

Supporting Scotland's economic growth

The role of the Scottish Government and its
economic development agencies

AUDITOR GENERAL 

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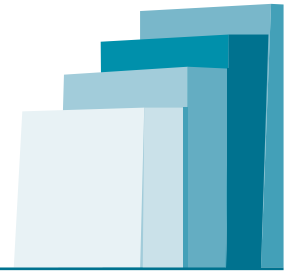
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These magnifying glass icons appear throughout this report and represent additional information.

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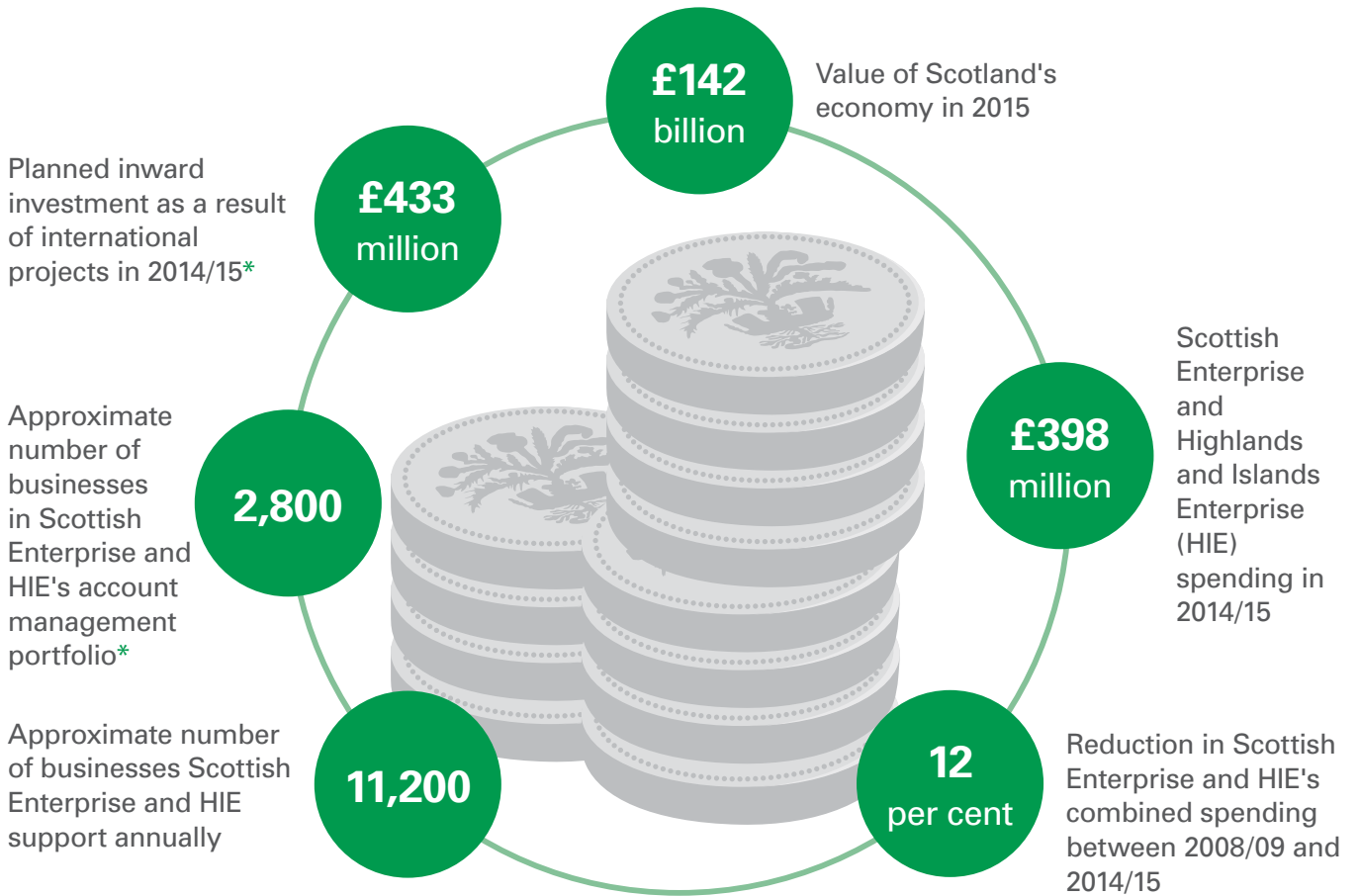


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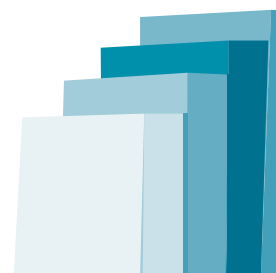
Key facts



Notes:*

1. www.scottish-enterprise-presscentre.com/Press-releases/First-minister-announces-record-year-for-inward-investment-78a.aspx
2. Account management numbers change continually, information is correct as at April 2016

Summary



Key messages

- 1** Since 2007 the Scottish Government has had a clear, overall purpose to create a more successful country, through increasing sustainable economic growth. Supporting economic growth is complex. Many factors influence the economy and most are outside the control of the public sector. A range of partners and partnerships are involved. The public sector's role is to create the conditions that encourage business growth, stimulate demand for goods and services and increase the economic participation of individuals. Five central government bodies are directly involved in this activity – Scottish Enterprise, Highlands and Islands Enterprise (HIE), VisitScotland, the Scottish Funding Council and Skills Development Scotland (the Strategic Forum partners). Of these, Scottish Enterprise and HIE have a specific remit to support economic growth across Scotland.
- 2** Scotland's economy was valued at around £142 billion in 2015. In 2014/15, Scottish Government funding for the Strategic Forum partners totalled £2.2 billion. All public sector spending contributes in some way to supporting growth, for example, spending on education, housing, health, transport and agriculture. As there is no agreed definition of economic development activity it is not possible to identify total public sector spending that directly supports economic growth.
- 3** The Scottish Government's economic strategy sets out its priorities and overall approach to support sustainable economic growth. It is a broad, high-level strategy and does not set out in detail how underpinning policies and initiatives will be implemented. Although the Scottish Government sets the strategic direction for the enterprise bodies, their specific functions and responsibilities are not set out in the economic strategy. The economic strategy states that progress will be measured through the National Performance Framework (NPF). The NPF measures progress towards economic targets and outcomes but it does not measure the contribution of policies and initiatives to delivering these outcomes. The Scottish Government has refreshed its economic strategy twice since 2007 and has developed and refreshed underpinning plans and policies. But it has not collated progress against these, or the contribution made by individual public bodies, to form an overall assessment of progress against the priorities in its previous economic strategies. Doing so will allow the Scottish Government to ensure that its economic strategy remains relevant and fit for purpose.

the enterprise bodies are performing well but the Scottish Government needs a clearer plan for delivering its economic strategy

- 4** In 2014/15, Scottish Enterprise and HIE's spending totalled £398 million. Their combined spending has decreased by 12 per cent, in real terms, since 2008/09. The enterprise bodies carry out similar types of activity, including supporting businesses, sectors and infrastructure projects, and influencing economic development decisions. HIE's distinct geography and additional remit to support communities means that its customers and rationale for its support can differ to that of Scottish Enterprise. Both bodies have clear, evidence-based strategies to prioritise their spending and activities. They have to take informed risks when deciding which organisations and activities to support. Good governance and accountability arrangements are in place to help inform their spending decisions and manage risks.
- 5** Scottish Enterprise and HIE have performed well against their agreed performance measures but it is not possible to accurately measure their contribution to the NPF. Measuring the impact of economic development activity is difficult but Scottish Enterprise and HIE perform a range of evaluation work to help demonstrate and improve their impact. We found good examples of the enterprise bodies working well with partners to achieve a positive impact, such as creating jobs and increasing businesses' turnover.
- 6** The full range of public sector support for businesses is not known which creates a risk of duplication and inefficiency. Public sector support is not well understood by businesses and there is scope to simplify arrangements and clarify roles and responsibilities. The landscape for supporting economic growth is changing and becoming more complicated, including reducing budgets, new financial powers for Scotland, the increasing prioritisation of 'inclusive growth', the creation of City Region Deals and the potential Islands Deal. It is therefore important that, as part of its review of its economic development and skills agencies, the Scottish Government considers how the enterprise bodies can best support the delivery of the economic strategy.

Recommendations

The Scottish Government should work with the main partners involved in supporting economic growth to:

- strengthen its approach to developing, delivering and monitoring the economic strategy by:
 - developing clear targets, timescales and actions for different aspects of the strategy and setting out specific responsibilities for public sector bodies
 - monitoring and reporting progress against the targets and actions
 - summarising how evidence, including stakeholder consultation, is used to develop future strategies and making this publicly available
 - routinely reviewing the economic strategy to ensure it remains relevant and fit for purpose

- estimate total spending on the four strategic priorities, by the main partners involved, to determine whether funding is being targeted appropriately
- assess the impact of public sector support for the growth and other key sectors to help determine the most appropriate focus for public sector support.

The Scottish Government, Scottish Enterprise and HIE should:

- in the context of the changing economic development landscape and as part of the Scottish Government's review of the economic development and skills agencies, consider how the enterprise bodies, taking into account their respective strengths and expertise, can best support the delivery of the economic strategy
- agree common performance measures, where appropriate, that are clearly aligned to the NPF. This will allow the Scottish Government to:
 - compare the enterprise bodies' performance
 - measure their individual and joint contribution to NPF targets
- regularly review whether their support, for example, to individual businesses or involvement in task forces, continues to add value. This should include reviewing the opportunity cost of continuing support in each case.

The Scottish Government should work with relevant partners to:

- identify the full range of public sector support for businesses to identify duplication and potential gaps and to ensure that public sector support complements private sector support
- clarify roles and responsibilities and consider how to raise businesses' and communities' awareness of the full range of available support
- review the remits and memberships of the various economic partnerships and groups that exist to help improve participation of the business sector in these groups, where appropriate.

Background

1. A strong, sustainable economy is important for a successful Scotland. A buoyant economy creates employment opportunities. This increases people's wealth, leads to higher spending and stimulates demand for goods and services. This in turn means that businesses need to produce more, creating further employment opportunities. Increased individual and business wealth also creates more money for public services, such as healthcare and education, all of which lead to a higher quality of life for the people of Scotland.

2. Since 2007 the Scottish Government's overall purpose has been 'to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth'. Its economic strategy sets out its priorities and broad approach to help achieve this.¹ Progress towards the Scottish Government's overall purpose is measured through targets, outcomes and indicators in its National Performance Framework (NPF).² Many factors influence Scotland's economy, most of which are outside the public sector's control, such as global economic performance. The private sector is the main source of economic growth. The public sector's role is to address gaps in private sector activity, create the conditions that encourage business growth, stimulate demand for goods and services, and increase the economic participation of individuals and communities.

3. Scottish Enterprise and Highlands and Islands Enterprise (HIE) are Scotland's national economic development agencies and have lead roles in supporting the achievement of the Scottish Government's purpose. Many other public sector bodies also support economic growth through activities such as: education; employment, skills and training programmes; support for businesses; tourism; regeneration; agriculture; and transport projects. It is not possible to accurately identify how much the public sector spends on directly supporting economic growth. In 2014/15, Scottish Government funding for the Strategic Forum partners totalled £2.2 billion. Of this, £276 million (13 per cent) was for Scottish Enterprise and HIE.

4. Economic growth is commonly measured by the increase in Gross Domestic Product (GDP) every quarter. GDP is the total value of goods and services produced by all sectors of the economy. The latest quarterly figures show that GDP for Scotland grew by 0.2 per cent between September and December 2015.³ Although GDP is now 3.2 per cent higher than pre-recession levels, economic growth in Scotland has been slower than the rest of the UK. Annual figures show that Scotland's economy has grown by 6.8 per cent since 2012 compared to 8.8 per cent for the whole of the UK.⁴ In the 12 months to December 2015, Scottish GDP was valued at £142 billion. [Exhibit 1 \(page 9\)](#) sets out some facts about Scotland's economy.

