

Address:
110 George Street
Edinburgh
EH2 4LH

Telephone:
0131 477 1234
Fax:
0131 477 4567

Website:
www.audit-scotland.gov.uk



Press release

For immediate use: Tuesday 9 December 2003

Auditor General publishes report on Scottish Enterprise

Mr Robert Black, Auditor General for Scotland, has today published his report on Scottish Enterprise. In his briefing to the Scottish Parliament's Audit Committee this morning, he said:

'In the early months this year there were reports in the media about the performance of Scottish Enterprise and I also received a letter from a member of the Scottish Parliament suggesting that I undertake an investigation into the management of Scottish Enterprise National (which I shall call SEN in these remarks).

There were five broad areas of concern.

I asked Audit Scotland, as the appointed Auditor for Scottish Enterprise to examine the areas of concern and to consider whether there were any wider issues. My report is based on the auditors examination.

- Firstly, the extent to which SEN was on course to achieve its performance targets for the financial year ending 31st March 2003.
- Secondly, the performance of SEN in managing major projects which were seen to be critical to the success of its role in further the development of the Scottish Economy.
- A third issue related to whether SEN might have failed to claim £32M of European Union funding to which is may have been entitled.
- Fourthly, concerns were expressed about the use of external consultants by SEN in developing its operations.
- Finally, there was a concern about the number of staff employed in customer relations, in particular in the public relations department.

I would wish to emphasise that neither my report, nor the examination of the auditors, constitutes a comprehensive view of the management and performance of Scottish Enterprise. The content of the report and the background work is restricted to the five areas that I have just outlined.

I would remind the Committee that Scottish Enterprise National works with 12 local enterprise companies (LECs) and other subsidiaries, to constitute the entire Scottish Enterprise Network. SEN is responsible for furthering the development of Scotland's economy, enhancing employment related skills, promoting industrial efficiency and international competitiveness and further improving Scotland's environment. SEN undertakes national and strategic priorities directly, and also gives leadership support and control to the Scottish Enterprise Network. SEN

annually contracts with LECs for the delivery of a wide range of business development and training services, and environmental and regeneration programmes.

I will now summarise my findings in relation to each of the five concerns I mentioned a few moments ago.

First, performance targets and monitoring. The Scottish Executive has set out its overall policy framework in "A Smart Successful Scotland". This policy statement, was published in October 2001 and sets out three themes and 12 priorities for the network. Within this framework, the Scottish Enterprise annual operating plan sets out the delivery plans for the year ahead. Specific outputs are described as key priority performance targets. The number of key performance targets varies annually and for 2002/03 there were 22 key priority performance targets for the Scottish Enterprise Network as a whole, Scottish Enterprise National was expected to contribute directly to the achievement of 12 of these 22 targets.

It is important to bear in mind the distinction between the 12 priorities set by Ministers for the Scottish Enterprise network and the 22 key priority performance targets which were set for the network in the annual operating plan which is agreed with the Department.

With regard to the 22 key priority performance targets for the network as a whole, the Scottish Enterprise data shows that the network as a whole achieved 21 of these 22 targets. SEN was expected to contribute to delivering 12 of these 22 network targets. It was initially claimed that Scottish Enterprise National would miss a majority of its 12 key performance targets in the year ending 31 March 2003. The information held by SEN indicates that it achieved its planned contribution in 8 out of the 12 network targets which it was expected to assist.

I should mention that SEN does not consider that a distinction should be made between its own performance in assisting the achieved of network targets and the performance of the network as a whole, because the organisation operates as one network.

The Auditors raised a number of questions about the performance management and reporting arrangements of Scottish Enterprise National.

Firstly, the Auditors suggested that there may be scope for SEN to set more stretching targets. This is mainly because LECs and other business units often plan to do more than the targeted level of performance. Another factor was the evidence that the reported performance achievements were often significantly in excess of the targets. More specifically, the networks actual performance was at least 20% greater than the target levels in relation to 15 of the 22 targets.

Secondly, as late as May 2003, the management information system of Scottish Enterprise was reporting that for the financial year to the end of March 2003 Scottish Enterprise National would achieve its planned contribution to only three out of the 12 network targets to which it was expected to contribute. They eventually recorded that they had achieved the planned contribution towards 8 targets.

Finally, in some instances the Auditors were not able to verify the accuracy of the reported performance information. This was because, for a number of targets, the values recorded were based upon in-house assessment and there was no independent review or verification.

My report records a number of observations made by Scottish Enterprise National in response to these concerns and I would draw your attention to that part of the report. In general, SEN say that targets are kept under review and may be increased, that a balance must be struck between prudent planning and unrealistic ambition, and that it is difficult to benchmark targets because there are no appropriate comparators.

At this point, I would wish to emphasise that the Auditors did not undertake a full review of the systems in Scottish Enterprise for reporting their performance. I would therefore consider including in my forward work programme a full performance audit of the performance management and accountability arrangements in Scottish Enterprise. I will consult the Audit Committee on this in the early part of next year.

I would now like to turn to the management of major projects and related concerns regarding the application for European funds. There were concerns reported in the media about whether certain major projects were being mis-managed and about the diversion of resources from elsewhere within the network to support certain projects. It was also claimed that the projects were behind schedule and that Scottish Enterprise National had omitted to claim £32M of European Union funding for two projects.

