% reduction in the affordable housing investment programme for 2010-11.

While supporting the project in principle, SBF is also concerned that, with public finances under significant pressure, the £2.3 billion price tag for construction of the new Forth Crossing risks diverting resources away from other important categories of capital investment, including affordable housing, over the next five years.

As already mentioned, in this context, we would advocate two specific measures to free up additional resources for re-investment in those other categories of capital spending:
1. Creation of a National Infrastructure Investment Bank to mobilise private capital to help fund major infrastructure projects such as the new Forth Crossing;

2. A restructuring of Scottish Water to allow it to raise funds on the open markets, freeing up between £180 million and £360 million in annual operating costs to the Scottish budget.

National Indicator: To increase the proportion of school leavers (from Scottish publicly funded schools) in positive and sustained destinations (FE, HE, employment or training)

The construction industry has always had a hugely important role to play in offering school leavers opportunities for training and skilled employment. The industry employs more than 200,000 people, around 8% of Scotland’s working population. Last year, 42% of modern apprentices in training were employed in the construction sector and associated trades.

The recession has had a major impact on the number of apprentices employed in the construction sector, with more than 1,000 laid off in 2009. A recent survey of the membership of the Scottish Building Federation found that construction apprenticeship places could fall by a further 51% in 2010.

The longer term outlook for the industry is positive. Indeed, it is estimated that the Scottish industry will need to recruit around 36,000 additional workers between now and 2015 to avoid a skills shortage.

However, in the short term, in view of the uncertain outlook for apprenticeships in the construction sector, we believe that those programmes put in place to support the retention of existing apprentices and the recruitment of those apprentices having lost their jobs need to be continued for the foreseeable future.

Given the construction sector’s huge contribution to the total number of apprentices in training each year, targeted support for construction apprentice schemes must be an important element of an effective strategy aimed at achieving this particular National Indicator.

National Indicator: To reduce overall ecological footprint

Clearly, there are specific obligations arising from the Climate Change (Scotland) Act of direct relevance to the construction sector, which SBF will seek to address below.
In addition to these more general questions covering all sectors of the economy, the Convener is also keen to hear views on the following, in light of the Committee's recent energy inquiry:

**Q1. In light of the recent Climate Change (Scotland) Act, what progress is being made to meet the various targets, obligations and provisions within the legislation and the various action plans?**

**SBF response**

SBF has consistently drawn attention to the critical contribution improved energy efficiency in the built environment has to make towards achieving the targets laid down in the Climate Change (Scotland) Act.

Use of Scotland’s 2.3 million homes is responsible for around one third of total carbon emissions while use of non-domestic buildings accounts for an additional one fifth of the total.

A recent report by the Carbon Trust (“Building the Future Today”) found that only 1% of building stock each year is comprised of new buildings and that around 60% of today’s buildings will still exist in 2050. While new building regulations will require a 30% improvement in the energy efficiency of new homes over existing standards, the findings of the Carbon Trust report underline that an effective energy efficiency strategy requires a substantial focus on improving the energy efficiency of existing buildings.

The Scottish Government has identified the annual cost of achieving a 42% reduction in carbon emissions from Scotland’s homes by 2020 as being in the region of £1.6 billion. Total funds allocated to the Home Insulation Programme in 2010-11 are £25 million or 1.56% of this total estimated cost.

**Q2. What are your views on the progress being made to meet the various recommendations made by the Committee as part of its 7th Report, 2009 (Session 3), Determining and delivering on Scotland’s energy future**

(http://www.scottish.parliament.uk/s3/committees/eet/reports-09/eer09-07-vol01-01.htm)

**SBF response**

Following on from the answer given to the preceding question, we believe that more needs to be done to achieve the recommendations of the Committee report, particularly in terms of tackling energy consumption from Scottish building stock and the levels of investment required to deliver this.

We would also draw attention to the scope for the construction sector to make a significant contribution towards development of green skills if a supportive
policy framework could be created to encourage wider take-up of energy efficiency measures in domestic and non-domestic buildings.

Such a framework should include tax incentives to encourage households to invest in the works required to make their homes more energy efficient – for instance, by reducing VAT on home building works to 5% - alongside more generous public funding programmes to support the measures required to achieve a 42% reduction in carbon emissions from the use of Scotland’s building stock by 2020.
Thank you for your invitation to submit evidence to Finance Committee’s inquiry on efficient public services. Over the past two years, Reform Scotland has published a series of reports examining how to improve public services and get better value for money for taxpayers. Although our approach has been driven by a desire to improve standards rather than focusing on costs, we believe that structural reform would ensure that whatever the level of budget following the spending review, better outcomes will be achieved. As a result, our evidence is specifically aimed at questions one, four and ten in the call for evidence.