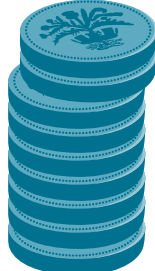
5. The context for supporting Scotland's economic growth has changed a number of times since devolution. For example, in 2008 Scotland's economy moved from a period of sustained growth into the deepest and most prolonged recession for over 30 years and since 2012 it has been growing again. Individual sectors of the economy will grow and face challenges at different times. This means that supporting the economy requires a combination of long-term plans and shorter-term measures that respond to immediate threats or unforeseen events.

6. Scotland's new financial powers created through the Scotland Acts 2012 and 2016 will mean that Scotland has more levers to influence its economy, for example:

- new tax-raising powers, including income tax, VAT and air passenger duty, will give Scotland more control over how its income is generated. It will mean that over half the public money spent in Scotland will be raised in Scotland. Tax-raising decisions also influence individuals' and businesses' spending decisions and their contribution to economic growth
- new revenue and capital borrowing powers will give Scotland more control of its cash flows and investment decisions

Exhibit 1
Scotland's economy

GDP in 2015
£142 billion

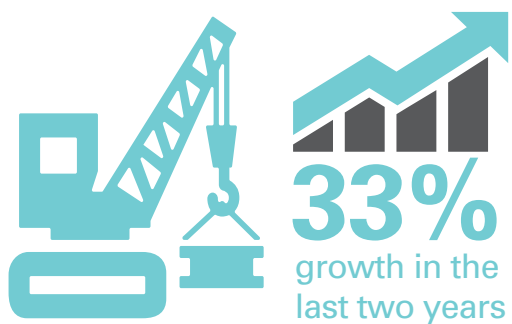
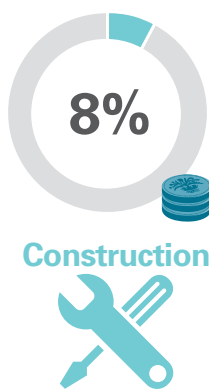
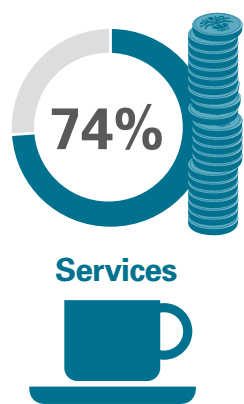


Population
5.4 Million
GDP per person = £26,479



Main sectors

Construction
Fastest growing sector



168,285
businesses in Scotland, of which **99.6%** are SMEs



Employment rate
73.2 per cent, compared to 74.2 per cent for the UK




Productivity
£30.23 output per hour compared to £30.97 for the UK

International exports value = £24.3bn

Main export locations



Food & drink is the largest exporting sector



Note: Small and medium sized enterprises (SMEs) are defined as those with less than 250 employees.

Source: Scottish Government – GDP, Productivity, Exports value, Exports destination; Scottish Enterprise – Inward investment; Office for National Statistics – Businesses, Employment; National Records of Scotland – Population

- Scotland will have more influence over welfare spending and employability support.

7. These changes mean that the performance of Scotland's economy, including employment rates and salary levels, will have more impact on Scotland's public finances than before. It is therefore important that public sector economic growth activity and funding are targeted where they will have the greatest impact on sustainable and inclusive economic growth.

About the audit

8. Our audit reviewed how the Scottish Government's economic strategy is developed and delivered. Scottish Enterprise and HIE (the enterprise bodies) have a specific remit to support economic growth. We focused our audit on the enterprise bodies' roles in supporting the delivery of the Scottish Government's economic strategy and priorities. Specifically we reviewed how they:

- work with the Scottish Government to determine their individual priorities
- prioritise and make decisions on their spending and activity
- work with partners to support economic growth
- measure the impact of their activity.

9. We considered the wider economic development landscape in which the Scottish Government and enterprise bodies operate. We did not assess the performance of other bodies involved in supporting economic growth, such as the Scottish Funding Council, Skills Development Scotland, VisitScotland and councils.

10. This report has three parts:

- **Part 1** provides an overview of economic development in Scotland, including the bodies involved, activities they undertake and how much they spend.
- **Part 2** focuses on Scottish Enterprise's and HIE's roles in supporting economic growth.
- **Part 3** considers the impact of the enterprise bodies' activity.

11. [Appendix 1](#) lists members of our advisory group who provided help and advice throughout the audit. Our online [methodology supplement](#) sets out the details of our evidence base, which includes desk research, data analysis and interviews with the Scottish Government, Scottish Enterprise and HIE. We also spoke to some of the partners they work with and the businesses and communities that they support.

12. We reviewed the following seven case studies to help inform our judgements in this report. We have published an online [case study supplement](#) which sets out details of each of these, including spending, support provided and impact.

Scottish Enterprise

- Amazon – to review its support to an individual business, in particular the arrangements for Regional Selective Assistance (RSA) funding.
- Dundee Waterfront – to review its involvement in a major regeneration project.
- Food and Drink – to review its approach to supporting sectors.

HIE

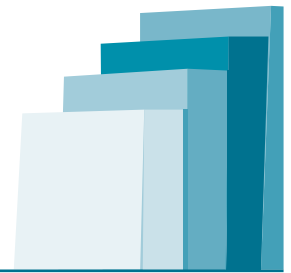
- Harris Tweed – to review its support to individual businesses and fragile areas.
- Inverness campus – to review its support for a major infrastructure project.
- Energy sector – to review its approach to supporting sectors.

Joint support

- Scottish Investment Bank – to review co-investment with the private sector.

Part 1

Public sector support for economic growth



Key messages

- 1** Since 2007 the Scottish Government has had a clear, overall purpose to create a more successful country, through increasing sustainable economic growth. Many factors influence economic growth, most of which are outside the control of the public sector. The public sector's role includes addressing gaps in private sector activity, encouraging business growth and increasing the economic participation of individuals and communities. Five central government bodies are directly involved in this activity – Scottish Enterprise, HIE, VisitScotland, the Scottish Funding Council and Skills Development Scotland (the Strategic Forum partners). Of these, Scottish Enterprise and HIE have a specific remit to support economic growth.
- 2** In 2014/15, Scottish Government funding for the Strategic Forum partners totalled £2.2 billion. All public sector spending contributes in some way to supporting Scotland's economy, for example, spending on education, health, housing, transport and agriculture. There is no agreed definition of economic development activity and many funding sources are involved. This means it is not possible to identify total public sector spending that directly supports economic growth.
- 3** The Scottish Government's economic strategy sets out its priorities and overall approach to support sustainable economic growth. It is a broad, high-level strategy and does not set out in detail of how underpinning policies and initiatives will be implemented. Although the Scottish Government sets the strategic direction for the enterprise bodies, their specific functions and responsibilities are not set out in the economic strategy. The economic strategy states that progress will be measured through the National Performance Framework (NPF). The NPF measures progress towards economic targets and outcomes but it does not measure the contribution of policies and initiatives to delivering these outcomes. The Scottish Government has refreshed its economic strategy twice since 2007 and has developed and refreshed underpinning plans and policies. But it has not collated progress against these, or the contribution made by individual public bodies, to form an overall assessment of progress against the priorities in its previous economic strategies. Doing so will allow the Scottish Government to ensure that its economic strategy remains relevant and fit for purpose.
- 4** The full range of public sector support for businesses is not known which creates a risk of duplication and inefficiency. Public sector support is not well understood by businesses and there is scope to simplify

supporting economic growth is complex due to the number of factors, partners and partnerships involved

arrangements and clarify roles and responsibilities. Various partnerships and groups exist to plan and coordinate activity and these could be streamlined. The arrangements for supporting economic growth are changing and becoming more complicated, including new financial powers, the increasing prioritisation of 'inclusive growth', and the creation of City Region Deals. It is therefore important that, as part of its review of its economic development and skills agencies, the Scottish Government considers how the enterprise bodies and other relevant partners can best support the delivery of its economic strategy.

Supporting economic growth is complex

13. Many factors influence the performance of the economy, most of which are outside the control of the public sector. Scotland has an open economy, which means it is heavily influenced by global economic performance, including exchange rates, interest rates, commodity prices and worldwide political decisions. Other factors include consumer and business confidence and access to finance. The challenge for the public sector is to help create the conditions that stimulate employment opportunities, encourage business growth, entrepreneurship and innovation, and create demand for Scottish products. The public sector also has a role in encouraging individuals to live, learn and work in Scotland, all of which contribute to economic growth.

The Scottish Government's top priority is to increase sustainable economic growth

14. Helping to grow the economy is the Scottish Government's top priority. Since 2007 it has had a clear, overall purpose 'to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth'. Its economic strategies (published in 2007, 2011 and 2015) set out the priorities and broad approach to help achieve this purpose.

15. The priorities in the Scottish Government's first two economic strategies focused on improving learning, skills and wellbeing; supporting businesses; infrastructure development; effective government; and equity. The only change to its priorities between 2007 and 2011 was adding a low carbon economy priority in 2011. This emphasised the government's renewable energy ambitions and was backed by a large amount of funding and activity. For example, it launched a £70 million National Renewable Investment Fund to support offshore wind development.

16. The 2015 economic strategy set out four new priorities (the four Is):

- **Investment** – in people, infrastructure and assets.
- **Innovation** – by encouraging research and development activity and entrepreneurship.
- **Internationalisation** – by helping businesses to export and expand into new markets and encouraging inward investment.
- **Inclusive growth** – through building a labour market with sustainable and well-paid jobs and removing barriers to employment.

17. Fairness and equity have been consistent themes in each of the Scottish Government's economic strategies and HIE has had a long-standing remit to support community and social development. However introducing 'inclusive growth' as a priority is a significant change to the public sector's approach to supporting economic growth.

18. The 2007 strategy identified growth sectors of the economy on which to prioritise, although not exclusively focus, public sector support. These are industry sectors where Scotland is considered to have a comparative advantage or the potential to maximise future growth opportunities. The six sectors identified in 2007 were: Creative Industries; Energy; Financial and Business Services; Food and Drink; Life Sciences; and Sustainable Tourism. A seventh growth sector, Universities, was added in the 2011 strategy. No changes were made to the growth sectors in 2015.

19. The Scottish Government expects all public sector bodies to align their priorities and activities to the economic strategy. In particular it expects them to consider how they will contribute to achieving the four Is. Public bodies are also required to set out in their corporate and business plans how they will contribute to targets in the National Performance Framework (NPF).⁶ We discuss the NPF in more detail in [Part 3](#).

A range of evidence underpins the economic strategy but it is not clear how the Scottish Government uses this to determine its priorities

20. The Office of the Chief Economic Adviser within the Scottish Government is responsible for developing the economic strategy. Economic strategies have been developed through a combination of:

- analysing macro-economic data, such as labour market information, GDP and inflation
- analysing Scotland's economic strengths, opportunities and challenges
- reviewing academic theory on how to develop an economy
- considering the Scottish Government's wider objectives and priorities
- consulting with a range of public and private sector bodies.

21. The Scottish Government has not clearly set out how it uses this evidence to determine its priorities or growth sectors. For example, although international evidence shows a link between reducing inequality and economic growth, the Scottish Government is still building its evidence base to support its inclusive growth priority and how this applies to Scotland. It is also not clear the extent to which stakeholder feedback influenced the strategy. Some stakeholders reported that the consultation period was very late in the development of the strategy and that priorities had already been decided.

22. By publishing information on how its future economic strategies are developed and how its priorities are determined, the Scottish Government will allow stakeholders to better understand its interpretation of the evidence base, including their feedback, and how this applies to Scotland.

The Scottish Government has not carried out an overall assessment of its strategy to support economic growth

23. The economic strategy sets out the Scottish Government's priorities and high-level policy approach to support economic growth. The Scottish Government has not set out how the strategy, or underpinning policies, will be implemented. For example it does not have an action plan setting out clear targets or timescales. The Scottish Government communicates responsibilities to individual public bodies, for example, through annual Ministerial guidance letters to Strategic Forum partners. But the Scottish Government does not set out how public bodies contribute to the delivery of the strategy. Lack of information on how the strategy will be implemented makes it difficult for the Scottish Government to monitor progress.

24. The economic strategy states that progress will be monitored through the various targets and indicators in the NPF. The NPF is a comprehensive tool for measuring progress against economic growth targets and outcomes. But it does not provide an assessment of whether the actions and priorities in the economic strategy are making a difference to these outcomes.

