

ENTERPRISE AND SKILLS REVIEW

PROPOSALS ON GOVERNANCE AND THE CREATION OF A STRATEGIC BOARD

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ROLES AND STRUCTURE ARISING FROM THE ENTERPRISE AND SKILLS REVIEW (THE REVIEW)

SECTION 1

1. INTRODUCTION AND MY ROLE IN THIS PROCESS

In your letter to me of 17th January you explained that following Phase I of the Review it was essential that there should be stronger governance through a single coherent system. You also indicated that "this could be best achieved by creating a single overarching Board to ensure robust oversight, evaluation and common targets which drive hard alignment between our Agencies and the services they provide".

You asked me to Chair a review of Governance as part of the Governance workstream of Phase II of the Review and take a lead role in discussions with fellow Chairs and interested Ministerial Review Group (MRG) members as a means by which I would set out a paper on the principles and potential outline structure by the end of January 2017. In achieving this ambitious timescale I would like to acknowledge the very considerable support I have received from your officials.

As required this paper sets out my views as to how to take forward Phase I of the Review in relation to issues of governance. It gives my initial thoughts regarding the potential aims, functions and structure of the envisaged Strategic Board (SB), together with revised governance arrangements for the four Non Departmental Public Bodies (NDPB) at the heart of this review which are, Skills Development Scotland, Scottish Enterprise, Highlands and Islands Enterprise and the Scottish Funding Council (the Agencies).

My conclusions have been drawn from discussions with Scottish Government (SG) officials, MRG members and representatives of the Agencies. As part of my engagement, I met all the Agency Chairs and Chief Executives and I led two productive and informative workshops where there was broad consensus on many but not all of the key principles. A list of attendees at these workshops is included in Appendix I. Where there were materially differing views in these discussions on matters of key principle, I have tried to reflect the range of opinions that were presented.

2. KEY PRINCIPLES UNDERPINNING CHANGE

Through my discussions, the decision by Ministers in Phase I of the Review to establish a SB has been universally supported as have the aspirations for a more coherent, simpler, flexible and cost-effective system of national and local support which is fundamentally based upon collaboration to optimise economic impact across the whole of Scotland. These principles are at the heart of my proposals.

During the course of my “Review of Regulation, Audit, Inspection and Complaints Handling of the Public Sector” I learnt a great deal about Governance of Public Sector organisations. As that Review made clear, there is a great deal of empirical evidence that “well governed organisations perform well and that the opposite is also true, namely that badly governed organisations perform badly.”

The conclusions from Phase I of the Review reflect that each Agency is individually currently performing well against the objectives they have been set by Ministers. The proposals I set out do not diminish the responsibilities or focussed agenda of each Agency.

The key issue is not, however, how well the Agencies act individually but, rather, how the Agencies could work better in a collective, collaborative way to meet SG objectives and aspirations. To achieve the wider economic and social impact ambitions of Ministers and to meet the increasing economic challenges ahead of us, there is wide agreement that the **overall system should work better collectively** to make greater progress and consequent success on key areas such as increasing productivity and delivering inclusive growth.

A key conclusion of the Review was that these ambitions can only be delivered by creating a stronger culture **of cross-Agency collective responsibility** for performance and a real **hard alignment** of the Agencies’ outcomes around a shared performance framework. This will require significant changes in focus as to the way Agencies collaborate and operate at every level of the system.

A further important factor is that the Skilling Report -"Overview of enterprise development policy and agencies in small advanced economies" recognises the different drivers for Regional Economic Development Agencies and that the governance structure must be flexible enough to recognise and foster differentiation in the nature of each Agency's business.

I have set out my views on how I believe these ambitions can best be achieved based upon the aspirations of Phase I of the Review, the discussions I have had with MRG members, Agency Chairs and Chief Executives and highlighted areas where there are significant decisions or further considerations to be made by Ministers in determining their preferred approach. This relates to both the creation of the SB and how the Agencies operate within this new context, but also in shaping how they collaborate effectively as a fundamental part of their day to day activity. I also describe how the role and functions of Agency Boards should change and are best described as "Delivery Boards".

These are essential issues for the future success of Scotland's economy and while I have presented my view, I have also looked to reflect the position of others. Ministers will now wish to consider how wider views may be elicited on these proposals as well as how they may be best implemented.

3. WHAT ARE THE KEY AIMS OF THE STRATEGIC BOARD AND HOW WOULD THESE AIMS BE MET?

Phase I of the Review recommended bringing greater integration and focus to the delivery of our enterprise and skills support to businesses and users of the skills system, by creating a new Scotland-wide SB to co-ordinate the activities of the Agencies. For the remainder of this paper I will use the term SB because this is a term now used in MRG meetings as well as those with whom I have consulted and sits comfortably with the role, functions and powers of this Board going forward.

Based on the Review recommendations and my further discussions, I believe that this new SB should operate with four key aims:

- **Improve the overall performance** of the economy by ensuring that the whole Enterprise and Skills System delivers Scotland's Economic Strategy and supporting strategies, in all parts of Scotland.
- Through **collective responsibility** ensure hard alignment between Agencies to drive improvement in Scottish productivity and better support business and users of the skills system.
- Hold Agencies to account for **performance** against agreed measures, both collectively and individually through new, formal lines of accountability.
- To **actively engage** with other agencies and bodies who support the economy with a view to increasing alignment and challenging others where collaboration is not happening.

The SB can achieve these aims by:

- **Developing collective priorities** through the creation of a single Strategic Plan which will set out how the Agencies will work collaboratively to deliver the economic strategy over a period of 3-5 years.
 - **The Strategic Plan** would be developed in line with Guidance from Ministers and it would ultimately be signed off by Ministers.
 - Through the plan, the SB will establish a **common performance and measurement framework** to ensure the agreed outcomes are delivered by each Agency, collectively and individually.
 - Agencies would develop **annual Operating Plans**, approved by their Lead Ministers which would set out how they contribute to the delivery of the aims in the Strategic Plan and how they will work collaboratively with the other Agencies to achieve these plans.

- **Advising and informing Ministers each year on how budgets align with proposed strategic direction.** There requires to be a two-way communication between Ministers and the SB. The SB should have a clearly defined role in advising Ministers on strategic direction and emerging funding priorities. This should involve the SB advising and informing Ministers as part of the budget process, based on the best available evidence, to enable the SB to meet its 4 key aims.
- Delivering a "**Team Scotland**" approach which **influences operational cultures** with a focus on embedding collaboration as a core objective at all levels of the Agencies. This will involve the SB together with the Agencies, taking collective responsibility to work collaboratively together to deliver meaningful and measurable change.
- **Engaging** with stakeholders to understand the challenges facing them and the markets they serve.
 - Stakeholder (including user) engagement should be a fundamental building block of the whole system and the SB should consider meeting across Scotland to engage with their stakeholders.
 - Such engagement will be a cornerstone of ensuring strategic direction is informed and shaped by insightful information and regional perspectives, thereby leading to ambitious and achievable priorities.