“1. In preparing for the forthcoming reductions in the Scottish budget, how can public sector bodies best take service users’ views into account?”

“4. How should the public sector best be organised to deliver services for which it has responsibility and what barriers would have to be overcome to achieve this? What are the principles that should underpin any future strategic changes to the configuration of the Scottish public sector?”

More money does not necessarily equal better results
According to figures published by the Scotland Office, the Scottish budget has grown in real terms by 60% since devolution. However, these huge annual increases have not led to the improvements in public services you would expect given the additional resources. For example:

- The latest Scottish Survey of Achievement shows that about two-thirds of S2 pupils are failing to meet the required standard for writing while about 60% are failing to meet the standard for reading.
- At 31st March 1998, the median wait for inpatient and day cases was 35 days. 10 years later on 31 March 2008 the wait was still 35 days, though it has fallen to 29 at 31 December 2009. Similarly for outpatients, the median wait at 31st March 1998 was 43 days – again exactly the same as it was ten years later on 31 March 2008. However, by 31st December 2009 it had risen slightly to 45 days (These figures are not directly comparable due to changes in defining and measuring waiting times introduced through ‘New Ways’).
- The total number of crimes and offences has changed little since devolution – there were 934,886 crimes and offences in 1999/2000 which increased to 937,724 in 2008/9.

As your call for evidence indicates, it is likely that there will be reductions in the Scottish Government DEL budget over the next three years. The years of extra spending have not solved all of the problems of our public services, so Reform Scotland believes that the reduction in spending should be viewed as an opportunity to reform the structure of public services to provide greater

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16 Scotland Office, “Murphy sets budget test for Scottish Government”, 20 January 2010
17 ISD
local accountability, devolved decision making and diversity of provision so that better outcomes and value for money can be achieved.

Reforming healthcare

NHS constitution: We recommend that the health service in Scotland is made more accountable to patients through a new constitution which sets out the relationship between the health service and patients. The health service in Scotland acts as an insurer in the sense that it attempts to provide cover for all citizens in Scotland. It should act more like the insurance-based systems in other countries by defining patient entitlement so that patients know to which drugs and treatment they have access. By giving patients legal entitlements, it ensures the system is accountable to them, not government and because the entitlement is set at a national level it should help to overcome the problem of patients in some parts of the country having access to treatment while others do not.

A new NHS Constitution would have the added benefit of clarifying the role of the Scottish Government in health care. Under our proposals, the Government would:

- set the legal and regulatory framework for the health service and ensure that everyone is guaranteed access to defined health care irrespective of ability to pay;
- regulate the commissioners and providers of health care to ensure that they meet approved standards as well as ensuring the supply of essential services such as A&E (this would include the national bodies such as National Services Scotland and the Special Health Boards which are already directly accountable to the Scottish Government’s Health & Wellbeing Directorate);
- be the principal funder of health care in Scotland, setting the overall budget for the health service in Scotland which would come out of general taxation and be distributed to the new Health Commissioning Cooperatives on the same basis as at present – a weighted amount based on the Resource Allocation Formula; and
- establish a national tariff scheme for different NHS treatments which sets out the amount that would be paid to hospitals and other health care providers per patient they treat.

Supplementary insurance: We recommend that patients should be free to take out supplementary insurance for treatments and drugs not provided by the health service in Scotland without incurring any penalty. The Health Secretary, Nicola Sturgeon, has issued revised guidance to Health Boards on this issue. This new guidance would, under certain circumstances, enable patients to pay for new cancer drugs which the NHS did not provide without turning themselves into private patients. This is a step forward, however there are still too many grey areas. Our proposals would provide much greater clarity by forcing the Government to define exactly which treatments and drugs the NHS will cover. Patients would then know that if they wanted a specific drug that was not covered they would have to pay for it themselves. Allowing a supplementary insurance market to develop, as we propose, would enable far more people to gain access to these new drugs, which are often expensive, than is likely to occur if people have to pay out of their own pockets. The current regulations would continue to apply for those taking out private insurance that covered treatments and drugs available on the NHS.