25. A number of strategies and policies, such as trade and investment, innovation, and infrastructure, support the delivery of the economic strategy.^{7, 8, 9} The Scottish Government has not collated progress against underpinning plans and policies, or the contribution of individual partners, to form an overall assessment of progress against the priorities and actions in the economic strategy. It is therefore not clear which aspects of the economic strategy are contributing most and least effectively to supporting economic growth.

26. Although the Scottish Government has refreshed its economic strategy twice since 2007, the 2015 strategy does not set out progress against the Scottish Government's original economic priorities, which have now been replaced, or provide an assessment of support to the growth and other sectors. The Scottish Government has a long-term commitment to support the growth sectors in recognition that benefits are achieved from a sustained period of support. However, the growth sectors have been prioritised for over nine years and the Scottish Government has not carried out an overall assessment of what has been achieved as a result of this support. Doing so will help the Scottish Government to assess whether they are still the most relevant sectors on which to focus public sector support.

27. We reviewed other countries' approaches to supporting economic growth. We consider the following elements of Northern Ireland's approach to developing and monitoring progress against its economic strategy to be good practice:¹⁰

- Publishing details of how its strategy was developed, including the evidence base and consultation process.
- Developing and publishing an annual action plan to support the strategy, setting out timescales and the public sector bodies that are responsible for the actions.
- Regularly reviewing progress and publishing annual monitoring reports on the action plans and the economic strategy.

A number of bodies and partnerships are involved in supporting economic growth

The public sector works with private and third sector partners to plan and deliver economic growth support

28. The Scottish Government sets the overall strategy to support economic growth. It also sets a number of underpinning policies, for example on taxation, planning and higher education. All Scottish public bodies contribute, directly and indirectly, to Scotland's economic growth through a wide range of activities. These include skills and training programmes; support for businesses; education; tourism; regeneration; transport projects; and keeping people healthy to ensure they can participate in education and work. The UK Government also influences Scotland's economic growth through reserved policies on, for example, most business taxes, financial regulation, energy, competition and immigration.

29. The Scottish Government considers five public sector bodies in particular to be responsible for helping achieve its economic priorities:

- **Scottish Enterprise** and **HIE** are the Scottish Government's principal economic development agencies. We review their roles in [Part 2](#).
- **Skills Development Scotland (SDS)** provides support and training programmes for individuals and businesses, including apprenticeships and redundancy advice.
- **The Scottish Funding Council (SFC)** funds teaching, research and other activities in Scotland's further and higher education institutions. It also contributes to innovation by encouraging and funding collaboration between universities and businesses.
- **VisitScotland** helps to maximise the economic benefits of tourism by marketing Scotland to individuals and businesses and organising events to promote Scotland as a place to live, work, visit and learn.

30. These bodies are known as Strategic Forum partners. The Strategic Forum was formed in 2008 and was chaired by the former Cabinet Secretary for Finance, Employment and Sustainable Growth. Its role is to encourage closer working and collaboration between the five bodies and the Scottish Government. No details of the Strategic Forum are publicly available, including its remit, how often it meets and what it discusses. There are also no details of the impact it has had on collaborative working.

31. Councils also have a crucial economic growth role. Councils are responsible for local economic development and regeneration, including planning and licensing, education and local transport projects. They also deliver the Business Gateway service, which provides advice and information for individuals thinking of starting or expanding their business.

32. The public sector works alongside private and third sector partners, for example business representative groups, Industry Leadership Groups, community groups and social enterprises, to plan and deliver economic development activity. Importantly, public bodies work with businesses, communities and individuals who are at the forefront of economic growth. [Exhibit 2 \(page 17\)](#) sets out some of the main bodies involved in supporting economic growth.



Industry Leadership Groups are membership organisations comprising individual businesses, sector representative groups and unions.

Social enterprises typically reinvest any profit or surplus for social and environmental purposes.

Exhibit 2

Bodies involved in helping Scotland's economy to grow

Public bodies work with a range of private and third sectors bodies.

| Strategic Forum partners  | Private sector  |
|--|---|
| <ul style="list-style-type: none"> • Highlands and Islands Enterprise • Scottish Enterprise • Scottish Funding Council • Scottish Government • Skills Development Scotland • VisitScotland | <ul style="list-style-type: none"> • Banks • Businesses • Business representative groups • Industry Leadership Groups • Investors • Key transport bodies, eg ferries and airports |
| Other public sector  | Third sector  |
| <ul style="list-style-type: none"> • Colleges and universities • Councils and Business Gateway • European Union • Transport Scotland • UK Government • UK Trade and Investment | <ul style="list-style-type: none"> • Charities • Community groups • Cooperatives • Social enterprises |

Source: Audit Scotland

A high number of economic partnerships and groups are in place and there is scope for these to be streamlined

33. There are many benefits of public bodies working together, along with private and third sector partners, to help plan and coordinate activity. Doing so, for example:

- helps to clarify roles and responsibilities
- raises awareness of current activities and projects
- identifies which body is best placed to provide support
- helps to identify any duplication or gaps in support.

34. A number of working groups and forums are in place to help coordinate activity and to collaborate with businesses. These exist at a national, regional and local level. Groups also exist on a sectoral and thematic (for example, innovation) basis. We found that their purpose, memberships, roles and remits were not always clear and in some cases there was no end date for the group. Importantly, business sector representatives told us that the high number of groups in place limits their attendance and the contribution they can make. There is scope for the number of groups to be streamlined to improve partnership working with businesses.

The full range of public sector support is not known and is not well understood by businesses

35. It is difficult to identify the full range of public sector economic growth support that is available due to the number of different bodies involved at a local, regional, Scottish and UK level. In addition, some forms of support are provided on a one-off or a short-term basis to respond to specific circumstances or policies.

36. Scottish Enterprise, HIE and councils attempted to identify the public sector support that was available for businesses to pinpoint any duplication or gaps. They did not complete this exercise due to the complexity of all the bodies and initiatives involved. Without full information on the range of public sector support available, it is not possible to identify gaps, potential inefficiencies or whether support is being targeted effectively.

37. Some businesses said they were not always clear what public sector support was available or which body provided it. Businesses that have a relationship with the enterprise bodies are clearer on available support. Some businesses told us that:

- similar forms of support appeared to be offered by different bodies
- the public sector could sometimes be in competition with the private sector to offer support
- there was potential duplication of public sector support.

38. The enterprise bodies have improved their websites to clarify what forms of support are available and who is eligible. The Scottish Government's mygov.scot website provides details of all public services in Scotland. This includes a section for businesses with advice on, for example, funding, start-ups and exporting. It includes links to bodies' websites, including the enterprise bodies, Business Gateway and Scottish Development International (SDI). These websites are only useful if businesses are aware that they exist and they are easy to understand.

It is difficult to identify total public sector spending on directly supporting economic growth

39. All public bodies' spending supports economic growth in some way, both directly and indirectly. There is no agreed definition of economic development activity which means that total public sector spending on direct support for economic growth is unknown. We estimate, through analysing data from the Government Expenditure and Revenue Scotland (GERS) publication, that in 2014/15 around £12 billion of public sector spending supported economic growth ([Exhibit 3, page 19](#)). Around £800 million of spending is on the GERS category 'enterprise and economic development'. This includes Scottish Government 'grant-in-aid' funding to Scottish Enterprise, HIE and VisitScotland, and spending by councils on economic development. The largest proportion (£7.7 billion) is spending on education, including schools, colleges and universities. Spending on education supports a number of the Scottish Government's priorities and the primary purpose of education is not economic growth. However, education plays a vital role in equipping individuals with the skills, knowledge and experience to participate in the workplace.

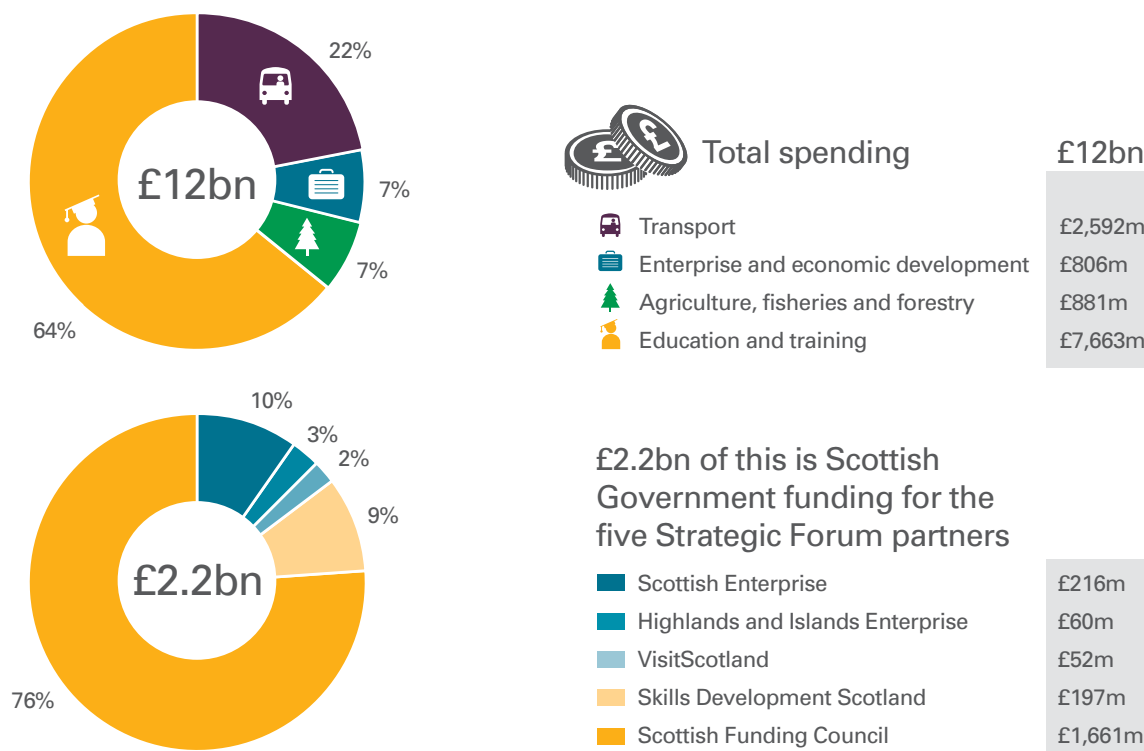


GERS is a National Statistics publication. It estimates the total annual public sector revenue and expenditure in Scotland and sorts this into 16 categories.

Exhibit 3

Estimated public sector spending on activities that support economic growth, 2014/15

Around £12 billion of annual public spending supports economic growth.



Note: 'Agriculture, fisheries and forestry' includes funding for the Forestry Commission and European agriculture subsidies. 'Education and training' includes schools, colleges and universities and funding for SDS and student loans. 'Transport' includes rail services, local and trunk roads and airports.

Source: Audit Scotland, from *Government Expenditure and Revenue Scotland, 2014-15*, Scottish Government, March 2016

40. In 2014/15, grant-in-aid funding for the Strategic Forum partners totalled £2.2 billion. Grant-in-aid funding for the enterprise bodies was £276 million, which is around two per cent of the public sector spending that we estimate supports economic growth. This demonstrates the small input that, in monetary terms, the enterprise bodies have to supporting economic growth. We review details of the enterprise bodies' income and expenditure in [Part 2](#).

41. Funding for economic growth comes from several sources including directly from the Scottish and UK Governments and the European Union (EU). Using GERS figures, we estimate that the UK Government spends around £1.2 billion a year on activity that supports Scotland's economic growth, through funding for trade development, transport infrastructure, employment programmes and energy projects. Between 2007 and 2013, the EU allocated £493 million for programmes in Scotland to strengthen the economy, and improve employment and education opportunities.¹¹ The EU has allocated a further €941 million (approximately £789 million) for these programmes over the period 2014 to 2020.¹² This is in addition to EU funding within the GERS category 'Agriculture, fisheries and forestry' which totalled £730 million in 2014/15.

The Scottish Government has not identified total spending on its priorities or growth sectors

42. Total public spending on delivering the Scottish Government’s strategic priorities and its growth sectors is not known. From 2015/16, Scottish Enterprise will monitor its budgets against the Scottish Government’s priorities, the four Is. HIE continues to monitor its budgets against its own priorities. If the enterprise bodies and other Strategic Forum partners were to monitor their budgets against the strategic priorities this would allow the Scottish Government to identify where spending is being targeted.