FURTHER CONSIDERATION – BUDGET RESPONSIBILITY

My proposal is based upon the assumption that Ministers will want to continue to set the high-level economic strategy – and any subsequent or related strategies – and that they will also want to continue to set high level overall budgets for the respective parts of the system i.e. HE, FE, Skills and Enterprise support as they currently do. Ministers will remain accountable to Parliament for overall funding decisions. If budgetary control fell to the SB would that not diminish the influence of Ministers and SG to create policy and use the levers of budgets to ensure policy and strategic objectives were met?

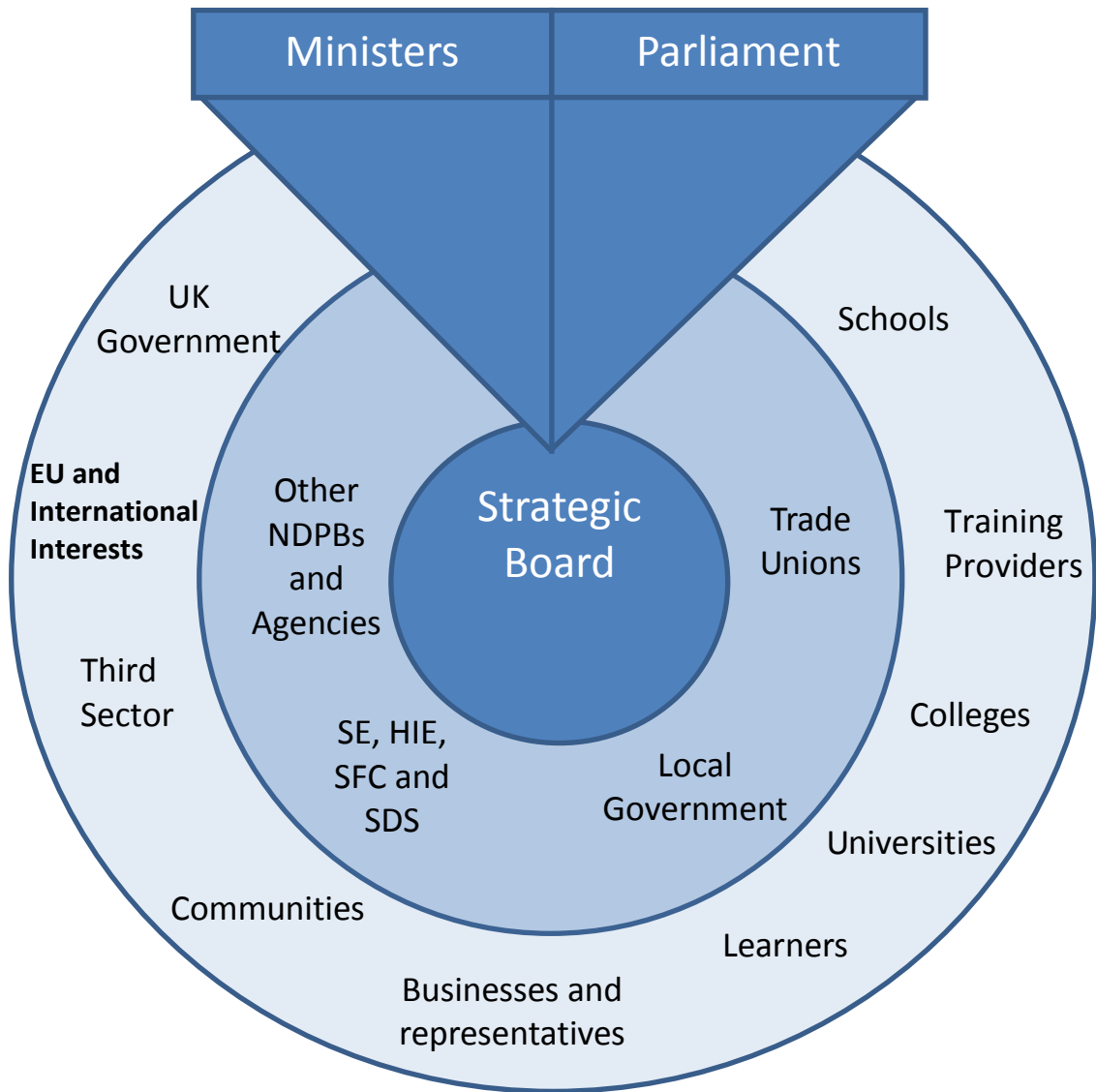
However, this was not a unanimous position and it was suggested by one Agency that Ministers should instead chose to devolve all the responsibility for funding allocations and setting strategy to the SB.

I have not proposed this option as I believe that these responsibilities sit best with Ministers. I would also be concerned that moving budget allocation to the Board could create greater competition between the Agencies, rather than enabling collaboration.

RECOMMENDATION

- **That Ministers agree the aims and objectives of the SB as described above.**

THE STRATEGIC BOARD AND ENGAGEMENT



SECTION 2

4. AUTHORITY OF THE STRATEGIC BOARD TO ENFORCE CHANGE

The guiding best practice principles of good governance are “*Sir Alan Langlands Principles*” further to the *Independent Commission on Good Governance in Public Services (2005)*. It is recognised that many of the best governance practices and consequent performance comes from the Public Sector rather than the Private Sector – recognising that the Public Sector’s main driver is completely different from the Private Sector – it is not about profit.

Board Members must be “critical and constructive friends” of the Leadership Team of a public delivery body. The role of the Board is not to interfere with the day-to-day running of the organisation as this can make bodies more inward-facing with loss of trust between the Executive and the Board. This Private Sector model has been used, incorrectly in my view, by some Public Sector NDPBs in the past and it is something to avoid in any new structure.

Langland’s Principle 4 – “Good governance means taking informed, transparent decisions and managing risk. A hallmark of good governance is a clearly defined level of delegation by the governing body that sets out the parameters within which the Executive works on behalf of the governing body. For this to work well, it is important that governors do not concern themselves with levels of detail that are not appropriate to their role, while ensuring that they are not too far removed to provide effective oversight and scrutiny.”