Empowering patients: We recommend that the role of the 14 Unified NHS Boards in Scotland is changed so that they become the champions of patients, with responsibility for commissioning care on their behalf. They would be turned into 14 area-based, mutual organisations known as Health Commissioning Co-operatives,
owned by their members and with direct patient representation on their boards to ensure they are run in their interests. They would be statutory bodies, regulated by the Scottish Government or its agencies and receiving their funding from the Scottish Government as at present. They would be specifically charged with ensuring the provision of essential local services such as Accident and Emergency and that patients were given a choice as to the care they received. This would require them to act as ‘honest brokers’, disseminating all the relevant information on health outcomes and quality of care so that patients and their GPs could make an informed choice based on the performance and quality of care offered by different providers. Money would flow through the system based on the choices of patients with the NHS tariff following the patient to the provider of his or her choice, ensuring that the system was focussed on the needs of patients.

GPs would continue to perform the role of gatekeepers to further NHS-funded health care with Health Commissioning Co-operatives contracting with GP Practices to provide primary care services. The new General Medical Services Contract allows Health Boards to negotiate with GP Practices for additional services. This should be extended with far greater discretion given to the new Health Commissioning Co-operatives to negotiate their own local contracts for primary care services within a national framework set out by the Scottish Government. Other providers should be able to tender for these contracts to provide GP services. These local contracts could be used, amongst other things, as a tool to encourage primary care services which meet local needs or to promote better health. They would be combined with an end to GP catchment areas with patients able to choose a GP practice which suits them. This choice might be based on convenience – such as a surgery providing online booking or late-night opening or simply on a patient’s perception of the quality of service provided. Taken together locally-negotiated GP Contracts and patient choice of GP would reward those practices which served patient needs, fostering innovation and higher standards in the provision of primary care.

Diversity of provision: We recommend that the provision of health care is separated from its commissioning to remove any potential conflicts of interest and encourage a wider range of health care providers. This mirrors the situation in comparable European countries which provide universal health care coverage. Over time, the Scottish Government and its regulatory agencies would help existing NHS hospitals and providers of community health care to become independent, not-for-profit trusts along the same lines as in England. Their assets would have to be permanently used to provide health care and they could not be taken over by commercial organisations. However, there would be no such restrictions on new health care providers with public bodies such as local authorities, voluntary associations and commercial entities all entitled to provide health services. As with existing providers of health care, they would be regulated by the Scottish Government and its agencies which would grant them a licence to provide health services as long as they met the required standards. They would be funded on exactly the same basis as any other provider – on the basis of the NHS tariff and the number of patients they attracted. If they could treat patients for less than the tariff amount then they would be allowed to keep what is left over to re-invest. This would provide an incentive for better service based on innovation as those providing services valued by patients and delivering better health outcomes would thrive while those not providing such a service would receive less money. As part of this move towards greater independence for the providers of health care, hospitals and other health providers should be given
the freedom to restructure the services they provide and negotiate their own contracts with staff to reflect local needs and priorities.

**Reforming education**

**Parental choice:** Reform Scotland believes that the key to improving the schools system is to give parents a far greater say in the education of their children. Reform Scotland believes that this should mean giving parents the ability to choose the school they feel offers the best education for their child. Schools within the state system are all very different, which is to be celebrated; however those differences are meaningless if parents are unable to choose between them. Where parents are able to exercise greater choice between schools, this introduction of competition can help improve attainment levels in all schools, as highlighted by the OECD.

In practical terms, we believe this should mean that parents or guardians are given an entitlement equal to the value of the average cost of educating a child in their local authority area which could be used to send their child to any school which costs the same as the entitlement or less. If private school fees are the same or less than the entitlement then parents can choose to send their child there. However, if the fees are higher, parents will not be able to top-up the difference themselves.

Parents would also be able to send their children to new state-funded, independent schools which would be able to open up as long as they met educational requirements and the cost was equal to or less than the entitlement. New independent schools, like current ones, would be responsible for their own teacher pay and conditions.

Independent schools which accept the entitlement would not be able to choose pupils on the basis of ability – parents and pupils should choose schools and not vice versa. Initially, before new schools are able to open, if demand for places at independent schools exceeds supply a lottery system would need to be used to allocate places at a school, though preference could be given to pupils with a sibling at the school. Local authorities could continue to use the existing catchment area as the basis on which to allocate places at the schools which they run.