43. It is difficult to identify how much is spent on each of the Scottish Government’s growth sectors. As part of our case study on the energy sector we found that the variety of funding sources and complex distribution arrangements make it very difficult to estimate total public sector spending. **Exhibit 4** sets out some of the funding streams that we identified for the renewable energy sector, along with the body that is responsible for administering them.

44. Similarly, as part of our food and drink sector case study, stakeholders reported that the number of different funding streams and sources made it difficult to estimate total public sector spending and that it was unnecessarily complex. In April 2015, the Scottish Government asked Scotland Food and Drink, the sector’s Industry Leadership Group, to carry out a collaboration review to identify how partners could work better to support the sector. The review found that funding provision for the sector was not clear and the delivery of funding could be more efficient and effective.

Exhibit 4

An example of available funding to support the renewable energy sector

Various bodies provide or administer funding to the sector.

| | | |
|--|--|---|
| <p>Scottish Government </p> <ul style="list-style-type: none"> • Saltire Prize – currently under review • Low Carbon Infrastructure Transition Programme | <p>Scottish Enterprise/HIE </p> <ul style="list-style-type: none"> • National Renewables Infrastructure Fund • Renewable Energy Investment Fund – Scottish Government funded • WATERS – third funding round completed • Wave Energy Scotland | <p>Local Energy Scotland </p> <ul style="list-style-type: none"> • Community and Renewable Energy Scheme (CARES) – jointly with Scottish Government • Includes the Local Energy Innovation Challenge Fund |
| <p>Resource Efficient Scotland </p> <ul style="list-style-type: none"> • SME Loans Scheme – Scottish Government funded | <p>Energy Saving Trust </p> <ul style="list-style-type: none"> • District Heating Loan Fund – Scottish Government funded | <p>Department for Energy and Climate Change </p> <ul style="list-style-type: none"> • Various funding streams |

The arrangements for supporting economic growth are changing

45. In addition to new financial powers for Scotland, a number of new policies and arrangements have implications for economic growth activity. For example, recent government strategies, developments and funding deals indicate that economic development is shifting towards regional planning and activity. Six City Region Deals are being developed across Scotland covering 22 council areas.¹³ They provide city regions with the opportunity to set their own investment priorities and, in return, the UK Government and Scottish Government provide funding and devolve specific decision making powers to city region partners. As at April 2016, three deals had been agreed with £1.8 billion of investment from the UK and Scottish Governments.¹⁴ Other councils that are not part of City Region Deals are considering how they can work together to stimulate economic growth. For example, Orkney Islands, Shetland Islands and Western Isles councils are discussing a potential Islands Deal with the Scottish Government.

46. The Scottish Government's inclusive growth priority is also changing the public sector's approach to economic growth. There is potential tension between this priority, which aims to increase economic opportunities across all areas of Scotland, and:

- the particular focus on urban areas in City Region Deals
- the Scottish Government's expectations that the enterprise bodies prioritise high-growth businesses and sectors.

47. Other changes, including the Community Empowerment (Scotland) Act 2015, also have implications for economic growth activity across Scotland. The Act allows community bodies across Scotland to take ownership of land and buildings giving them more control over their local environment and regeneration.

48. Some of these new arrangements are further complicating the economic development landscape by creating additional partnerships and sources of funding. There is also uncertainty following the recent EU referendum, in particular how this will impact on funding received from the European Union. The Scottish Government needs to consider how all of these changes affect existing economic development arrangements and how they might be simplified.

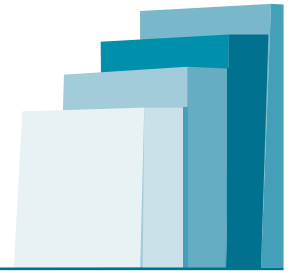
49. In May 2016, the Scottish Government announced a review of the roles and responsibilities of its economic development and skills agencies. It will be led by the Economy Minister and will focus on achieving three main aims:

- achieving the government's ambitions, as set out in the economic strategy and the NPF
- ensuring that economic and skills interventions are shaped by users' needs
- ensuring that delivery of these interventions reflects best practice.

The Scottish Government expects to publish the results of the review by autumn 2016.

Part 2

How Scottish Enterprise and HIE support economic growth



Key messages

- 1** Scottish Enterprise and HIE carry out similar activities to support economic growth. Both offer a wide range of financial and non-financial support, which prioritises high-growth businesses and sectors. They also invest in infrastructure and regeneration projects, and influence economic development decisions. HIE's distinct geography and additional remit to support communities means that its customers and rationale for its support can differ to that of Scottish Enterprise.
- 2** Both bodies have clear, evidence-based strategies to prioritise spending and activities. Their role includes investing when the private sector is unwilling or unable to, which means they often have to take informed risks to support economic growth. Good governance and accountability arrangements are in place to help them make effective investment decisions and manage risk.
- 3** In 2014/15, Scottish Enterprise and HIE spent a total of £398 million supporting economic growth. Between 2008/09 and 2014/15, their combined spending fell by 12 per cent, in real terms, and budgets are expected to fall further over the next few years. Despite their budget reductions there has been little change in the Scottish Government's expectations in terms of the priorities or number of growth sectors they support. It is not possible to compare their spending as they categorise expenditure differently.
- 4** Scottish Enterprise and HIE provide support, often jointly or on behalf of each other, alongside the Scottish Government and other public and private sector partners. The rationale for their approach to joint working could be clearer and there is scope to deliver some activities, such as their support to the growth sectors, more efficiently.

the enterprise bodies spend around £398 million a year on a wide range of activities to support businesses and communities

Scottish Enterprise and HIE have different rationales for supporting economic growth

50. Scottish Enterprise and HIE are Scotland's national economic development agencies. Their predecessor bodies were created around 50 years ago to help address the economic challenges in different parts of Scotland. HIE's predecessor, The Highlands and Islands Development Board (HIDB), was established in 1965 to help tackle the challenges and opportunities of the region's distinct geography. The Highlands and Islands area accounts for about half of

Scotland's land mass but just nine per cent of the population, making it one of the most sparsely populated regions in Europe. Some of the challenges it faced at that time included:

- fragile, remote communities caused by low population density
- poor transport and communication links
- an ageing and declining population
- a fragile economy with over-reliance on traditional industries of crofting, fishing and farming
- high unemployment and low salaries.

51. The HIDB had a specific remit to help people improve their economic and social conditions and enable the region to participate more effectively in Scotland's economic and social development. Scottish Enterprise's predecessor, the Scottish Development Agency (SDA), was established in 1975 to deal with high unemployment caused by the decline in the manufacturing industry. The SDA's remit included industrial development, regeneration, property development and business investment.

52. Scottish Enterprise and HIE were established under the Enterprise and New Towns (Scotland) Act 1990.¹⁵ Their functions were carried out through a network of 22 Local Enterprise Companies and their remits were:

- economic development
- social development (HIE only)
- to maintain and enhance skills and capacities and assist individuals to become self-employed
- to improve the environment
- to promote Scotland's industrial efficiency and international competitiveness (Scottish Enterprise only).

53. In 2007, the Scottish Government reviewed enterprise support, which led to changes to Scottish Enterprise's and HIE's responsibilities:

- Responsibility for local economic development was transferred from the enterprise bodies to councils.
- Their remits were refocused on national and regional economic development, prioritising growth sectors and businesses with high-growth potential.
- Some of their skills and training functions were transferred to SDS.
- Local Enterprise Companies were abolished.

54. The 1990 Act stipulates that HIE’s functions apply in the Highlands and Islands area only (it has a presence in seven council areas). Scottish Enterprise has a statutory duty to undertake economic development for lowlands Scotland (covering 27 council areas). The enterprise bodies support local economic development activity in their respective council areas through involvement in Community Planning Partnerships (CPPs). Scottish Enterprise may operate throughout the whole of Scotland if it agrees this with HIE and the Scottish Government. **Exhibit 5** shows Scottish Enterprise’s and HIE’s areas of operation and their current priorities. The enterprise bodies have different priorities that take into account their different remits and the different challenges, opportunities and economic circumstances of their respective areas. In 2015, Scottish Enterprise changed its priorities to match the Scottish Government’s four Is. HIE has retained its long-standing priorities but makes links to the Scottish Government’s priorities throughout its business plan.



Scottish Enterprise and HIE both provide support in Argyll & Bute Council and North Ayrshire Council areas.

HIE has an additional remit to support community development

55. The difference in the enterprise bodies’ geography, populations and business base means that their customers and the rationale for their support differ. The

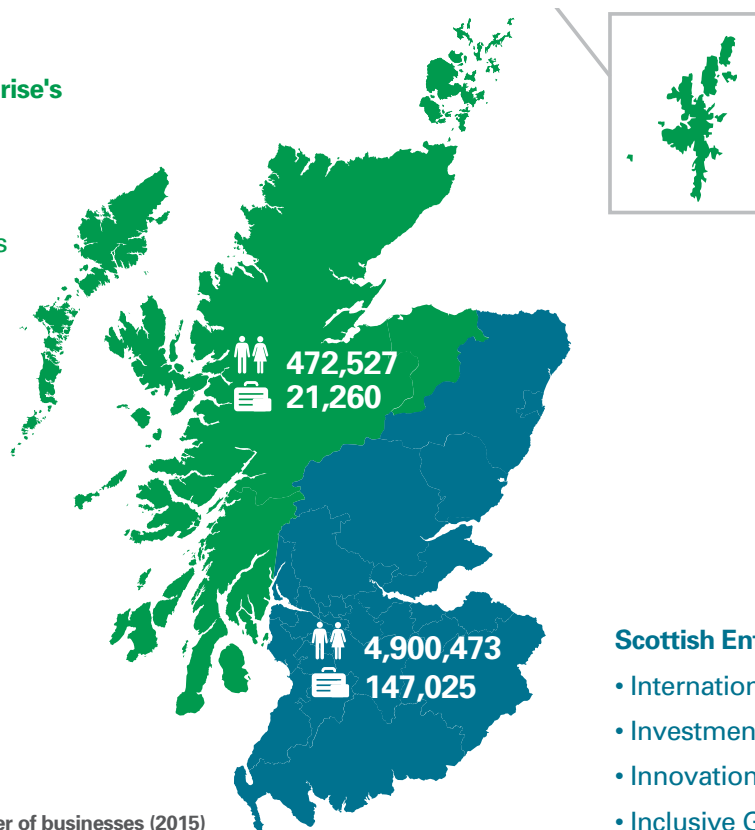
Exhibit 5

Scottish Enterprise's and HIE's areas of operation and priorities

The enterprise bodies serve very different populations and business bases.

Highlands and Islands Enterprise's priorities

- Supporting business and social enterprises
- Strengthening communities and fragile areas
- Developing growth sectors
- Competitive and low carbon region



Scottish Enterprise's priorities

- Internationalisation
- Investment
- Innovation
- Inclusive Growth

Population (2015) Number of businesses (2015)

Source: Audit Scotland; Scottish Enterprise's and HIE's business/operating plans; National Records of Scotland; Office for National Statistics

main difference between their roles is HIE's additional remit to support social and community development. HIE does this through three main areas of activity to meet the challenges faced by remote, rural and fragile areas and to strengthen communities:

- Assisting communities to build their capacity and confidence.
- Empowering communities to acquire, manage and exploit community assets for community benefit.
- Supporting social enterprises to provide employment and deliver local services.

56. We reviewed examples of the support HIE provides to communities as part of its social development remit. [Case study 1 \(page 26\)](#) sets out some of the ways that HIE supports community and economic development on the Isle of Harris.

57. Scottish Enterprise also provides support to rural areas. For example, in 2014/15 ten per cent of its supported businesses were located in the three most rural council areas in lowlands Scotland – Aberdeenshire, Dumfries and Galloway, and Scottish Borders.¹⁶ It is also a partner on the South of Scotland Alliance, with Dumfries and Galloway and Scottish Borders councils, which supports the planning and delivery of economic development activity in the south of Scotland.