To function effectively, the SB must be supported by a governance sub-structure that is able to provide the **effective oversight and scrutiny of the individual Agencies, so that the SB does not lose sight of its core purpose in achieving its 4 principal aims**. The Governance sub-structure is dealt with in Section 3, sub-section 13.

The powers and authority to direct the Agencies to meet SG’s strategic objectives, to work collaboratively and effectively with other Agencies as well as ensuring their Agencies meet their individual objectives already sits with the Chairs. They have the collective power and authority to meet all the designated aims of the SB. The Agency Chairs will be held individually and collectively accountable for the SB meeting its aims and aspirations. **For the SB to succeed the Chairs will require to ensure that their Agency is hard aligned with others to deliver better outcomes**. Chairs are responsible for the assessment of the performance of their Chief Executives in meeting defined performance measures which will include ensuring highly effective and productive collaboration is being embarked upon with the other Agencies and stakeholders.

To succeed, the SB must have **clearly defined powers. Its authority to oversee Agency operational plans will come through Chairs of the Agencies**, who will hold their own Agencies to account for collaboration and performance. The Chairs as members of the SB will be able to hold other Chairs to account for the success or otherwise in working collaboratively with their Agency to meet the aims of Ministers.

The culture of collaboration must be embedded at all levels of the Agencies. It is universally agreed that effective, well managed collaboration amongst Agencies **will** deliver better outcomes. It accordingly follows that there must be an expectation of all those acting at every level of the Agencies that failure to act constructively and collaboratively is culturally unacceptable. This core message must be clear, explicit and regularly reinforced through all formal and informal interactions of the SB and the Agencies.

RECOMMENDATION

- **The SB must have a clear and direct authority to ensure that individual Chairs hold their Agency and their Chief Executive to account in meeting the aims of the SB.**

5. THE ROLE OF THE CHAIR OF THE STRATEGIC BOARD

“On Board” states the Chair is **responsible for ensuring that the public body's policies and actions support the Scottish Ministers' wider strategic policies and that its affairs are conducted with probity**. This is the case for NDPBs focussed on delivery, where Ministers are at arms-length from operational decisions.

The Chair's role in the SB will be crucial in ensuring that all SB Members, particularly Agency Chairs, share and are accountable for the collective actions and responsibilities defined in the Strategic Plan. The Chair will be intolerant of failure to deliver effective, accountable collaboration and performance in meeting SB aims. The Chair will regularly appraise SB Members as to their performance in assisting meeting SB objectives. The Chair position could be either Ministerial or Independent:

A **Ministerial Chair** would give a clear authority to the SB to act on behalf of SG. The SB is not a delivery body but ensures through the Agencies that delivery of the SB aims and aspirations of Ministers are achieved. A Ministerial Chair would be directly accountable to Cabinet and Parliament for performance of the SB in achieving its strategic aims.

Convention of the Highlands and Islands

My views on this matter have been shaped to some extent by my experience of the Convention of the Highlands and Islands (CoHI), which for many years has been chaired by the Deputy First Minister. Clear, authoritative and unequivocal direction from the Chair has led to delivery of agreed, desired outcomes with collaborative working between public agencies being a necessary, key component. The Convention members share in the vision for better outcomes for the Region and through collaborative activity, they have demonstrated that shared outcomes are almost without exception, achievable. The role of the Chair in holding Convention members to account has, in my view, been key to its success.

These outcomes do not necessarily mean that a Ministerial Chair is required for the Board, but from this experience, it is clear that whatever arrangement is decided upon requires a strong chair, with the clear, unequivocal authority of Ministers to drive significant collaborative activity to deliver common goals.

The role could also be delivered through a strong, reputable, **Independent Chair**.

- This person would have to be able to lead a very senior group, with a deep understanding of how the Public Sector operates and can collaborate with the Private Sector.
- The Chair would require to build strong relationships with Ministers to fully understand their ambitions as the basis for implementing delivery of the required outcomes.
- The Chair would be accountable to Ministers and would likely be appraised by a senior official in the SG. Given the breadth of the Chair's responsibilities, this would have to be at a very senior level, with clear input from Ministers.
- The Chair would also be accountable to Parliament.

In this arrangement, Ministers could be members of the Board, as they are in other fora, such as the Council of Economic Advisers, ensuring that their priorities are clearly articulated to the Board and regularly reinforced.

FURTHER CONSIDERATION – AUTHORITY TO DELIVER CHANGE

In either model of chairing, a key concern will be how the Board will be able to determine its authority and drive meaningful and measurable changes in how the Agencies work and collaborate to meet the aims of the SB.

Clear and coherent direction from Ministers is essential to guide the SB Chair and, in turn, to focus the existing authority of the Agency Chairs to direct and be accountable for their Agency's performance through the operational powers of the Chief Executives, who would, in turn, ensure this was communicated throughout their Agencies.

There is a minority view that the SB should have explicit, statutory powers of direction over the Agencies. I believe that this is an unnecessary step as relying upon the existing powers of the Chairs of the Agencies, linked to the operational powers of their Chief Executives provides the SB with all the necessary powers and authority to deliver its aims.

The SB Chair would hold the Chairs of the Agencies to account in exercising their powers in a collaborative, collective manner, through clear and agreed lines of responsibility and accountability.

RECOMMENDATION

- **An early decision must be made on whether the SB should be chaired by a Minister or by an Independent Chair.**

6. ROLE OF STRATEGIC BOARD MEMBERS

The responsibilities of SB Members should go beyond the expectations of Board Members as set out in "On Board", by creating a clear expectation on them to **lead and promote effective and complete collaboration across the Agencies**. It must also be a priority for SB Members to **engage across stakeholders** and networks to understand the challenges in different sectors and regions, to drive and support the Government's aims. These two concepts should be central to the appointment of all future Board Members.

To deliver meaningful change, the accountability of Chairs will be driven through the development of the Strategic Plan, and by the common performance and measurement framework which will support it. This will create a common set of goals which will only be achieved through collaboration amongst the Agencies and others. This approach must be reinforced at all levels through appraisals of Chairs, their Chief Executive and Board Members.

RECOMMENDATION

- **There must be representation from each Agency on the SB, primarily through the Chairs, who are empowered to exercise the levers of authority within their Agency.**
- **SB membership could also include another non-executive member of that Agency.**

7. SHOULD ADDITIONAL INDEPENDENT NON-EXECUTIVE MEMBERS SIT ON THE STRATEGIC BOARD?

During discussions it was generally recognised the critical importance of having a SB that can benefit from a wide range of perspectives, experience, skills and specialisms. There is a strong need for the SB to engage widely and have insights which will allow a greater or different scrutiny of performance of the whole system. This was a majority view (including my own) but not universal. **The role of Chief Executives is discussed at sub-section 10 below.** Some considered that the Board should only be comprised of Chairs and Chief Executives of the Agencies.

