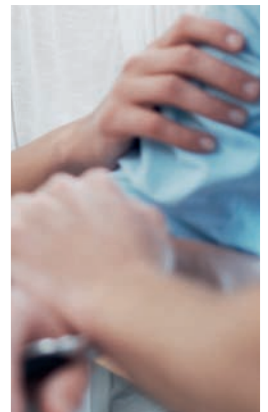
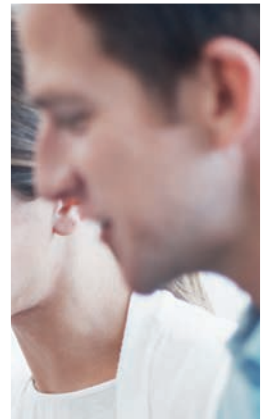
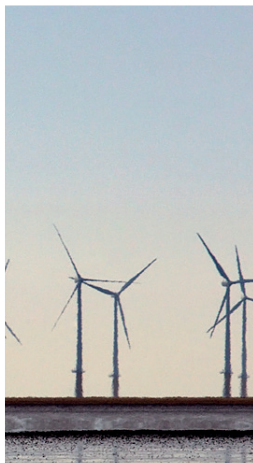




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# ENTERPRISE AND SKILLS REVIEW: REPORT ON PHASE 2

**SOUTH OF SCOTLAND ENTERPRISE AGENCY**



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## 1. Introduction

The Enterprise and Skills Review Phase 1 Report recognised there was a need to do things differently in the South of Scotland to improve the area’s productivity and make a step-change in its growth. It stated: *“We will recognise the unique challenges faced in the South of Scotland and create a new vehicle to meet the enterprise and skills needs of the region.”*

This report sets out the proposals for the new South of Scotland Enterprise Agency.

## 2. Purpose, vision and benefits

### Purpose

The South of Scotland Vehicle project has taken forward the commitment in the Phase 1 report to the establishment of a new South of Scotland Vehicle, progressing work by looking at:

- What the new organisation should do – its role and remit.
- Where the new organisation should operate – its boundary.
- How the new organisation should be structured – its legal form.

### Vision

Our vision is for a new organisation operating in the South of Scotland that will drive inclusive growth, increase competitiveness and tackle inequality in the area through:

- Maximising the area’s contribution to Scotland’s inclusive growth, supporting a diverse and resilient economy.
- Sustaining and growing communities – building and strengthening communities with joined up economic and community support.
- Capitalising on people and resources – developing skills, promoting assets and resources and maximising the impact of investment in the area.

It will ensure an approach tailored to the area’s challenges and opportunities, recognising its distinctiveness but not distancing it from national support. Its success will require a long term commitment from partners to work together to address the deep rooted challenges of the area and to ensure that all can meet their potential.

### Benefits

The new organisation will bring a fresh approach, with a clear and unambiguous focus on place, enabling a response informed by the economic context and sensitive to the needs and opportunities of the area.

### 3. Delivering Better Outcomes

#### The economic challenge

Understanding the economic context has been vital to shaping the proposals for the new organisation and the benefits it can bring. It has formed the backdrop for the project's work.

The area is predominantly rural, with a range of associated challenges including:

- An ageing population with an out-migration of young people and difficulty in ensuring attractive opportunities for them to return to.
- Challenging physical and digital connectivity.
- A number of fragile towns across the area.
- A low GDP per head with low productivity.
- Sectors with traditionally low wages and with fewer higher skilled jobs.
- A business base dominated by micro and small businesses with a lower number of businesses being started, with less investment in innovation and research and development.

Annex A sets out more detailed evidence on the economic challenges facing the South of Scotland.

#### Current activity

Scottish Enterprise (SE), Skills Development Scotland (SDS) and the Scottish Funding Council (SFC), together with other public sector organisations including local authorities and other agencies, already work actively in the area delivering a range of services to businesses, learners and communities based in the South of Scotland. This is valued by those who benefit from the support and contributes to the economic prosperity of the South of Scotland. The South of Scotland Alliance has also been active in bringing together public and private sector partners to support economic growth. The project has recognised that range of activity and services and has explored how to maximise the impact current activity can have.

The proposal for a new approach in the area has been welcomed by those in the South of Scotland who share an ambition to deliver economic change. The new South of Scotland organisation brings focus to that joint endeavour and enthusiasm to harness activity across the enterprise and skills system to deliver the best outcome for businesses, learners, communities and individuals.