Both bodies have clear, evidence-based strategies to prioritise their activity

58. Each year Scottish Enterprise and HIE produce business plans setting out how they will deliver the Scottish Government's economic priorities.^{17, 18} Developing these plans is a lengthy process involving extensive research and consultation.

59. Each year the Scottish Government informs Scottish Enterprise and HIE of its requirements. It also indicates their likely budgets. The enterprise bodies will determine how they can deliver the Scottish Government's requirements, taking into account a range of evidence on the challenges and opportunities in their respective areas and across Scotland:

- Both bodies have specialist teams, who collate comprehensive evidence from sources such as research activity, economic data analysis, geographical profiles and evaluations of their activities.
- Their staff also gather evidence. They include account managers, sector specialists and international field staff, who have in-depth knowledge and intelligence through their regular contact with businesses, communities and sectors.
- Both bodies gather industry views through regional advisory boards, local area panels and Industry Leadership Groups.

60. Scottish Enterprise and HIE present comprehensive information, based on all of this evidence, to their boards, who use it to decide their investment strategies and priorities. They then draft their business plans and share these with the Scottish Government and other Strategic Forum partners. Their business plans will be approved when the Scottish Government is satisfied that they will deliver its priorities.

Case study 1



An example of how HIE supports community and economic development

HIE combines its economic and community development powers to support the Isle of Harris

The Isle of Harris sits within the Outer Hebrides, one of the most sparsely populated areas of Scotland. Over the last 50 years the population of Harris has decreased by over 40 per cent to fewer than 2,000. Supporting sustainable communities in this environment is challenging. Alongside its partners, HIE has provided a range of support to help slow and reverse the decline in the population:

- Support for islanders to acquire, manage and develop community-owned assets, with benefits including improved and affordable housing, job creation and income-generating renewable energy projects.
- Developing reclaimed land in 2005 on which a new distillery was later built. This created opportunities in both the food and drink and tourism sectors, and current and future export potential for gin and whisky respectively.
- Assisting the development of a community-led project to establish a marina in Tarbert, to help attract more visitors.
- Supporting the Harris Tweed industry through investing in businesses and supporting export and skills programmes ([see our case study supplement for more information](#)).

The 2011 census recorded the first increase in the population of the Outer Hebrides in decades and a reduction in the rate of decline for Harris. Wider investments by HIE in the Outer Hebrides, including broadband projects, have also benefited Harris communities. Other support has included the creation of high-quality life sciences jobs at BASF Callanish; working with partners to introduce a Road Equivalent Tariff to make ferry fares more affordable for businesses and residents; investing in energy supply chain infrastructure at Arnish Business Park; and helping North Harris Trust to purchase, and identify opportunities for using, the privately owned North Harris Estate for economic and community benefit.

Source: Audit Scotland

61. Scottish Enterprise and HIE publish their business plans detailing their priorities, actions they are going to take and measures they will use to monitor progress. Scottish Enterprise publishes a summary of the evidence base that underpins its business plan ([Case study 2, page 27](#)). We consider this to be good practice in terms of transparency and accountability.

Case study 2

Scottish Enterprise's business plan evidence review



Scottish Enterprise publishes a summary of the evidence base it uses to underpin its business plan. The summary details each of its main areas of spending and activity. Its 2015-18 document set out its approach to delivering its four priorities. Using the 'Internationalisation' priority as an example, the evidence review sets out:

- why internationalisation is important
- Scotland's current performance in relation to exports and the need to improve
- the challenges and barriers to internationalising businesses
- the impact of international support
- what forms of support will work to help improve impact.

This allows Scottish Enterprise to build up a detailed understanding of what works best in helping Scotland's businesses and sectors to grow, and in attracting investment to Scotland.

Source: Audit Scotland

Scottish Enterprise and HIE spend around £398 million a year

62. Scottish Enterprise and HIE spend around £301 million and £97 million each year respectively on activities to help the economy to grow. Between 2008/09 and 2014/15, their combined spending decreased by 12 per cent in real terms, that is, allowing for inflation ([Exhibit 6, page 28](#)). Scottish Enterprise's spending decreased by 16 per cent in this period and HIE's spending increased by three per cent. HIE's increase in spending is due to additional Scottish Government funding of £20 million in 2013/14 and £23 million in 2014/15 for extending superfast broadband provision in the Highlands and Islands area. Excluding broadband, HIE's spending has decreased by 22 per cent, in real terms, since 2008/09.

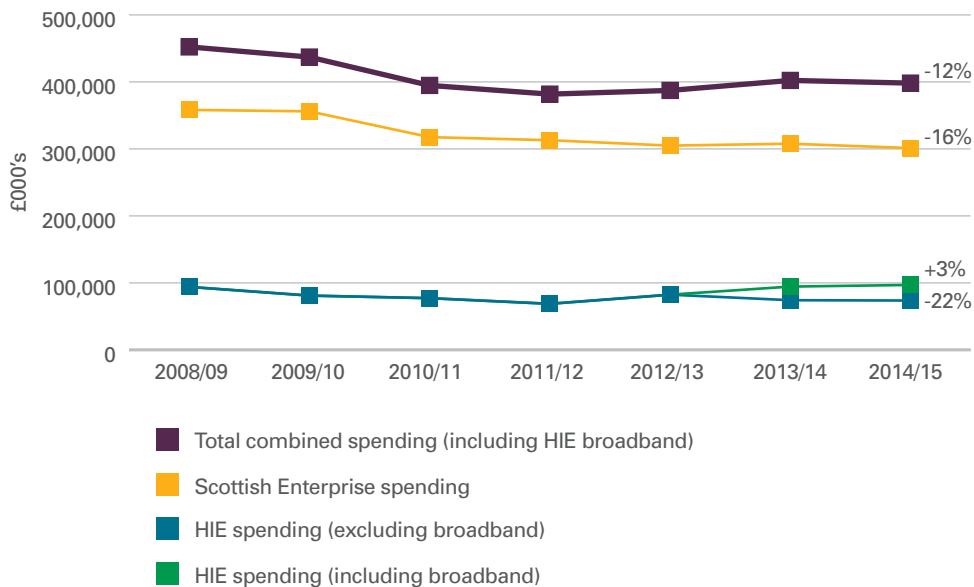
63. The majority of Scottish Enterprise's and HIE's budget comes from the Scottish Government. In 2014/15, Scottish Government funding made up 78 per cent of Scottish Enterprise's income. This includes ring-fenced funding for specific purposes, such as the Renewable Energy Infrastructure Fund (REIF) which supports renewable energy projects at the testing or commercialisation stage. Scottish Government funding represented 86 per cent of HIE's income. This includes Scottish Government ring-fenced funding for HIE's broadband project.

64. The remainder of their income is from the services they provide, from property and investments, and from EU grants. EU funding was four per cent of Scottish Enterprise's and five per cent of HIE's 2014/15 income. Their Scottish Government funding is adjusted each year to take into account their income from other sources. Between 2008/09 and 2014/15 their combined Scottish Government grant-in-aid (GIA) funding decreased by 20 per cent. Although their 2015/16 GIA funding increased by 1.1 per cent in real terms, the Scottish Government's draft budget for 2016/17 includes a two per cent real term reduction to their budgets.

Exhibit 6

Scottish Enterprise and HIE spending 2008/09 to 2014/15, in real terms (£000's)

The enterprise bodies' combined spending has decreased by 12 per cent.



Source: Audit Scotland, from Scottish Enterprise's and HIE's annual accounts

65. The reduction in Scottish Government funding includes budget reductions as part of the Strategic Forum Partner's Efficiency Programme. The Scottish Government set efficiency savings targets for the Strategic Forum totalling £20 million in 2012/13, £25 million in 2013/14 and £40 million in both 2014/15 and 2015/16. The Scottish Government expects the Strategic Forum to achieve these savings through increased collaboration. Each year, the Scottish Government allocates individual partners a proportion of the total savings target and deducts this from their grant. The extent to which efficiency savings are achieved from collaboration is therefore not known.

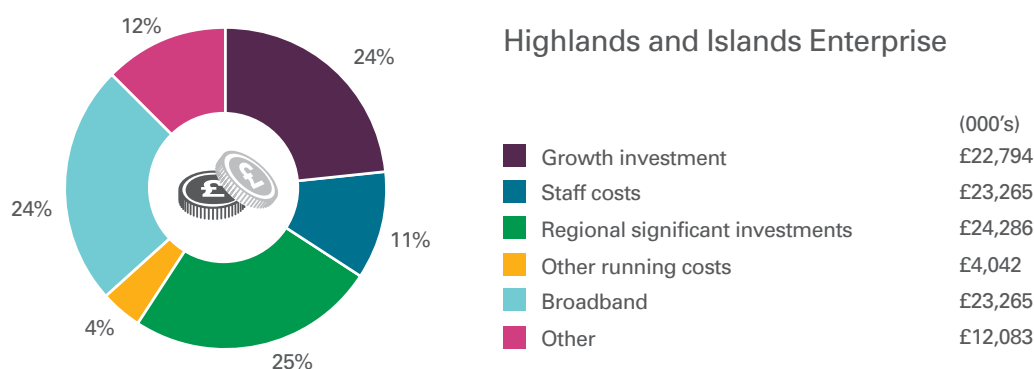
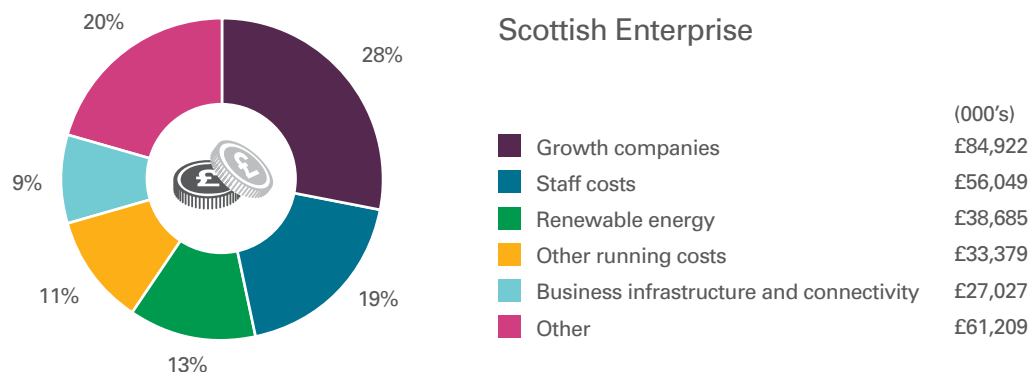
66. Despite the enterprise bodies' budget reductions since 2008/09, there has been little change in the Scottish Government's expectations in relation to the priorities or the number of growth sectors they support. This creates a risk that the enterprise bodies' resources are being spread over too broad a range of activities and this might not be the most efficient use of their funding and expertise.

67. It is not possible to directly compare Scottish Enterprise's and HIE's spending. Both record their spending against their individual priorities and categories. This means it is not possible to compare, for example, how much each spends on supporting businesses. [Exhibit 7 \(page 29\)](#) details their spending in 2014/15. The largest percentage of spending (28 per cent) by Scottish Enterprise was on 'growth companies', which includes spending on the account management service for businesses and equity investments. HIE's largest spending category (25 per cent) was its Regional Significant Investments, which includes the Inverness Campus and other major infrastructure projects.

Exhibit 7

Scottish Enterprise and HIE spending in 2014/15

It is not possible to directly compare all categories of the enterprise bodies' spending.



Source: Audit Scotland, from Scottish Enterprise's and HIE's annual accounts

The enterprise bodies offer a range of financial and non-financial support alongside a number of partners

68. The enterprise bodies' activities are largely similar and include:

- support to individual businesses and communities
- support to sectors, such as energy
- investment in infrastructure and regeneration
- influencing economic development activity, policy and decisions at a local, regional and national level.

69. Scottish Enterprise's and HIE's activities often cover more than one category of support. For example, activity and funding related to supporting sectors may include infrastructure investment and support to businesses and communities. This means it is not possible to accurately identify how much the enterprise bodies spend on supporting businesses, for example.

The enterprise bodies support around 11,200 businesses every year

70. Scottish Enterprise and HIE work with or assist approximately 11,200 businesses each year – Scottish Enterprise works with around 10,000 businesses, HIE works with at least 1,200 businesses and 600 organisations for a community purpose. They offer a range of financial and non-financial support, including funding (in the form of grants, loans and equity investment), advice, training programmes and events. Support is often provided as a package of different products and services from different partners, including councils and SDS, which is tailored to suit recipients’ individual needs.