Including additional non-executive members this should result in a Board of manageable size – ideally around 12 to 15 in total, although final decisions on numbers and representation should be taken once the position is clear on how the new South of Scotland vehicle and SDI will operate.

RECOMMENDATION

- **Membership of the SB should include a small number of non-executive members who can bring a different perspective to the discussion as part of the collective responsibility approach. In addition to Chief Executives, I would also expect SG officials to attend the Board as observers.**

8. THE ROLE OF CHAIRS OF AGENCY BOARDS AND THEIR ADDITIONAL RESPONSIBILITIES

The revised Agency Chair role will be substantially different in that **their primary function will be to share the collective responsibility to deliver the SB key aims.**

By giving this responsibility primacy it will ensure Chairs take responsibility for issues beyond their Agency function. This could be achieved initially through explicit instruction in their letter of appointment and it should be reinforced through regular appraisals with senior officials and the SB Chair.

Their secondary, but nonetheless critical, role is to fulfil all their current obligations as Chairs of their respective Agencies, ensuring outstanding performance. The Chairs as members of the SB will ensure that together the SB aspirations are fulfilled, that hard alignment amongst the Agencies is achieved and that the outcomes delivered by the Agencies are enhanced.

The Chairs of the Agency Boards will be accountable to the Chair of the SB for their performance as SB Members and will have regular discussions with their respective lead Ministers and would be accountable to Parliament for the performance of their Agency. **The appraisal process for Chairs should be strengthened to reflect this new primary responsibility and to ensure that collective responsibility and driving collaboration are central considerations to performance.**

The dual role of Chairs and how the system would operate in practice

These proposals, I believe, are a significant improvement upon the current system and the duality of role of the Chair of an Agency is compatible with a stronger and better system. Across the enterprise and skills system it is widely accepted that to meet the wider economic and social impact ambitions of Ministers against a backdrop of the current and emerging challenges that we face, it necessarily follows that the overall system must work better collectively in order to make a greater impact and significant progress. **The suggestions I make do, I believe, represent a significant step change and provide a framework which will enable the Agencies to meet the aspirations and objectives of the SB.**

Key to achieving significantly improved outcomes will be the close collaboration of the Agencies which has often been described as "hard alignment". The dual role of the Chairs namely to (1) work collectively with joint and accountable responsibility to meet the aims of the SB as directed by Scottish Ministers and (2) to ensure a highly performing Agency for which they are responsible and accountable which will work closely with other Agencies to deliver greater impact, is compatible and necessary to deliver a stronger and better overall system. I use, by example, the Agency I know best – Highlands and Islands Enterprise.

At the time of the publication of the outcomes of Phase I of the Review the aim of the HIE Board was stated to be that "the Governance arrangements for HIE and how its Board operates has been an important factor in the organisation's success by ensuring the actions we take are cognisant and reflective of the variety of interests and priorities of our businesses and communities. We are in close contact with SG to ensure that going forward HIE is not in any way diminished and hopefully enhanced and that the important features of our governance are replicated and not diluted in any new arrangements for the future".

My proposals would ensure continuing good governance of HIE by a locally accountable Board with key features of governance, most notably a focus upon stakeholder engagement, to ensure the development of informed and appropriate priorities which are laid out in our Operating Plan which is subject to rigour and approval by Ministers to ensure HIE is wholly aligned to and contributing to the SG economic strategy. My proposals provide that the HIE Chair (and possibly another Board Member) would sit upon the proposed SB contributing and being accountable for meeting the aims of the SB.

Contributing to the collective efforts for economic success for the whole of Scotland it necessarily follows that an important part of that role will be to influence and ensure full and effective collaboration amongst all Agencies to deliver improved outcomes for the Highlands and Islands Region.

The same principle is also true for all the other Agencies. They too can deliver more for their stakeholders including Ministers and SG under the proposed governance structure by collaborating closely to achieve measurable outcomes in line with the aims of the proposed SB.

FURTHER CONSIDERATION – ROLE OF THE AGENCY CHAIRS

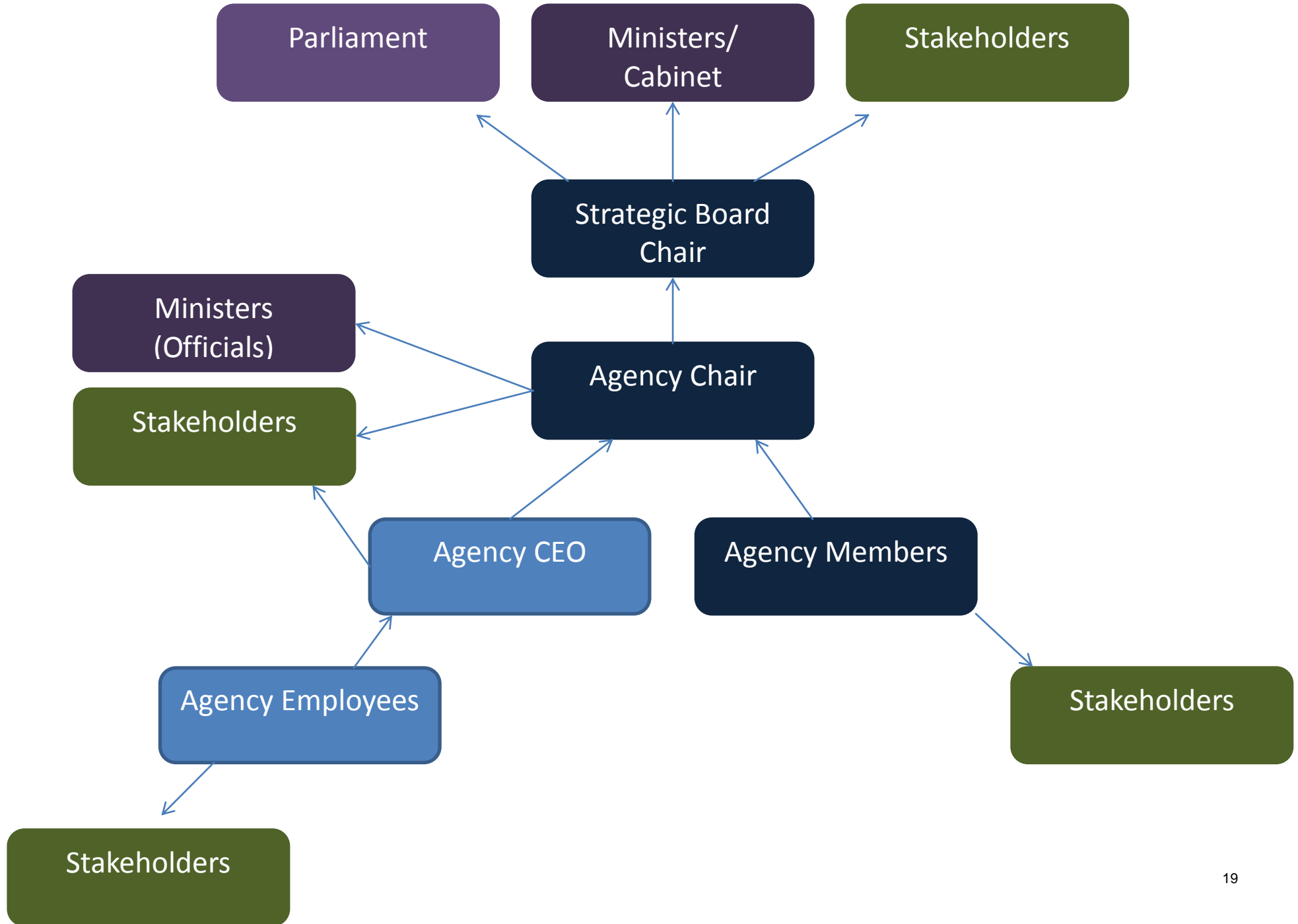
Considering how Chairs currently act in their role of representing Ministers' interests on Boards is critical to changing the culture of how these Agencies act, and interact. If Chairs believe that their primary responsibility is to their Agency, then changing this mind-set will only be achieved if Ministers and officials are able to constantly reinforce their expectations through the SB Chair-led appraisals and other regular, formal and informal interactions.