All have recognised the opportunity to do things differently in the South of Scotland. The new organisation will bring a fresh approach, with a clear and unambiguous focus on place, enabling a response informed by the economic context and sensitive to the needs and opportunities of the area.

The project has also recognised that work within the Enterprise and Skills Review looking at governance, data, business support, innovation, internationalisation, skills alignment and the user journey will also benefit the South of Scotland and needs to respond to the area's needs. The new organisation, once established, will be part of the national governance arrangements and represented on the new strategic board to ensure that the area's interests are represented, recognised and responded to.

## 4. Implementation

The section sets out the proposals for the new organisation: what it should do to support transformational economic growth; its boundary; and its legal structure.

### What will the new organisation do?

The project explored the sorts of activities that a new organisation could undertake to deliver transformational growth in the area. A vital early task will be to develop a strategic vision which is clear and compelling, and align organisational effort to deliver it. Local leadership and engagement will be essential to the way that the body operates and a key part of its success. The new organisation will help foster collaboration and aligned action locally, whilst also recognising the contribution it can make nationally. It will work closely with organisations already operating in the area to maximise impact.

With a clear focus on place, the new organisation will work with the wider programme's Strategic Board, and be able to take forward a range of activities that deliver the vision:

- Drive forward the economy – maximising the area's contribution to Scotland's inclusive growth, supporting a diverse and resilient economy, aligning a simplified and efficient system of support for business and learners.
- Sustain and grow communities – building and strengthening communities with joined up economic and community support.
- Capitalise on people and resources – developing skills, promoting assets and resources and maximising the impact of investment in the area.

The project has identified the sort of practical activity, grouped around those three key areas, that should form part of the organisation's remit. The organisation will operate with a clear understanding of the assets, challenges and opportunities of the economy of the South of Scotland. This activity will ensure that business support is tailored to the needs of the area's business base, looking at how more businesses can benefit from public sector support. It will look at enabling infrastructure, exploring ways to develop business property meeting the needs of growing businesses. Activity will reflect the shape of the South of Scotland economy, ensuring that the area derives benefit from important economic sectors including its primary sectors and the visitor economy.

The new organisation will also look at how to support the development of enterprising communities, helping to build confidence and aspiration. It will also help to identify the skills needs of the area and how they can best be met.

Ensuring that the South of Scotland is able to benefit from the digital economy is vital, from digital infrastructure to digital skills. Our investment in 100% superfast broadband access is opening up a range of new opportunities and markets for Scotland's businesses. The new organisation can build on the current national programmes and initiatives designed to increase the digital capability and maturity of businesses, such as Digital Boost, and provide more focused and tailored offerings in the area. The improved and updated regional data which emerges from the second Digital Economy Business Survey, due to take place later this year, will help inform actions in this area.

The organisation will not operate in isolation. Once established the new Enterprise Agency will be part of the new strategic board and will contribute to the delivery of the Board's strategic plan. Its work will be informed and strengthened by the wider programme's analytical function.

Recommendations from the other strands of the review will also deliver positive outcomes for the South of Scotland. South of Scotland businesses will benefit from the work on business support, innovation and internationalisation. The recommendations of the Skills Alignment and Learner Journey workstreams will strengthen the ability of national and regional partners to respond to the specific people, skills and labour market challenges of the area. Learning from good practice and approaches in other parts of Scotland will be important.

### **Delivering Inclusive Growth**

The remit has also been informed by work to apply the Scottish Government's inclusive growth diagnostic which helps to identify key issues constraining inclusive growth. In 2016, the Office of the Chief Economic Adviser undertook work to analyse national inclusive growth to understand what drivers were constraining sustainable growth and inclusion in Scotland and prioritise areas for intervention based on evidence of impact. The national inclusive growth diagnostic examined over 30 potential drivers of inclusive growth. A number of national-level priorities were identified, with strong evidence of impact across growth, inclusion and/or environmental sustainability.

The project has looked at how this diagnostic might be used to identify barriers to inclusive growth in the South of Scotland. Partners have been involved in the initial stages of the analysis and moving forward this work will help to shape future priorities and areas to address.

### **Developed in partnership**

Shaping the potential activities has involved a wide range of people. It has been informed through the expertise of those currently engaged in providing enterprise and skills support in agencies, local authorities and the wider public sector. There has also been much engagement with other stakeholders, including businesses and the education sector through workshop sessions.

Businesses were enthusiastic in seeing the potential value a new organisation had to drive change and keen to engage with the process. Ensuring the private sector continues to have a strong voice to shape the work of the organisation is vital.