71. Scottish Enterprise and HIE prioritise, although do not exclusively focus on, businesses with high-growth potential. One of the ways they do this is through their account management service. This involves an account manager working closely with a business to provide advice, help develop growth plans and identify the most appropriate public sector support to help the business achieve its potential. The service is offered to businesses that the enterprise bodies consider to have high-growth potential and those that are important to local economies.

Exhibit 8 provides some statistics on their account management service.

Scottish Enterprise and HIE work closely with businesses and industry groups to support sectors

72. The enterprise bodies provide a range of support to the seven growth sectors and also to other key sectors of the economy, such as engineering, manufacturing and construction. They do this in two ways – they assist individual businesses in these sectors and they offer support that will benefit all businesses

Exhibit 8
Scottish Enterprise's and HIE's account management statistics

| Scottish Enterprise | HIE |
|--|--|
|  <p>2,350</p> <p>Number of businesses supported through the account management service</p> <p>* HIE also provides account management support to around 50 social enterprises, 50 communities and 130 community enterprises</p> |  <p>420*</p> |
|  <p>90%</p> <p>Percentage of supported business who are SMEs, micro business or sole traders</p> |  <p>96%</p> |
|  <p>54%</p> <p>Percentage of supported businesses who operate in the Scottish Government's growth sectors</p> |  <p>78%</p> |
|  <p>60%</p> <p>Percentage of supported businesses who have a turnover of over £500,000</p> |  <p>59%</p> |

Note: Account management data changes continually. Information above is correct as at April 2016.

Source: Audit Scotland

in that sector as a whole. The focus of their sector support often differs, taking into account the different businesses and opportunities in their respective areas.

73. Several other public and private sector bodies also provide sector support. The enterprise bodies and the Scottish Government work with each sector's Industry Leadership Group to identify the challenges and opportunities for the sector, determine the most appropriate forms of support, and coordinate activity. Sector support may include the following:

- **Infrastructure provision** – investing in infrastructure to service a sector or sectors, and help them grow.
- **Inward investment and internationalisation** – promoting Scottish exports and encouraging investment by businesses from outside Scotland.
- **Promotion and awareness raising** – promoting achievements and opportunities through marketing, events and advertising.
- **Research and development** – help with testing new products, processes and services.
- **Skills development** – assessing skills needs with SDS and businesses to provide additional and enhanced training and learning.

Scottish Enterprise and HIE invest in infrastructure to regenerate communities and stimulate economic growth

74. Scottish Enterprise and HIE aim to create the conditions needed to attract businesses, help them grow, and to enable communities to develop. This includes investing in infrastructure projects to improve the business environment and regenerating local areas to encourage population growth. It also includes investment in digital connectivity, including broadband. Often these investments are not specific to individual businesses or sectors but are intended to develop or regenerate a whole area, helping to attract visitors and businesses and create jobs.

75. In 2014/15, Scottish Enterprise and HIE spent £26.6 million and £24.3 million respectively on infrastructure support. This represents nine per cent and 25 per cent of their total spending respectively. This excludes HIE's spending on the superfast broadband project, which totalled £23.3 million in 2014/15. Often infrastructure and regeneration projects involve a significant, long-term funding commitment from various partners. Examples include Scottish Enterprise's development of Pacific Quay in Glasgow and HIE's creation of the European Marine Science Park in Oban.

Some forms of support could be delivered more efficiently

There is potential duplication of support to businesses and sectors

76. Scottish Enterprise and HIE offer similar forms of support, which they tailor to the needs of their customers and environment. The arrangements for providing this support are complex. Some forms of support are delivered independently by both Scottish Enterprise and HIE, such as support to businesses and sectors. Some are delivered jointly, for example through SDI. SDI is a joint partnership between the Scottish Government, Scottish Enterprise and HIE. It is staffed by Scottish Enterprise and the Scottish Government and funded through Scottish Enterprise. SDI offers financial incentives and other assistance to internationalise Scottish businesses and attract international businesses and investment to Scotland.



Our case study supplement sets out details of our review of support to the energy and the food and drink sectors.



Our case study supplement sets out details of Scottish Enterprise's and HIE's infrastructure support in Dundee and Inverness.

77. Other forms of support are delivered by one of the bodies, on behalf of the other, to businesses and communities across all of Scotland. Scottish Enterprise spends around £164 million a year on Scotland-wide support and leads on the following:

- Scottish Investment Bank (SIB) – provides advice and financial support for SMEs.
- Scottish Manufacturing Advisory Service (SMAS) – offers efficiency advice to businesses.
- Cooperative Development Scotland – supports cooperative and employee-owned enterprises.
- Major grants programmes, including Regional Selective Assistance (RSA) and research and development grants for businesses and entrepreneurs.

78. HIE leads on:

- Community Broadband Scotland – to help communities access superfast broadband in rural areas.
- The Scottish Land Fund, which provides communities with a grant of up to £1 million to take ownership of their land and assets.
- Wave Energy Scotland Ltd, which provides funding for wave technology development projects.

79. It is not clear why some forms of support are delivered jointly or on behalf of the other. We were told that often there are historical reasons or that it may be logical for one body to take the lead if they have the required knowledge and expertise. It is also not clear why some forms of support are delivered separately. For example, Scottish Enterprise and HIE offer the same or similar products and services for businesses (for example training courses) but these are developed, delivered and reviewed separately. Many of these products are generic, that is, they are suited to a range of customers and tailored to individual needs and circumstances. There is scope for some products to be delivered more efficiently. For example, the bodies jointly deliver masterclasses for entrepreneurs. Where appropriate, they could work together to develop more products and jointly procure consultants to deliver those products to businesses across Scotland.

80. Scottish Enterprise and HIE both have specialist teams for each of the growth sectors. Their teams focus on the different businesses, opportunities and challenges in their respective areas. The Scottish Government also has sector teams and, in some cases, gets involved in providing support. For example we found that the Scottish Government spends £11 million a year delivering grants and activities for the food and drink sector. Although the three sector teams regularly communicate and collaborate on specific pieces of work, there is potential duplication of effort. For example each team:

- carries out research and analysis to identify sector trends, challenges and opportunities

- liaises with various organisations to identify how best to support the sector
- contributes to developing the overall sector strategy and other supporting plans
- creates its own sector plan setting out its role in supporting the sector.

Effective arrangements are in place for managing risk and making investment decisions

81. Good governance includes:

- systems for managing risk
- transparent, effective procedures for authorising spending decisions
- processes for reporting and scrutinising financial and service performance
- appropriate behaviour by staff and board members.

82. We reviewed these elements of Scottish Enterprise's and HIE's governance and are satisfied that appropriate arrangements are in place. Scottish Enterprise and HIE's internal and external audit teams regularly review governance arrangements to ensure they are appropriate and are being followed. These teams report findings and recommendations to the bodies' boards and board committees. Detailed governance arrangements are set out in a framework document that is agreed between the Scottish Government and the two bodies. The governance arrangements are summarised in [Exhibit 9 \(page 34\)](#).

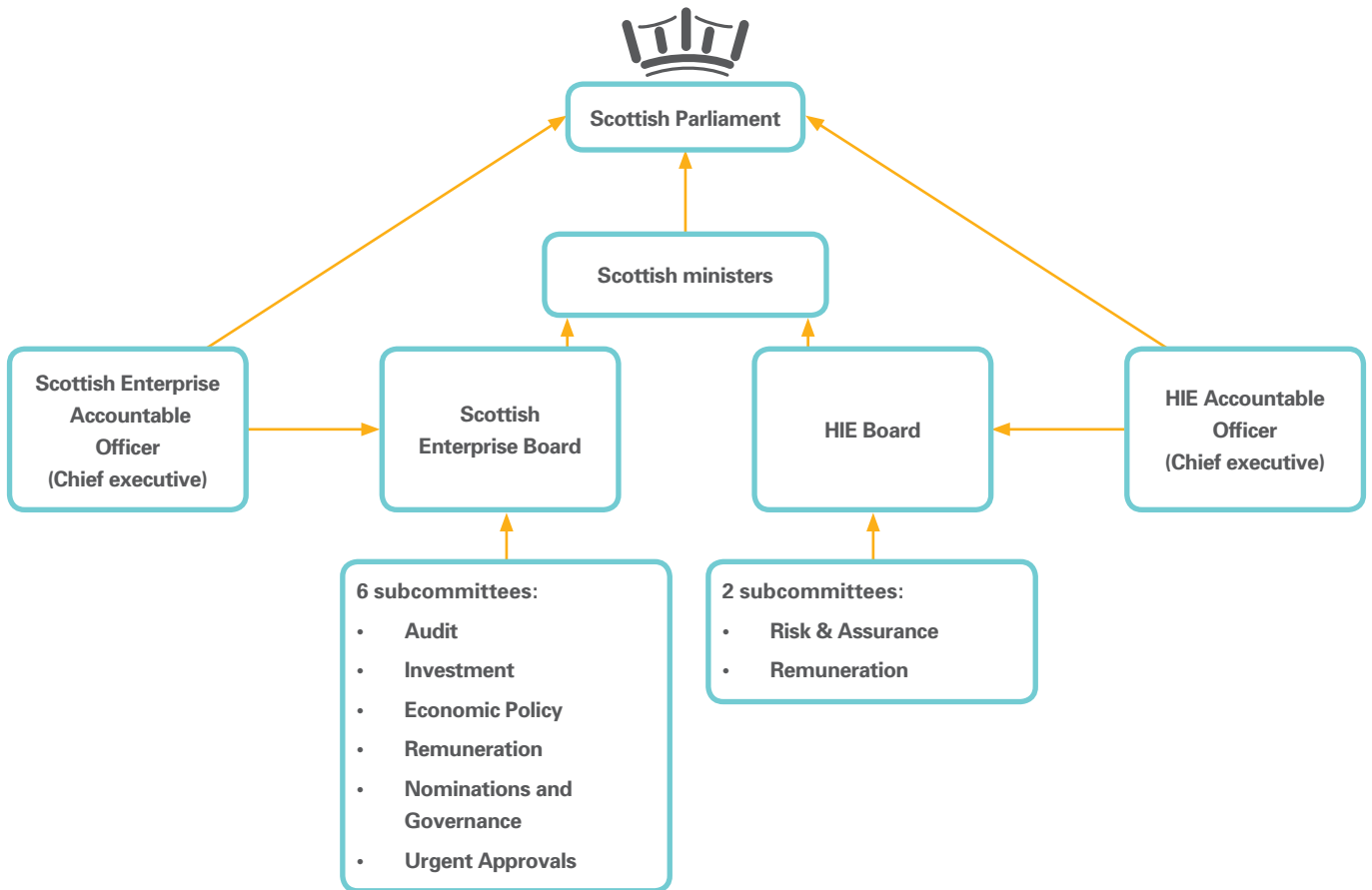
83. Formal and informal reporting arrangements are in place between the enterprise bodies and the Scottish Government and the Scottish Parliament, for example:

- The enterprise bodies regularly report to, and discuss with, their Scottish Government sponsor team, details of their performance, budgeting, control and risk.
- The enterprise bodies' boards and chief executives (accountable officers) regularly meet the minister to discuss issues such as performance and setting priorities.
- The enterprise bodies present their draft budget to the Scottish Parliament's Enterprise, Energy and Tourism committee each year.

84. Scottish Enterprise's board meets ten times a year and HIE's board meets six times a year. Standing items include economic briefings, financial and performance updates and risk management. Boards are provided with comprehensive information that allows them to make evidence-based decisions on their overall strategies and individual investments. Board meetings do not take place in public due to the confidential nature of their discussions. Both bodies publish board minutes, but not board papers, on their respective websites. There is scope to include more information about board meetings on websites. Clear codes of conduct, including declaration of interest policies, for board members are in place. Internal and external audit regularly review these to ensure compliance.

Exhibit 9

Scottish Enterprise's and HIE's governance arrangements



Source: Audit Scotland

Scottish Enterprise and HIE have effective arrangements in place to manage risk

85. Scottish Enterprise and HIE operate in a high-risk environment. They should only invest when the private sector, including banks or other investors, is unwilling or unable to. This means that greater risk is often attached to the investments they make. There are also inherent risks with investing in new businesses or new technologies.