This process could start now, by bringing together the existing Chairs and supported by having in attendance their Chief Executives to form an implementation group, where Ministers could begin to set out their clear, collective ask of the Agencies to begin implementing the outcomes of the Review and to begin the transition as new arrangements are put into place.

RECOMMENDATION

- **Chairs of Agency Boards will have a new primary focus to share collective responsibility to deliver the SB Plan. Performance against the aims and hoped for outcomes would be a key aspect of Chair appraisals in future.**

9. DUAL ROLE OF AGENCY CHAIR



10. THE ROLE OF CHIEF EXECUTIVES OF THE AGENCIES

Chief Executives must have an uninterrupted primary responsibility of ensuring their Agency performs to maximum effectiveness, but they will do so in a way which takes the direction of the SB, through their Chair, to work collaboratively to deliver the shared aims of the SB, including how they are able to identify potential overlaps or opportunities for shared functions. In ensuring a collaborative culture within their Agency, the Chief Executives are exerting authority to do so, not as a decision maker as to the rights and wrongs of a cultural change, but as a direction from the Chair to whom they are accountable.

Chief Executives should not be members of the SB. They should be in attendance at all meetings and attendance should be a mandatory part of the role. This is critical to ensure that members of the SB can challenge Chairs on key issues around collaboration and the performance of their Agency in meeting the aims and aspirations of the SB and Ministers. It is a necessary direction of the SB that a collaborative culture be embedded in the organisational cultures of the Agencies. Chief Executives must drive and direct this collaborative culture within their Agency at the direction of their Chairs who are collectively accountable to the Chair of the SB and Ministers. Chief Executives must also be present at liaison meetings and other key governance interactions to ensure that the clear accountability into the SG also remains.

Chief Executives are pivotal to ensure the achievement of "hard alignment" in delivery to their stakeholders, achieving the aims of the SB and following through and implementing on their Chair and Agency commitments.

Chief Executives will continue to be appraised by their Chairs but with an additional core focus on how effectively they have overcome barriers to collaboration. A key focus of Chief Executives will be to drive where necessary an embedded culture of collaboration at all levels of their Agency as a necessary building block in achieving "hard alignment".

Not having Chief Executives of the Agencies as Board Members was not a unanimous view of the Agencies. It is in my view however an important principle to drive the significant cultural and behaviour changes Ministers wish to evidence.

RECOMMENDATION

- **Chief Executives should not be members of the SB and have an additional key focus to their role namely embedding a culture of collaboration at all levels of their Agency.**

11. HOW SHOULD THE STRATEGIC BOARD BE SUPPORTED?

One of the critical differences between this proposal and previous approaches will be **the commitment to strengthen the analysis of how the system as a whole is performing**: *“to support the new Board, we will review existing data and evaluation functions to further align our enterprise and skills support and to ensure robust evaluation of activity and impact.”*