The education sector was also keen to engage and shape the focus for the new organisation. Improving the links between those offering support and those using the support was welcomed.

During the implementation phase, activities will be further developed to ensure the new organisation is able to focus agreed priorities and which align with relevant national strategic priorities. It will want to develop these in further discussion with businesses, communities and learners across the area.

## Resources to support the new organisation

In developing the sorts of activities that needed to be undertaken, the project recognised that there would be cost attached to new activity. With the continuing pressure on public sector resources, there would need to be clear prioritisation, innovative thinking about financing and a drive to ensure current resources being used in the area were aligned to deliver maximum benefit. However, to succeed, the organisation would need to be supported by additional resources to broaden business support, deliver community growth, strengthen the area's infrastructure and have an increased on-the-ground presence in the area.

## **Boundary**

The project explored the most appropriate geographic boundary in which the new organisation should operate. It looked at various definitions of the South of Scotland including:

- The two local authorities of Scottish Borders and Dumfries and Galloway Councils.
- Mirroring the South of Scotland Parliamentary Region (covering parts of seven local authorities).
- Adopting the Southern Scotland NUTS 2 area (covering parts of six local authorities).

Through the discussions during phase 2, a consensus has emerged across stakeholders that the new organisation should operate in the local authority areas of the Scottish Borders and Dumfries and Galloway. This reflects the economic context and the similarity of challenges faced in those two areas ensuring clarity for those using services and ensuring a focus on tackling the specific challenges of the area. Annex B shows a map of the proposed boundary for the new organisation.

## Working across boundaries

The project also looked at how best to ensure that the organisation could establish effective relationships outwith a geographic boundary so that the South of Scotland benefited from national support and opportunities and that neighbouring areas could benefit. The new organisation will also need to work with organisations delivering local services.

## **Legal structure**

During phase 2, the project focused on the functions of the organisation, but also explored what legal form would deliver those functions most effectively.

In considering the most effective legal structure, the project developed a series of guiding principles to ensure the legal structure enabled:

- Things to be done differently in the South of Scotland to drive transformational change.
- Strong alignment to develop and deliver an agreed strategic vision for growth in the area.
- A focus on user needs to deliver streamlined and joined up services.
- Clear local leadership both from the public and private sectors.
- Transparent governance and accountability which fits with local and national governance.

- Clarity about resources.
- Clear commitment to the South of Scotland Organisation and to partnership delivery.
- Working across geographic and organisational boundaries.
- Involvement of the private sector, further and higher education sectors and the third sector.

It is clear that there is a range of potential structures that would meet those guiding principles. These range from structures that require no legislation to those requiring primary legislation:

- A partnership with no statutory basis supported by a legally binding partnership agreement.
- A structure supported by local government legislation enabling public and private sector participation (a joint committee or a joint board).
- A new company owned by the public sector.
- Delivery under the auspices of an existing public body.
- A new public body established through primary legislation.

### **A partnership**

In this option, stakeholders in the area would be invited to work together to deliver the new arrangement, drawing together a range of partners including: local authorities; national agencies; the private sector and the education sector. Those partners could sign a legally binding agreement. They could create a board, produce a vision and agree its delivery. This approach is similar to the way in which Local Enterprise Partnerships in England have been established.

### **A local government “committee”**

In this option, local authorities could establish a Joint Committee under the Local Government Scotland Act 1973. While established by the local authorities, the legislation enables other organisations to be members of the committee, including national agencies and the private sector. The Joint Committee could agree a strategic economic plan setting out the regional economic priorities, establishing how they could be delivered. This could be supported by an agreement with other partners to make clear their commitment to supporting the committee’s work. This is similar to the approach being taken to the structures that oversee the delivery of city deals.

### **A new company jointly owned by the public sector**

In this option, the organisation could be established as a company jointly owned by the public sector. It could take a variety of forms, including a social enterprise. The company could operate with a board of directors accountable to the public sector owners of the company. It could employ staff to deliver agreed activity. There are examples of publicly owned companies successfully operating in various sectors, including the leisure and transport sectors.



### Delivery under the auspices of an existing public body

In this option, the organisation could be delivered as part of an existing agency, either as division or as a company. This would enable the organisation to have a clear and separate identity, with ring-fenced resources to support delivery in the South of Scotland while benefiting from expertise and shared services. This structure would enable local leadership and private engagement to shape the work of the new organisation. Investors in People Scotland is an example of this structure, jointly owned by the enterprise agencies.