86. The enterprise bodies have effective risk management arrangements in place. These include policies and procedures that their internal and external audit teams test, and risk registers that their boards review regularly. They minimise risk by:

- having strong, effective procedures in place that require a range of evidence to be considered before investments can be approved
- investing the lowest level of funding required to allow projects to go ahead
- employing staff with a range of in-depth knowledge and expertise, helping to create a good understanding of what opportunities are likely to succeed
- co-investing with the private sector.



Our case study supplement sets out how the enterprise bodies share risk with the private sector through the Scottish Investment Bank (SIB).

87. Despite having comprehensive procedures in place, the enterprise bodies may have to occasionally write off investments that are not recoverable, due to the risk associated with their activity. We looked at the investments that Scottish Enterprise has made through SIB and found:

- a total of £335 million has been invested in 473 businesses
- a return on investment has been made on 20 per cent of completed investments
- investments have created income for SIB of at least £68 million
- write-offs have totalled £39 million.

Rigorous processes are in place to enable Scottish Enterprise and HIE to make effective investment decisions

88. The due diligence that Scottish Enterprise and HIE undertake is proportionate to the level of funding and risk. They both have comprehensive procedures and guidance in place to support all stages of their investments, from the initial idea and project appraisal, to project delivery and review. Both bodies have strong and effective procedures in place to support their investment decisions. Both present clear information to their boards, or equivalent, which helps to make effective decisions. All forms of support must align with the Scottish Government's and the individual bodies' priorities. Business cases for investment proposals follow the UK Treasury's appraisal guidance. For funding to be approved there must be evidence of:

- the rationale for the investment
- the expected impact
- viability
- affordability and sources of funding
- arrangements for delivering the project.

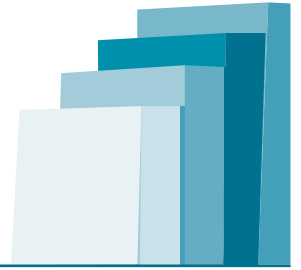
89. Scottish Enterprise's and HIE's internal audit teams review a sample of projects each year to ensure that:

- guidance is followed
- funding is approved in line with delegated authority limits
- appropriate paperwork is kept.

90. Auditors report the findings and recommendations from these reviews to board members, setting out what is working well and where improvements can be made. All of the business cases and supporting documentation that we reviewed for our case study projects complied with the guidance in place.

Part 3

Impact of the enterprise bodies' activity



Key messages

- 1 Progress towards sustainable economic growth is measured through various targets in the Scottish Government's National Performance Framework (NPF). Scottish Enterprise and HIE have performed well against their agreed performance measures. There is little commonality between their publicly reported performance measures and they also differ to performance measures in the NPF. This means it is not possible to make comparisons between the enterprise bodies' performance nor is it possible for the Scottish Government to measure Scottish Enterprise's and HIE's contribution, individually and collectively, to achieving NPF targets.
- 2 Measuring the impact of economic development activity is difficult due to a range of factors, including the time lag that often occurs between providing support and achieving results. Scottish Enterprise and HIE perform a range of evaluation work to help demonstrate and improve their impact. Scottish Enterprise publicly reports the results of evaluations and we consider this good practice.
- 3 We found good examples of Scottish Enterprise and HIE working well with partners to achieve a positive impact for businesses and communities, including helping them to create jobs and increase turnover. Businesses and communities are largely satisfied with the support they receive and report a number of benefits. To help ensure that funding and expertise is targeted where it is needed most, it is important that the enterprise bodies continually assess the extent to which their support adds value.

the enterprise bodies have a positive impact on their customers but their specific contribution to NPF targets is unclear

Measuring the impact of economic development activity is difficult

91. In addition to the range of influences on Scotland's economic performance, measuring the impact of economic development activity is complicated by:

- the long-term nature of some investments, in particular large-scale infrastructure projects
- the time lag that often exists between providing support and achieving results – for example, investing in research and development (R&D) activity
- the number of partners and different forms of support that are often involved, which makes isolating the influence of individual factors difficult

- the range of assumptions that have to be made to assess what might have been achieved in the absence of economic development support.

92. The range of factors that affect Scotland's economic growth means we cannot directly compare the performance of the enterprise bodies and the overall performance of Scotland's economy. Scottish Enterprise's and HIE's combined annual spending (£398 million) is small compared to the amount of public sector spending that influences economic growth, and to the total value of Scotland's economy (£142 billion). This makes it difficult for the enterprise bodies to accurately demonstrate their impact on Scotland's economy. It is important however that they measure their performance and how they contribute to sustainable economic growth.

Scottish Enterprise and HIE are performing well against their agreed performance measures

93. Scottish Enterprise and HIE have each developed detailed performance frameworks that include measures selected to best suit their individual activities and priorities. These are agreed with the Scottish Government as part of their business plan approval process. In 2014/15:

- Scottish Enterprise monitored data on 44 performance measures. It publicly reported progress in its annual report on the 16 measures it considers to be the most important under each of its priorities
- HIE monitored data against 86 performance measures and published information in its annual report against seven key measures.

94. Scottish Enterprise and HIE regularly review their performance measures to ensure they reflect their activities and the wider economic context. We looked at the performance measures reported in each of their last five annual reports (2010/11 to 2014/15). We found that HIE's performance measures were more consistent. Trend information (covering at least three years) was available for all seven of HIE's 2014/15 performance measures and for nine out of 16 of Scottish Enterprise's.

95. Scottish Enterprise and HIE are performing well against their publicly reported performance measures ([see Supplement 2](#)). In the five years to 2014/15 HIE consistently met or exceeded its targets, except for one that it missed in 2010/11 on the value of supported jobs. Scottish Enterprise also met or exceeded most of its performance targets. It missed a few renewable energy targets related to private-sector investment and job creation. This was due to challenges and delays with offshore wind and tidal projects and lack of interest from commercial investors.

96. The enterprise bodies review their performance targets every year and these are scrutinised by their boards. Although performance targets in each of the last five years have mostly been exceeded, the Scottish Government has not challenged the enterprise bodies to increase their annual targets. It is important that the enterprise bodies test that they are setting the most challenging targets possible.

It is not possible to assess the collective performance of the enterprise bodies

97. Despite undertaking similar activities, there is little commonality between Scottish Enterprise's and HIE's publicly reported performance measures. For example, both have a performance measure related to 'internationalisation'. Scottish Enterprise measures the number of businesses achieving significant turnover growth from exporting, whereas HIE measures the increase in international sales by supported businesses.

98. Scottish Enterprise and HIE offer an account management service to businesses and both publicly report on the turnover growth achieved by businesses receiving the service. However, they analyse performance against this measure differently:

- Scottish Enterprise reports the total increase in turnover.
- HIE reports the increase in turnover that it has helped businesses to achieve.

99. Having different performance measures in place and different ways of calculating them means it is difficult to compare the performance of the two bodies. It also means that it is not possible for the Scottish Government to assess the collective performance of its economic development agencies. We expect there to be differences in the two bodies' targets due to the difference in their customer base. Similarly we would expect there to be some differences in their performance measures due to their different remits. However, more consistent performance reporting against a selection of common indicators would allow greater comparison of how they perform.

It is not possible to measure the enterprise bodies' specific contribution to the NPF

100. The Scottish Government measures progress towards its overall purpose of sustainable economic growth through various high-level targets, national outcomes and national indicators in its NPF. Scottish Enterprise and HIE are required to demonstrate how their activities help to achieve the Scottish Government's purpose. Their 2015-18 business plans align their activities to their individual priorities, outputs and planned outcomes. It is difficult to accurately measure the enterprise bodies' contribution to the overall purpose and high-level targets in the NPF due to the range of factors involved. It should be easier to measure their contribution to the national indicators. We compared the enterprise bodies' performance measures and the Scottish Government's national indicators and found little similarity. This means it is difficult to measure Scottish Enterprise's and HIE's contribution to the NPF.

101. As part of their 2014-17 business plans, Scottish Enterprise and HIE considered their contribution to the NPF.^{19, 20} Scottish Enterprise reported that it made a major contribution to three national outcomes and HIE reported a major contribution to eight. Scottish Enterprise also reported that it made a direct contribution to seven of the Scottish Government's national indicators. It is not clear how it determines its specific contribution to the national indicators as performance measures vary. Using the 'increase exports' national indicator as an example:

- The Scottish Government measures this by the value of exports to the rest of the world.

- Scottish Enterprise's related measure looks at the number of companies it will support to become international and will achieve significant increased turnover from exporting.

102. Although Scottish Enterprise's performance against their measure will have an impact on the national indicator, the Scottish Government cannot determine Scottish Enterprise's specific contribution to the indicator.

103. In 2014, the Strategic Forum partners began a review to help understand how Scottish Enterprise and HIE contribute to the NPF. The review focused on the support given to account managed businesses and their contribution to four areas of the NPF: GDP growth; participation; exports; and research and development spending. It concluded that Scottish Enterprise and HIE could demonstrate their performance against specific targets. However, it was more difficult to measure their contribution to the outcomes in the NPF due to the range of other factors involved. The review suggested that impact could be better measured at a Strategic Forum partnership level although this has not been taken forward.

The Scottish Government has not fully determined how progress against its new strategic priorities will be measured

104. The 2015 economic strategy introduced four new strategic priorities. It did not include any new targets for these priorities although work has started to develop this. For example, the Scotland CAN DO Innovation Forum has been launched with a remit to set objectives for innovation in Scotland, develop outcomes and scrutinise progress towards these outcomes.²¹ The Scottish Government, along with other bodies, including Scottish Enterprise, is currently considering what activities will best support the inclusive growth priority and what measures can be used to monitor this.

105. In March 2016, the Scottish Government carried out an initial update of the NPF in light of its new strategic priorities. It did not change its national outcomes but five national indicators were added:

- Reduce under-employment.
- Reduce the proportion of employees earning less than the Living Wage.
- Reduce the pay gap (that is, between men and women).
- Improve access to local greenspace, such as parks and gardens.
- Increase natural capital (that is, high-quality air, land and water).

106. Scottish Enterprise's and HIE's business plans both set out how their planned activities will help achieve the Scottish Government's four strategic priorities. From 2015/16 Scottish Enterprise has aligned its performance measures to the four Is. Although the four Is are referenced throughout HIE's business plan, its performance measures remain aligned to their own priorities. This means the Scottish Government cannot easily measure the enterprise bodies' combined contribution to achieving its strategic priorities.

Scottish Enterprise and HIE undertake a range of evaluation activity to help demonstrate the impact of their work

107. Scottish Enterprise and HIE carry out a range of evaluations, analysis and research to help:

- understand the local, national and international economic context
- identify opportunities for the Scottish economy and how best to exploit them
- inform their strategic priorities and investment decisions
- demonstrate and improve the impact of their activity.

108. In the last five years, Scottish Enterprise has carried out around 40 evaluations covering a broad range of its activity. This has included its support for entrepreneurs, its efficiency support, export products and its support to different sectors, including tourism and life sciences. It shares evaluations with stakeholders and publishes all results on its website unless there are issues of confidentiality.²² HIE has carried out around 12 evaluations on, for example, its support to creative industries, and publishes some of its evaluations on its website.²³

109. Both bodies' evaluations include details of what is working well and what could improve. Scottish Enterprise prepares action plans for its evaluations setting out recommendations, actions and timescales for the project team to implement. These are followed up after six months and the project team is required to state how it has responded. HIE prepares a briefing paper, for either its senior management team or board, that summarises evaluation findings but it has no systematic follow-up process. We reviewed both bodies' evaluations of their account management services. We also looked at how they had used the results to make improvements ([Case study 3, page 41](#)).

110. Scottish Enterprise's and HIE's evaluations are carried out by their in-house appraisal and evaluation teams or by external consultants. This provides a level of independence as the project teams responsible for the activity being evaluated are not involved in the evaluations. Scottish Government staff will occasionally sit on evaluation panels (depending on the size and scale of the evaluation) to provide challenge. It is not feasible for the government to be involved in all of the enterprise bodies' evaluations. However, there is potential for the Strategic Forum partners to provide independent challenge on evaluations and to share expertise and learning.