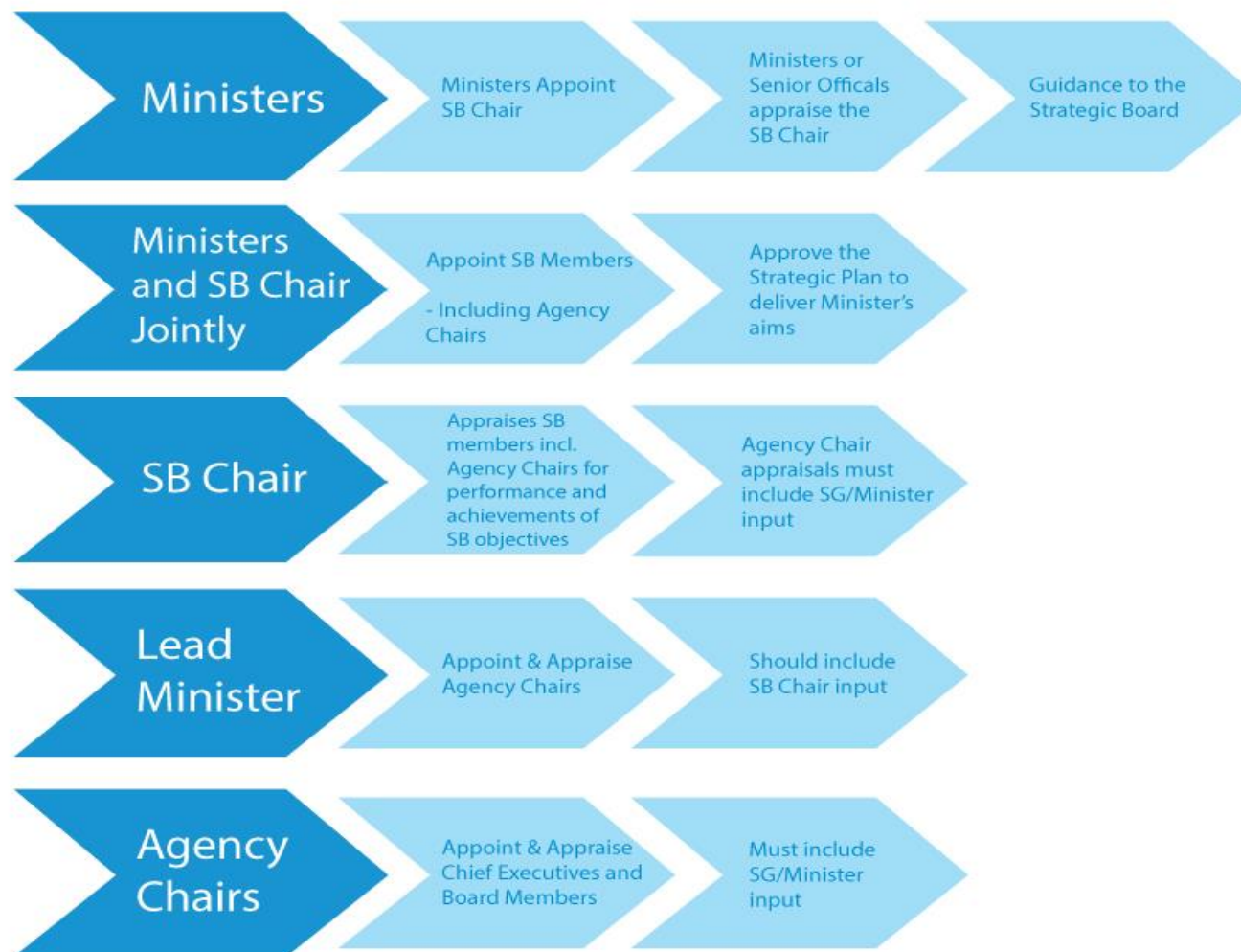
If the collective performance of the Agencies is to improve significantly then the SB needs an adequately resourced secretariat which has the necessary resources to support the SB, and its Chair, in holding the Agencies to account.

The workstream on data and evaluation is considering this issue in more detail, but whatever its outcomes are, any new arrangement has to be built around developing common outcomes measures and then measuring performance against them. The SB secretariat must be able to access and use all of the best available evidence and performance data.

RECOMMENDATION

- **Any secretariat and/or analytical capacity to support the SB must be adequately resourced to allow it to perform its core functions of supporting the development of a Strategic Plan and an associated Common Performance Management framework.**

12. LINES OF ACCOUNTABILITY



SECTION 3

13. MAINTAINING AN EFFECTIVE DELIVERY STRUCTURE AND DELIVERING A STEP CHANGE IN COLLABORATION ACTIVITY AS A CORNERSTONE IN MEETING THE STRATEGIC BOARD AND SCOTTISH GOVERNMENT'S ASPIRATIONS

Through my discussions, the decision by Ministers in Phase I of the Review to establish a SB has been universally supported as have the aspirations for a more coherent, simpler, flexible and cost-effective system of national and local support which is fundamentally based upon collaboration to optimise economic impact across the whole of Scotland. These principles are at the heart of my proposals.

A major source of debate since the publication of the Review has been what impact the outcomes of Phase I of the Review will have on the structures of the existing Boards and how to best ensure that the Agencies are best able to deliver the necessary step changes. Ministers have made it clear that they wish to retain the separate legal status of each of the Agencies and they have also been clear that they wish to see changes to the current governance arrangements as they do not believe these arrangements have delivered the desired level of collaboration.

I have already described the rationale for the overarching Board being called the Strategic Board. I will hereafter describe the Agency Boards as "Delivery Boards" as that fits well with the functions I will describe for them within this new structure.

Further to this proposition I believe that that governance responsibilities should remain with the Delivery Boards of the Agencies to ensure fulfilment of best practice of governance principles further to "On Board". In addition the Delivery Board will require **to ensure that the Agency for which they are responsible supports the Chair in effecting collaboration with the Agencies and others which is acknowledged as key to delivering the SB and SG aims and aspirations.**

The principles behind this approach are that to deliver the SB's aims:

- The SB should be kept free of the burden of governance of the Agencies as this would be a substantial undertaking and a significant distraction from its primary purpose.
- Having a clear line of authority from the SB through the Chairs of the Delivery Boards will ensure that Chief Executives are fully accountable for driving collaboration.
- The organs of delivery would still be the individual Agencies and so it would follow that responsibility for developing and implementing the Operational Plans, in collaboration with the other Agencies, should fall to them and with consequent and appropriate governance oversight and scrutiny.

This would not be a continuation of the status quo. I fully understand the intent of Ministers to see significant changes, reflecting the creation of the new Strategic Board, to deliver a simpler, more flexible and cost-effective system of national and local support, built on collaboration, and these proposals reflect those aims.

The role of the Agencies going forward in addition to the responsibilities they currently hold would be far more focussed on:

- Approving their Operating Plan ("Delivery Plan") which contributes to delivering the aims of the SB, and its Strategic Plan in line with SG aspirations.
- Sharing the collective responsibility with other Agencies to deliver priorities in the Strategic Plan.
- Developing strong engagement relationships for their Agency with their stakeholders, including collaboration with other Agencies around common stakeholders.
- Approving projects/investments in line with their Delivery Plan and reporting progress to the SB.
- Identifying and exploiting areas for the development of shared services or for the development of new shared initiatives.

This new arrangement will require consideration to be given to the role of Delivery Board Members. Increasing their effectiveness, particularly around how they are able to drive collaboration and engage widely, with a broad range of stakeholders, is in my view critical to making the whole system work better.

When new appointments are being made to the Delivery Boards, or the SB, it will be essential that the public appointments process reflects changing roles for membership in line with different priorities that are set out for them. During the course of review of Board Members roles it will be possible to seek to reduce the numbers of members on Boards as efficiencies and areas of duplication become clear.