During 2002/03, SEN reduced budgets in some areas of its activities and reallocated money to other areas. While some of the budget reallocations were directed towards major projects, budget reductions were generally confined to areas of underspend. It is right that public bodies maintain a close review of expenditure against budget. Provided that management are clear about the reasons for over and underspends, the reallocation of budgets is part of good financial management.

Some of SEN's major projects have been subject to delay or have not achieved targets for job creation although progress has been made in a number of key areas.

SEN's project ATLAS, which involves the provision of Telecom Trading Exchange and the creation of a telecom network of 13 business parks across Scotland has also been subject to delay because of concerns that the project may contravene 'state-aid' provisions. My report explains the recent history of this project in some detail. The EU has yet to issue its findings on this issue.

Pacific Quay is a very large project in Glasgow which includes the Glasgow Science Centre. SEN has met four of the five main conditions for ERDF funding, but the job creation targets for the project have been revised downwards from an original target of over 3,500 new jobs by 2006 to a revised target of less than 2000 new jobs by 2006. The Science Centre is not performing in line with expectations. I have asked the auditors to keep under review the progress which is made on this project and may produce a report at a later date.

Media concerns were also expressed about whether SEN had failed to claim EU funding to which it may have been entitled in respect of SEN's Intermediary Technology Institutes project and the Scottish Co-Investment Fund project. SEN has not applied for EU funding for the Intermediary Technology Institutes project because, in its view, the nature of the start-up costs make it ineligible for assistance. The project is, however, slightly behind schedule and will require a very large commitment of public funds amounting to core funding of some £450 million over the next 12 years. I have asked the auditors to keep under review the progress which is made and the results delivered from this substantial project.

We think that a reference to the £32 million EU funding relates to the 2002-2006 Risk Capital programme of the European Regional Development Fund. This provided for £32 million to those areas of Scotland within SEN's geographical operating area. All public bodies within this area may apply for these funds. SEN applied for £25 million of this fund in respect of the Scottish Co-Investment Fund project in April 2003 and has now advised that this application has been successful. The media concern is, therefore, unfounded.

Nevertheless, it appears that SEN may not have applied for all the EU funding to which it may have been entitled in respect of certain other projects. EU money can be an important funding source and public bodies should ensure that the potential availability of EU funding is considered at all stages of the development of new projects. Sometimes the amounts involved may not justify the efforts involved in applying but there should be procedures for recording any decisions not to apply in cases where EU funding may be available.

The next area of concern relates to SEN's use of consultants.

SEN normally commission consultants and contractors either because there is a lack of in-house expertise in the area under consideration, or insufficient in-house staff resources are available with the expertise necessary to allow projects and other initiatives to be delivered in a timely manner. Since its inception, SEN has taken the view that, wherever possible, the private sector would be used to deliver the Network's services where this represents value for money.

In 2002/03, SEN's expenditure of consultants and contractors amounted to some £108 million. This is over one-fifth of total Network management and operational expenditure. I have a concern that for a period of almost four years until April 2003, no management information on the use made of consultants and contractors was provided to the Board and senior management. The SEN view is that this type of spending should be monitored and controlled at the level of individual projects and programmes.

The auditors also reviewed 10 consultancy contracts administered by SEN to determine whether procedures for the appointment of consultants and contract monitoring met SEN's internal guidance and accepted best practice. One of the contracts examined was for consultancy advice provided in connection with SEN's Business Transformation project. This is a major project which SEN expects will contribute to improved business efficiency and effectiveness and on which SEN has paid consultants £11 million to date. I have described in some detail in my report the tendering of the contract for the Business Transformation project.

The auditors concluded that SEN should improve its procedures for appointing consultants and monitoring contracts. In particular, they had concerns about the absence of contract documents for a number of contracts. They found that the requirement to expose work to competition was not always met and there were some failures to comply fully with EC procurement rules. The auditors also suggested that the procedures for undertaking financial assessments of proposed contractors and for evaluating tenders could be tightened up. SEN has developed an action plan to address the concerns of the auditors.

Regarding the Business Transformation project, SEN considers that the project has contributed to a reduction in the number of staff employed in the Network. Consultants may be best placed to provide the required services but they are generally more expensive than in-house staff. SEN should, therefore, consider carefully the costs and benefits of further staff reductions if there is a risk that a move to externally sourced services might involve higher costs. The auditors will, therefore, consider SEN's recruitment of consultants and contractors as part of a future review of the Business Transformation project.

At this juncture I should also mention a letter I received from a member of the Scottish Parliament SEN's Premier Advisor programme which is designed to train individuals to provide enhanced business advice. The concerns included the award of contracts, the unit cost per trainee and the possibility that there was favouritism shown to former employees. The auditors concluded most of these concerns were unfounded, although SEN did withhold payments to contractors because the project was over budget, although the invoices were eventually paid.

Finally, there is the issue of the number of staff employed in 'customer relations', in particular SEN's Public Relations Department.

The auditors' confirmed that the overall establishment for SEN's Customer Relations Department is 92 with 71 staff in post. SEN is reconsidering whether to fill the vacant posts. The Customer Relations Department has a wider remit than just press and public relations.'

For further information or a copy of the report please contact Mandy Gallacher or Anne Ryan on 0131 624 9971/4

Notes

1. The Auditor General is responsible for securing the audit of the Scottish Executive and most other public bodies in Scotland, except local authorities. He investigates whether spending bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Auditor General is independent and is not subject to the control of the Scottish Executive or the Scottish Parliament.
2. Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. It provides services to the Auditor General for Scotland and the Accounts Commission.