111. An important element of Scottish Enterprise's and HIE's support to businesses and communities is the advice and guidance their staff provide. Support does not always involve money. We reviewed a sample of Scottish Enterprise's and HIE's evaluations and found they did not always include staff costs. We encourage the enterprise bodies to consider, where possible, the cost of staff time when evaluating the impact of their support as this can be a significant investment. Comprehensive information on the total cost of providing support will provide the enterprise bodies with a better understanding of value for money.

Case study 3



Scottish Enterprise's and HIE's evaluations of their account management service

The enterprise bodies have used evaluations to make improvements to their service

Scottish Enterprise's 2013 evaluation found high levels of customer satisfaction and strong evidence of economic benefits, namely increased turnover and jobs. It found that working more intensively with some companies could yield greater impacts, referrals from the Business Gateway service could be increased and there were few businesses exiting the service. Nineteen recommendations were made to: better match the service to different businesses' needs; increase the skills and capacity of staff; and help improve the churn of businesses through the service. Scottish Enterprise has subsequently:

- increased the number (from 113 to 120) and seniority of its account managers
- increased the number of businesses in its portfolio
- established a new service model with six customer categories: Scaling; Global; Development; Growth; Opportunity; and Watching Brief.

The intensity of support varies between categories and businesses can move between these depending on their circumstances. The new approach was fully implemented in March 2015. It is too early to determine the economic impact of the changes but Scottish Enterprise reports early benefits, including a better understanding of customer needs and more effective targeting of support.

HIE's 2014 evaluation found that account management makes a significant contribution to businesses' performance, in terms of turnover and job creation. It also found that HIE could make better use of its resources. The evaluation made recommendations related to: the identification of account-managed businesses; how performance is tracked; the skills and experience of account managers; and the system for categorising account-managed customers. HIE has implemented these recommendations to help create a more intensive, focused and strategic service although it is too early to determine what impact these will have:

- Each account manager now has a more dedicated role which focuses on one category of customer only (either 'businesses and social enterprises' or 'communities and community enterprises'). This has allowed HIE to reduce the number of account managers required, from 70 to 53.
- Account managers now have a dedicated training and development programme and are now better matched to customers, based on their skills, experience and knowledge.
- Customers now receive a client engagement letter setting out HIE's commitments and expectations.
- Reporting arrangements have been enhanced to improve impact monitoring.

112. In addition to carrying out evaluations, the enterprise bodies seek regular customer feedback to help them understand how they are performing and how they can improve. They collect feedback in various ways including direct contact between staff and customers and more formally through surveys of businesses. Scottish Enterprise gathers ongoing feedback on its products and services from a panel of around 170 businesses and uses this feedback to make improvements. HIE carries out quarterly surveys of its online business panel, which consists of 350 businesses. It uses survey information to better target its support for its customers.

We found good examples of the enterprise bodies working with partners to achieve positive results

113. In 2011, Scottish Enterprise developed a model to measure the overall impact of its activity. The model is updated every year, based on annual spending, and projects potential impact over a ten-year period, using evaluation evidence. Based on 2014/15 spending (£301 million), it estimates that it will generate an additional £2.0 – £2.9 billion for the Scottish economy over the ten years to 2024/25. This is a return of between £6 and £9 for every £1 spent. An independent evaluation of Scottish Enterprise’s model found that it was a sensible approach to measure impact.²⁴

114. HIE has not attempted to measure its impact in this way but it reports its activity and impact in the year end reviews that the enterprise bodies submit to the Scottish Government and through its annual report. In addition HIE considers the overall impact of its activity is evidenced through the transformation of the Highlands and Islands over the last 50 years. This includes a 22 per cent increase in the population, a more diverse range of businesses, significantly lower unemployment and improved transport and communication links.

115. As part of our case study work, we reviewed various examples of the enterprise bodies working with partners to achieve positive results. [Our case study supplement](#) details reported impact, which includes:

- helping to establish and develop the European Marine Energy Centre, the world's first independently accredited wave and tidal test centre
- attracting at least £827 million of private-sector equity investment to co-invest in businesses
- generating an estimated £14 for every £1 spent on account-managed food and drink companies
- creating and retaining around 1,500 jobs at Amazon’s fulfilment centre in Fife
- working in partnership with other public and third sector bodies to deliver the Inverness Campus, a multi-stakeholder academic, research and business park
- helping the Harris Tweed industry to increase jobs, from 68 in 2009 to 456 in 2015.

116. Impact does not always involve creating jobs or increasing turnover. Positive impact includes sustaining jobs or minimising negative circumstances. Task forces are an example of Scottish Enterprise and HIE providing support in response to

unforeseen events, such as an industry downturn or a locally significant employer experiencing difficulties. Task forces bring together a range of politicians and public and private sector bodies. Support provided may involve finding a new buyer or investment for the business, exploring alternative uses for a site or helping individuals back into employment.

Businesses and communities are satisfied with the support they receive

117. The enterprise bodies are often challenged on the businesses that they work with. In particular, some stakeholders question whether, by selecting businesses with high-growth potential, they are working with businesses that may succeed without support. We spoke to a number of account-managed customers who confirmed the following:

- They would not have been able to achieve their success in the absence of support.
- They might have been able to achieve success without support, but might not have achieved the same level of success. Or it probably would have taken longer to achieve, or achieved in a less efficient way.

118. Scottish Enterprise and HIE customers are complimentary about the knowledge and expertise of staff. In particular they value the account manager role for helping them to understand the different forms of support that were available and signposting them to other bodies. [Case study 4 \(page 44\)](#) provides an example of how the enterprise bodies' account management service can benefit businesses. Businesses told us that while support had helped them to create or sustain jobs or increase their turnover, it was difficult to determine how much of this success was attributable to the enterprise bodies' support. Some of the other benefits mentioned included:

- greater awareness of opportunities
- access to insight and expertise on products, industries and the economy
- help with developing new ideas
- networking and making new business connections.

Exit strategies are not always in place for some forms of support

119. Scottish Enterprise's and HIE's investment appraisal guidance requires them to consider how and when they will exit from providing support. For some forms of support, for example a one-off investment or event, the end date for support is clear. However we found that a clear exit strategy for some forms of their support is not always in place.

120. The enterprise agencies consider that, in certain situations, it would be inappropriate for the public sector to withdraw support from a sector, business or geographical area. For example, HIE has supported the Harris Tweed industry for over 20 years and has no current plans to stop. HIE says this is because the industry is significant to the local economy and that the rationale for support changes over time. It regularly reviews its support and adapts it to changing circumstances. For example, it supported the industry out of a downturn and is now helping the industry to capitalise on international opportunities.

Case study 4



Examples of how the account management service benefits businesses

SCOTTISH ENTERPRISE

Spark Energy Ltd is an Ofgem-accredited supplier of gas and electricity to residential tenants across the UK. Scottish Enterprise has supported Spark Energy Ltd since it was a start-up company in 2007. The company has received intensive account management to support its growth ambitions. Scottish Enterprise's support has included:

- the Scottish Investment Bank investing £0.9 million, which leveraged £12 million of private sector investment. This has enabled the company to invest in new technology, including a bespoke billing system
- specialist property advice, which helped to rationalise the company's accommodation
- staff development and customer care advice
- ICT support.

Support from Scottish Enterprise's account team has enabled Spark Energy to grow quickly. It currently employs over 300 staff and this has been increasing at the rate of ten employees per month. The company doubled its turnover to £80 million in 2013/14 and is on target to reach £130 million by mid 2016. It expects growth to continue and to achieve turnover of £200 million by 2017. Investment in new technology has meant that the company can serve rental customers, their landlords and letting agents more efficiently than their competitors and Spark Energy now competes with the 'Big Six' providers.

HIE

Denchi Power is a leading manufacturer and supplier of Lithium-ion batteries and chargers to the global defence industry. The original business opened in Thurso in 1993 in a purpose-built factory that was funded by HIE. It was taken over by a large multinational and its future in Thurso was uncertain. Denchi Power was formed in 2014 to negotiate a management buyout. HIE provided the company with specialist advice on the buyout and to develop a business strategy. HIE's account management team supports Denchi to help achieve its growth potential and develop new markets. For example, HIE has:

- helped Denchi to identify new global markets, alongside SDI
- delivered a large-scale workplace innovation programme to boost efficiency and productivity
- supported the research, development and commercialisation of new products and provided Intellectual Property (IP) and branding advice
- worked with SDS to design a workforce development plan to develop existing staff and attract suitably skilled staff.

Denchi has significantly increased its turnover, international trade and workforce. It has also acquired another business, based in Hungary, that is expected to create further opportunities for expansion. Denchi Power reported that HIE's support and dedicated account manager are key to its success.

121. We spoke to a number of Scottish Enterprise's and HIE's account-managed customers. Although Scottish Enterprise issues a letter to account-managed customers at the start of the relationship, none of the businesses we spoke to was aware of how long it would be account managed for, or if a review would take place to ensure that support was still appropriate. HIE's account-managed customers were not aware of this either. HIE has recently started to issue client engagement letters for account-managed customers. These letters state that a review of support will take place after three years.

122. The length of account-management relationships varies depending on the customer and will typically last as long as the enterprise bodies can make a difference to the customer's growth. Scottish Enterprise has account managed around 20 per cent of its portfolio for over seven years and one of the businesses we spoke to had been account managed for over 20 years. HIE only has information as far back as 2008/09, but at least 20 per cent of businesses have been account managed for five years or more.

123. We reviewed the number of customers who have entered and exited the enterprise bodies' account management portfolio in each of the three years to 2014/15. Based on the current size of their portfolios we found a higher flow of customers through HIE's portfolio ([Exhibit 10](#)). In some circumstances it is appropriate for the enterprise bodies to work with customers for a long period of time, for example in challenging economic conditions or if there are many growth opportunities. Although the enterprise bodies' evaluation evidence show high levels of customer satisfaction and economic benefits, some of the account-managed businesses we spoke to were not sure why they were still account managed and felt the service might be better directed elsewhere. It is important that the enterprise bodies continue to review their account management portfolio to ensure they are working with the most appropriate customers and that their support continues to add value. This should include reviewing the opportunity cost of continuing support in each case.

124. We found exit strategies were not in place for Ministerial-led task forces. Timescales are not set when task forces are established as it is often not clear at that stage what the specific aims and objectives will be or how long support will be required. This may mean that some task forces are in place for longer than is necessary. To help ensure that task forces operate as efficiently as possible, arrangements should be put in place to establish remits, review progress and consider when the task force will be disbanded.

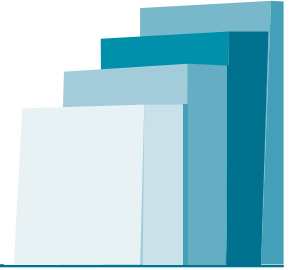
Exhibit 10

The flow of customers through the enterprise bodies' account management portfolio

Proportionately, more customers enter and exit HIE's account management service.

| | Scottish Enterprise | HIE |
|------------------------------------|---------------------|-----|
| Current portfolio size | 2,350 | 650 |
| Total entrants (2011/12 – 2014/15) | 676 | 354 |
| Total exits (2011/12 – 2014/15) | 322 | 397 |

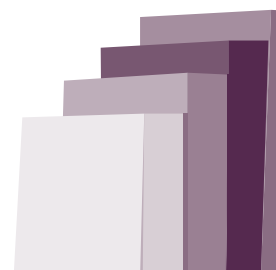
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Appendix 1

Project advisory group



Audit Scotland would like to thank members of the advisory group for their input and advice throughout the audit

| Member | Organisation |
|-----------------|---|
| Brian Ashcroft | Fraser of Allander Institute, University of Strathclyde |
| Garry Clark | Scottish Chambers of Commerce |
| Sandra Dunbar | Highlands and Islands Enterprise |
| Oonagh Gil | Scottish Government |
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| Stuart Patrick | Glasgow Chamber of Commerce |
| Gareth Williams | Scottish Council for Development and Industry |

Note: Members of the advisory group sat in an advisory capacity only. The content and conclusion of this report are the sole responsibility of Audit Scotland.

Supporting Scotland's economic growth

The role of the Scottish Government and its economic development agencies

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