RECOMMENDATION

- **The functions, responsibilities and composition of these Delivery Boards should be continuously reviewed, alongside their existing regulatory and legal obligations, to ensure that they can effectively deliver the SB plan and meet the needs of Ministers in addition to the expertise required for their Agency agenda.**

14. IMPORTANT ASPECTS OF THE ROLE OF SOME DELIVERY BOARD MEMBERS.

In the case of some Agencies their Board has members who sit in their capacity as representatives of particular interest groups or constituencies. For this model to be fully effective it is necessary to reinforce that Board Members have their primary responsibility to the corporate entity of the Agency and not to the interest group or constituency they represent. All Board Members will require to:

- i. Take direction from the Chair ensuring hard alignment with other Agencies and others to meet the aims and aspirations of the SB.
- ii. Fulfil their governance and other obligations further to "On Board", and
- iii. Fully engage with Agency stakeholders to ensure informed decision making as a necessary part of creating priorities to meet the aims of the SB strategic plan.

This repurposing of these Delivery Boards would stem from the new priorities of their Chair, namely that the Chair's primary function will be to share the collective responsibility to deliver the SB's key aims.

RECOMMENDATION

- **The repurposed Delivery Boards should fulfil the functions described and ensure that the aims of the SB can be delivered effectively while also ensuring governance standards are maintained.**

FURTHER CONSIDERATION – DELIVERY BOARDS

This repurposed role for Delivery Boards will require a review of the approach to remuneration to ensure value for money and greater consistency across the Agencies

The Delivery Boards should carry the existing expertise and knowledge from the Agency Boards which have already been through a rigorous Public Appointments process. The changing requirements of members should be reflected in future appointments.

The Delivery Board would require to populate and manage their Risk and Assurance and Remuneration Committees.

15. AN IMPORTANT ASPECT OF HOW AGENCIES WILL WORK TOGETHER

To ensure successful collaboration at the operational level, it is essential that the Agencies, under the supervision of the SB, are able to agree a simple and flexible approach to determining shared priorities and then managing them in a manner which gives clear, unambiguous leadership responsibility to an Agency (which is considered the most appropriate for that priority), who will then be supported by others to deliver the shared objectives as set out in the SB plan.

There should also be structures building on the key themes of the review - internationalisation, skills alignment, innovation and regional focus, as well as shared services. However over time, the SB should have the flexibility, with the Agencies, to change these in line with new priorities.

Within this structure, Delivery Board Chairs could have responsibility for leading on at least one shared priority area, as well as having lead responsibility for their Agency.

RECOMMENDATION

- **The SB and the infrastructure which supports it are able to foster and reflect the different missions and objectives of the Agencies while bringing more coherence and consistency to the way they are governed.**
- **This must be reflected in simple, but flexible, structures for Agencies to collaborate on areas which have been identified as priorities and where lead responsibilities are agreed in advance.**

16. NATIONAL AND LOCAL SUPPORT BUILT ON COLLABORATION WILL BE ESSENTIAL FOR SUCCESSFUL OUTCOMES

To meet Ministers' aims, the National Agencies' (SDS, SFC and SE) activities must be built around **fundamental engagement at a local level** through a wide variety of mediums which could include Local Authorities, developing regional partnerships as well as complete collaboration with the Regional Agencies, namely HIE and the new South of Scotland Agency.

The Skilling Report recognises the different drivers for Regional Economic Development Agencies and the governance structure must be flexible enough to recognise and foster differentiation in the nature of each Agency's business.

Given their local focus, the expectations around how the Delivery Boards for HIE and potentially any new South of Scotland Agency might work could be different to the national Agencies. For example, they would be expected to engage with their stakeholders in a different way and they would have a clear role in closely supporting the SB to ensure that the Strategic Plan properly reflected the issues facing all areas of Scotland and also recognised the wider social impacts of their plans.

In consideration of the responsibilities of individual Delivery Board Members my views have been influenced by my history of working in roles as part of the Public Sector as well as the necessary analysis of best practice in principles of Governance further to my "Independent Review of Regulation, Audit, Inspection and Complaints Handling in the Public Sector" – the Crerar Review. However of particular influence upon my views as to why stakeholder engagement is so important as part of a Board Member's role has been my experiences over the last 10 years as a Board Member and now Chairman of HIE.

A case study for why stakeholder engagement and collaboration are key to success.

Appendix II is an extract from HIE's submission to Scottish Government as to why stakeholder engagement and Board Members behaviours are fundamental to HIE's success as a Regional Development Agency. There are of course obvious lessons in a consideration of the governance arrangements for the proposed South of Scotland Agency.

17. EVALUATION OF THE EFFECTIVENESS OF THE STRATEGIC BOARD

These proposals represent a significant step change and emphasis of the role of the Agencies to meet the aims and aspirations of the SB. The SB relies upon the existing powers of the Chairs of the Agencies whose primary role and function is to ensure the whole system delivers more.

As has been described a key element will be the ability to monitor and evaluate progress against shared measurable outcomes. If this proposed system does not meet its defined aims and hard alignment amongst the Agencies has not been achieved as these proposals, it may be necessary to consider alternative options. As has been argued by some, hard alignment might then only be achieved by transferring powers to the SB or making the SB the budget holder with powers of allocation to the Agencies.

However this proposal does provide SG with a proposition that in the view of an overwhelming majority with whom I have consulted will succeed and meet the aspirations of Phase I of the Review to enable a step change in the performance of the Enterprise and Skills system in Scotland and will provide an opportunity to test the conclusions and propositions of this paper. If SG proceed with this proposal and the SB does not meet its aims to increase collaboration then further options could then be explored.

For the Regional Development Agencies (South of Scotland and HIE) I would continue to argue that a necessary ingredient of success is an Independent Board or equivalent that acts as an intermediary between the competing interests of the Region, that engages intensively with stakeholders ensuring that the key priorities of the Region are identified as a cornerstone of an informed Delivery Plan that is an important component in assisting the SB meeting the aspirations of SG. Key too, will be a consideration of the need for independence in decision making as provided by SFC for the HE sector.

This proposal is based on my assessment of what would be required to support the approach outlined by Ministers where the SB is the primary governance vehicle and the existing Agencies remain the main model for delivery.

FURTHER CONSIDERATION

If the desired outcomes are not achieved then there are potentially other ways that the governance sub-structure could be arranged, for example through shared financial accountability structures or committees based on joint priorities.

Ministers have also suggested that arrangements could result “in greater autonomy for bodies across Scotland, including the Highlands and Islands and the South of Scotland” and I have outlined my strongly held views that the Regional Development Agencies should have an Independent Board or equivalent as I have described.

As I have set out earlier, there are a number of ways this could be achieved and I have set out some high level approaches that could be considered. It is important that these approaches are tested more widely and that they are consistent with the SG guidelines on good governance and meeting SG aspirations.