**Supplement for children in receipt of free school meals or with special educational needs:** The central objective of extending parental choice is to extend opportunity and increase social mobility. To ensure that this objective is achieved, pupils in receipt of free school meals or with special educational needs would receive a permanent supplement on top of their entitlement. This would come from central government and ensure that such pupils are more attractive to schools.

**Transitional introduction for children on free school meals:** To further help pupils from more disadvantaged backgrounds, who are the ones most obviously being let down by the current system, Reform Scotland believes that such a system of parental choice should be introduced initially only to parents of children who receive free school meals. This would be for a
transitional period of two years and, during this period, these parents would be given priority over other parents using the existing placing request system.

Allow new schools to be set up: As the OECD PISA report highlighted, the effect of competition can drive up standards across the board, which is why it is important to allow new and diverse schools to open up. Nothing prevents new schools opening up and operating as private schools at present as long as they meet required guidelines. However, providing the entitlement to parents to send their child to the school of their choosing will increase the potential demand for independent, state-funded schools and so provide an important stimulus for the establishment of new schools.

As has been pointed out by the OECD and is illustrated by the experiences of other countries, this increase in the number of independent schools will extend variety and diversity and will help increase competition and so raise standards and attainment across all schools.

Local authority schools could continue as before if they wish, but local authorities should be given control over teacher pay and conditions: Local authorities would continue to run the state schools they currently control; however should they choose, they could allow state schools to become independent schools, handing over power on issues such as pay and conditions directly to the school.

Reform Scotland believes that in addition to continuing to run their current schools as at present, councils should be handed complete control over pay and conditions, effectively ending nationalised pay bargaining for teachers.

Councils could still choose to agree nationwide deals through the Convention of Scottish Local Authorities (CoSLA), but this should be for individual councils to decide.

If local authorities choose to operate their own pay and conditions, perhaps to attract teachers to remote areas, then this would end the way that the McCrone deal is implemented. However, education is currently the responsibility of local authorities, so it is only right that they have full control over their own pay and conditions. As more independent schools open up, schools that would be operating their own agreements anyway; the case for a nationwide scheme is weakened.

“10. What lessons can other countries provide for how public services can be more efficiently delivered in Scotland, particularly at a time of budgetary constraint?”

There are a number of countries around the world which provide Scotland with lessons in improving public service delivery. However, due to a shortage of space Reform Scotland would particularly like to draw the committee’s attention to Alberta, in Canada and Sweden.
**Education - Alberta**

A recurring theme when looking at successful education systems elsewhere is the importance of parental choice and competition between schools. The Organisation for Economic Co-operation and Development [OECD] in its Programme for International Student Assessment [PISA] published in 2007 highlighted the benefits: “Across OECD countries, 60% of students were enrolled in schools whose principals reported competing with two or more other schools in the local area. Across countries, having a larger number of schools that compete for students is associated with better results, over and above the relationship with student background.”

Canada generally performs fairly well in international league tables of educational attainment; however it is of particular note how much better the province of Alberta does, scoring well above the Canadian average for science, reading and maths.  

However, Alberta’s educational spending is not that different from other provinces and the teacher to pupil ratio is one of the highest across Canada. The key difference is that Alberta’s education system offers greater parental choice. Parents can choose from a wide range of schools including separate schools (normally religious), francophone schools, state schools, charter schools (autonomous non-profit public schools designed to provide innovative or enhanced education programmes) as well as alternative learning programmes involving home education or outreach. If parents choose to send their child to a school outwith the public sector the provincial government will pay 60% of the cost of educating the child within the public sector towards the cost of the private schooling.

**Health - Sweden**

The health status of the Swedish population is one of the best in the world. The Swedish health care system is built on the principle of universal, free and equal access for all and is government-funded, heavily decentralised and provides universal access to all residents. The cost of health and medical care amounts to approximately 9% of Sweden’s GDP, a figure that has remained relatively stable since the early 1980s.

The responsibility for providing health care in Sweden is devolved to the 20 elected county councils with some related services such as care for the elderly provided by the 290 municipalities. Health is the prime responsibility of county councils and they must provide residents with high-quality health services and work towards promoting good health. Overall responsibility for

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19 Education Quality & Accountability Office, “Programme for International Student Assessment (PISA), 2006 Highlights of Ontario Results” December 2007
21 Frontier Centre for Public Policy, “Educational Achievement in Canada: Alberta’s choice-based model leads provincial comparison”, May 2005
the health care sector rests at national level, with the Ministry of Health and Social Affairs. The role of central government is to establish principles and guidelines for care and to set the political agenda for health and medical care.

71% of health care is funded through local taxation with contributions from the state representing 16% of funding and patient fees only 3%. County Councils often commission services from independent health care providers. This is done through payments determined by Diagnosis-Related Group (DRG) – a system that classifies hospital cases into one of around 500 groups expected to require similar resources. This has made hospitals more independent of political bodies with some, such as St Goran’s in Stockholm, becoming privately owned. The use of the DRG or ‘tariff’ system increases the independence of health care providers and creates the opportunity to use a wider range of service providers. Generally, patients are free to choose where they go for care. No referral is usually necessary for specialist care. This is different from many other countries, such as Scotland, where ‘gatekeeper functions’ are more common.24

Additional information
Whilst we appreciate that it is not directly within the remit of the committee’s inquiry the impact of more powers for the Parliament should not be overlooked. So long as the Scottish Parliament’s budget comes largely in the form of a block grant determined by the Barnett formula - or some other arrangement – there will be no strong incentive for the Scottish Government to identify where savings might be made. If the Scottish Government was responsible for raising the money it spent, there would be a much greater incentive to improve the efficiency of public services since any savings could be passed on to Scottish taxpayers, creating the conditions for higher growth.

In addition to the written evidence provided within this letter, we would also like to draw the review group’s attention to Reform Scotland’s publications. Our series of reports published over the past two years expand on a number of points raised within our evidence and are available to download from our website - http://www.reformscotland.com/index.php/publication/by_category/4/

Yours sincerely

Ben Thomson
Chairman
Reform Scotland

The Independent Budget Review
April 2010

The Federation of Small Businesses is Scotland’s largest direct-member business organisation, with around 20,000 members. The FSB campaigns for an economic and social environment which allows small businesses to grow and prosper.

As a lobbying organisation and not a service-delivery body, the FSB is not best-placed to comment on some of the specific questions raised in the Panel’s call for contributions. As a business organisation, our primary concern in this debate is about creating the right environment to allow small businesses to grow. It follows then that our main interest in relation to public spending is around specific spend which directly supports and assists small businesses, as well as wider spend on areas which contribute to economic development.

Our response to the Independent Review Panel provides brief comment on a number of issues, largely focusing on spending priorities from the small business perspective and concerns about the implications of tighter public funding for small businesses.

1. Focus on Economic Recovery

Economic strategy in recent years has focused on policies designed to provide intensive support to particular sectors or businesses likely to demonstrate significant high-growth potential. Such a targeted approach is reasonable when resources are limited but runs the risk of attempting to ‘pick winners’.

Such strategies were developed during a period of sustained economic growth but focusing on moving out of recession towards economic recovery may require a different response. For example, how do we ensure that Business Gateway contracts and funding, based on targets for growth businesses, remain realistic and deliverable during and after a downturn?

The pattern of economic recovery in Scotland is also difficult to predict. FSB evidence on the financial crisis of the last 18 months highlights the uneven nature of the recession amongst businesses.1 Uncertainty about recovery is likely to increase as concern grows about future job losses in the public sector (particularly when many small businesses serve communities where the public sector is a major employer).

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While the public sector has expanded to create new employment in recent years this is clearly not an option for responding to the major challenge of significant unemployment. Small businesses (who account for over half of private sector employment) have a track record of creating new jobs in Scotland\(^2\) and supporting small businesses to create employment should therefore be a priority for government policy.

Economic recovery in the context of constraints on public sector funding may, therefore, require different approaches and shifts in spending priorities but it must be at the heart of the government’s focus on sustainable economic growth.

2. Sustainable Economic Growth

The Scottish Government clearly states that its main objective is sustainable economic growth for Scotland since this is “the key which can unlock Scotland's full potential and create benefits for all our people.”\(^2\)

The extent to which this objective directs spending priorities has been questioned by the business community. This debate was heightened during scrutiny of the current Scottish budget since budgets directly associated with economic development were reduced.\(^4\) The business community has asked the Scottish Government whether certain funding decisions, such as supporting reductions in prescription charges and extending concessionary travel schemes, while removing funding for infrastructure projects such as GARL, contribute to the stated objective of sustainable economic growth.