RECOMMENDATION

- **SG should monitor and evaluate performance against agreed measurable outcomes.**

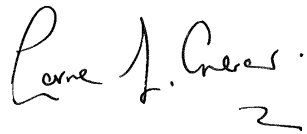
18. CONCLUSIONS, CHANGES AND CONSEQUENCES

In conclusion, the critical issue is how I believe that the proposals I have set out will be able to drive the changes we all wish to see in the system so that we can make better use of our collective strengths to grasp the opportunities and meet the challenges that lie ahead. The critical changes in what I am proposing are:

- Significant changes to the governance and accountability structures, reflecting the creation of the Strategic Board, to drive a step change in the performance of the Enterprise and Skills system.
- There would be an unequivocal, **shared Strategic Plan** setting out how the Economic Strategy would be delivered.
- Through this Strategic Plan, all activity would be aligned in the context of a longer-term approach which would be set against an **agreed and ambitious performance measurement framework**, supported by the best available evidence and analysis.
- Through the SB, there will be a **direct accountability** to Scottish Ministers **for the collective responsibility** of each Agency to deliver stretching and collaborative operational plans which will make a measurable contribution to the overall aims.
- The SB will be able to use this strengthened analytical resource to **hold Agencies to account** more explicitly around collaboration and how they have contributed to the overall aims.
- **The primary function of the Agency Chairs will be radically different**, to share the collective responsibility to deliver the SB key aims. The role of Delivery Boards will similarly be transformed to reflect the new structure of ensuring embedded collaboration amongst the Agencies and others.
- Agency Chief Executives will be accountable to the SB, through their Chairs, who in turn will be accountable to the SB Chair.
- **Performance against agreed measures** in the Strategic Plan will drive answerability to the SB.
- The existing **Agency Boards will be refocussed upon their primary obligations of governance, stakeholder engagement and hard alignment of their Agency with the other Agencies to deliver not just on their Operational Plan but meeting the aims and objectives of the SB and SG.**
- This will be based on more focussed **Delivery Boards** around the Agencies to ensure Ministerial aims are delivered, while also ensuring good governance standards are maintained.
- **NDPB status would be retained** for all the existing Agencies.
- The SB will work with Agencies to drive up performance in delivering priorities, ensuring **“hard alignment”** across activity through their operational plans, supported by a collaborative approach to delivery.

I believe that these changes are aligned with the stated aims of Ministers through Phase I of the Review. When put into force, they would deliver real, measurable changes across the system, creating the more efficient and effective, collaborative system that Ministers and Stakeholders want to see.

They would allow a clearer assessment of how successful the collective Agencies are in delivering Ministers' economic aspirations creating a new dynamic and creating a platform to support increasing alignment over time.

A handwritten signature in black ink that reads "Lorne D. Crerar." The signature is written in a cursive style with a small flourish at the end.

Professor Lorne D Crerar

8 February 2017

APPENDIX I

WORKSHOP ATTENDEES

Alice Brown	Scottish Funding Council
Carroll Buxton	Highlands and Islands Enterprise
Lorne Crerar	Highlands and Islands Enterprise
Martin Fairbairn	Scottish Funding Council
Gavin Gray	Scottish Government - Governance Team
Hugh Hall	Ministerial Review Group
Ailsa Heine	Scottish Government - Legal Directorate
Danielle Hennessy	Scottish Government - SFC Sponsorship
Claire Kellett	Scottish Government - Governance Team
Rob Lennox	Scottish Government - SE and HIE Sponsorship
Debbie McCall	Scottish Government - Governance Team
John McClelland	Skills Development Scotland
Dominic Munro	Scottish Government - Fair Work, Employability and Skills
John Murray	Skills Development Scotland
Robert Nicol	CoSLA
Iain Scott	Scottish Enterprise
Paul Smart	Scottish Government - Colleges, Young Workforce and SFC Sponsorship
Grahame Smith	Ministerial Review Group
Gerald Wilson	Scottish Government - SDS Sponsorship
Keith Winter	SOLACE
Charlotte Wright	Highlands and Islands Enterprise
Damien Yeates	Skills Development Scotland

*(In addition to meetings with all Chairs and Chief Executives of the Agencies)

APPENDIX II – A CASE STUDY

THE EXPERIENCE FROM HIE STAKEHOLDER ENGAGEMENT AND COLLABORATION IS KEY TO SUCCESS

There has been much support for HIE and its impact upon the Highlands and Islands Region before and since the outcomes of Phase I of the Review were published. Key to the success of HIE (and will be for the envisaged South of Scotland vehicle) is how it operates and engages with key stakeholders.

Why is this proposition correct? Over many years the Board of HIE has successfully managed the competing interests and aspirations of multi-stakeholders with very diverse challenges across our different economies in the Highlands and Islands. The HIE Board has guaranteed a constant focus on the economic development of the geographical area of the Highlands and Islands.

The Board of HIE has required to balance these competing interests, making decisions for the benefit of the Region as a whole. The Board has been an important intermediary between these competing interests and the Executive Leadership Team of HIE.

A good example of this balance is the biggest investment of HIE over the last 10 years – the £25 million investment in Inverness Campus. Predictable objections were made from non-Inverness based stakeholders claiming that our priorities were too Inverness focussed.

It is now recognised by many of these objectors that the Campus was the important hub enabling connected economic benefit across the whole of the Region, including our fragile areas. Our strong view is that stakeholder engagement upon a regular basis is absolutely key to our role, HIE's success and consequent stakeholder respect with which HIE is held.

However, the Board could only balance the interests of many by engaging, meeting and thereby understanding the needs and aspirations of a wide variety of stakeholders – Local Authorities, other Public Sector Bodies, MSPs, MPs, Businesses and Communities.

A direct consequence is that stakeholders believe they have a sense of ownership of HIE, a position to influence priorities and ultimately trust HIE that it is doing the best for the benefit of the whole region. Meeting and engaging with all these stakeholders by the Board has been the essence of achieving success for the Region.

The HIE Board's role and function has evolved in a unique way in Scotland recognising the particularities of our Regional Economic and Community Development Agency. Indeed this uniqueness of a Regional Economic Development Agency is recognised in the Scottish Government's own commissioned research – "The Skilling Report".

We believe the best way of ensuring best principles of corporate governance, intimately linked to stakeholder engagement, providing a respected intermediary from competing interests in the Region, should be adopted by the proposed South of Scotland new Agency.

The unique HIE model has evolved and has consistently delivered success exceeding the ambitious targets agreed by the Scottish Government further to the strategic direction of Scottish Government's economic strategy.

APPENDIX III

HOW THE STRUCTURE COULD OPERATE