The FSB recognises that the debate about measures which directly and indirectly contribute to economic growth, both locally and nationally is far more complex than current debate would suggest however this discussion, and the tough spending choices that come with it, needs to be explored further. However, if spending reduces in line with expectations, more businesses will question the affordability of certain policies particularly if they do not primarily contribute to economic growth.

3. Concerns about Public Spending Constraints

While spending on some national projects and priorities (sometimes even those aimed at economic development) may often seem remote to many small businesses there are clearly many areas where public spending can and will directly affect the trading environment for small businesses.

a) Local Government

Local government controls many of the services and functions which directly affect businesses in Scotland, including business support and local economic


\(^3\) Scottish Government, *Scotland Performs* website: [http://open.scotland.net/About/scotPerforms/purposes](http://open.scotland.net/About/scotPerforms/purposes)

development strategy. Indeed, councils hold many of the crucial levers under devolution.

The Concordat between national and local government, while improving the relationship and according local government greater respect, has arguably led to less scrutiny of local government. Combined with a lack of real incentive to prioritise economic growth (because this does not directly lead to increased revenue for the local authority) and with so much focus on protecting ‘frontline’ and statutory services, we have grave concerns about the potential for economic development to suffer in council budget cuts. Creating the right environment for businesses to grow and thrive will be crucial to economic recovery but this is threatened if councils opt to disproportionately increase charges on businesses (for a variety of functions, from waste to car parking) or to reduce staffing in key departments (e.g. planning).

b) Procurement
The public sector currently spends around £8bn on goods and services in Scotland each year. This spend can be a useful tool in promoting both efficient spend and promoting sustainable economic growth. However a careful balance in policy is required in order to achieve both outcomes. The current reform programme has undoubtedly led to greater efficiency but potentially at a cost to economic development, with spending figures for Scottish SMEs remaining broadly static over the last three years.²

Again, local government has a key role to play, with a far larger proportion of small businesses supplying councils, compared to other parts of the public sector. We are concerned that the temptation to strive for greater cost savings in delivering goods and services, over and above wider cost/benefit considerations, will prove too great. In such circumstances contracts are often increased in size and/or centralised and tend not to go to local businesses (or other local organisations) and this further drains money and economic opportunity from the local economy.

c) New Income Streams
We are aware that many publicly-funded organisations, especially the third sector, are increasingly encouraged to move away from their reliance on grant-funding towards revenue generating activities. This approach makes sense but we need to ensure that such activities do not compete unfairly with local businesses. Some organisations, for example council DLOs, do not necessarily have the same overheads and start-up costs of ordinary businesses.
For example, the current Scottish Government ‘Third Sector Enterprise Fund’ which describes the purpose of funding as:

“We expect to invest in both capital and revenue items, e.g., buildings, plant and machinery, advice and support on marketing, human resources, accountancy or legal aspects. The revenue support could also include business advice, support for growth management and financial sustainability.”³

²Scottish Parliament Written Answer S2W-25618, 27th July 2009
This raises concern that such organisations will have set-up or expansion costs subsidised. Sponsoring departments should consider that a sensitive approach to adopting new income streams is required to ensure that businesses and other organisations can compete fairly for any new opportunities which may arise.

\(d\) Potential for Efficiency
Understandably, discussion on public sector efficiency has tended to focus on large-scale change programmes, shared services and a wider debate about what the public sector should be delivering. As stated in the introduction, the FSB is not well-placed to comment on these matters however there is no doubt that as an organisation dealing with a range of different government departments, agencies and local government we have come across a number of instances where greater efficiencies could be achieved, albeit on a modest scale. For example:

- Potential duplication in schemes developed to support business e.g. loan/grant funds
- Streamlining the number of publicly-funded bodies which deliver environmental support and advice services to business
- Removing the development at local level of individual paperwork associated with new regulations for business (e.g. licensing law application forms and licences were designed across 32 local authorities rather than using one central form).

4. Conclusion
Focusing on economic recovery in future policies and spending priorities is critical to achieving the Scottish Government’s main aim of sustainable economic growth. Without this focus we will not be able to realise our shared vision of Scotland as a place to live, work and do business in.

The debate on responding to the severe funding challenges faced by the public sector has understandably focused on the delivery of key frontline services. However, if economic recovery is, ultimately, central to improving government finances then we cannot afford to sacrifice a focus on supporting small businesses and the right priorities for economic growth.