### A new public body

In this option, the new organisation could be established through primary legislation taken through the Scottish Parliament. That would clearly define its boundary and functions and once established the body would operate with its own staff and budget. This would put the new organisation on the same footing as other agencies delivering enterprise and skills support.

### **Way forward**

Each option has its own strengths, delivery timetable and associated costs. For any of the options to be successful there needs to be a strong commitment from stakeholders to ensuring the vehicle's success.

On balance, we believe that the option that will deliver the best outcome for the South of Scotland is that the organisation should be set up as a new public body. It is ambitious and demonstrates our commitment to transformational change and inclusive growth. It will ensure that the new organisation is autonomous, has its own identity, staff and budget and acts as a voice for the area. It will be able to support additional businesses, invest in infrastructure, provide an increased local presence and deliver support for communities. Its functions will be clearly defined in law and its remit will include a social dimension. It will also enable engagement across the private, third and public sectors. The new organisation will be part of the wider programme's governance structure, contributing to our national approach and ensuring the South of Scotland benefits.

Creating a new public body will require the Scottish Parliament to support primary legislation and we will bring forward a bill as part of our legislative programme. We intend to introduce legislation in 2018 to bring into effect the new agency. This will ensure that the South of Scotland Enterprise Agency will be fully operational from the beginning of the 2020 financial year.

Taking legislation through the Scottish Parliament will take time and we want to ensure the South of Scotland benefits from a new approach as soon as possible. We will work with stakeholders in the area to put in place interim arrangements, in advance of the statutory arrangements. These will build on the support and resources already in the area. These arrangements will be in place later in the year.

We will ensure those interim arrangements deliver benefit quickly and support the ultimate goal of a new agency. We will develop the option with those in the area and with the direction of the wider programme's Strategic Board, but we believe an interim approach could take the form of a new partnership, an interim company or be delivered through an existing agency in preparation for the statutory organisation. As options are developed, we will ensure that organisations operating in the area are aligned and looking at ensuring their support is appropriately tailored to the needs of the South of Scotland.

## Annex A

### **SOUTH OF SCOTLAND – KEY EVIDENCE**

This annex outlines the evidence of the specific challenges facing the South of Scotland, including those related to demographics, rurality and connectivity, the business base, and wider economic performance.

#### **Population**

- The population density is 23 persons per square kilometre in Dumfries and Galloway and 24 in the Scottish Borders, compared to an average of 69 for Scotland as a whole.<sup>1</sup>
- The South of Scotland has a lower proportion of young and working age population relative to the Scottish average. 15% of the population in Dumfries and Galloway and 14% of the population in the Scottish Borders are aged 20 – 34, compared to 20% of the Scottish population overall.<sup>2</sup>
- The working age population is projected to decrease in South of Scotland by 2029. Specifically, in Dumfries and Galloway it is projected to decrease by 4.1%, it is projected to remain stable in Scottish Borders (0.0% change), while the total Scottish working age population is projected to increase by 4.4%.<sup>3</sup>

#### **Sector Composition and Business Base**

The South of Scotland is more reliant on Agriculture and Manufacturing and less reliant on Services (82% of employment in Dumfries and Galloway and 78% in the Scottish Borders, compared to 84% in Scotland overall) – specifically Business Administration, ICT and Financial and Insurance – than Scotland as whole.<sup>4</sup>

- 55% of employment in Dumfries and Galloway and 57% in the Scottish Borders is in small businesses, compared to 36% in Scotland overall.<sup>5</sup>
- A high proportion of people are employed in low-paid sectors. 30.7% of employees in Dumfries and Galloway and 23.9% in the Scottish Borders earn below the Living Wage, compared to 20.1% for Scotland overall.<sup>6</sup>

1 National Registers of Scotland, Mid-Year Population Estimates, 2015.

2 National Registers of Scotland, Mid-Year Population Estimates, 2015.

3 National Registers of Scotland, Sub-National Population Projections.

4 Business Register and Employment Survey

5 Businesses in Scotland, 2016.

6 Annual Survey of Hours and Earnings, 2016.

## Economic Performance

- The business start-up rate in Dumfries and Galloway, at 31 per 10,000 resident adults, is the lowest amongst the 32 LAs in Scotland. The rate in Scottish Borders, at 39 per 10,000 resident adults, is also lower than the rate for Scotland, at 49.<sup>7</sup>
- Research and development expenditure per head is £33 in Dumfries and Galloway and £63 in Scottish Borders, considerably below the Scottish average of £162.<sup>8</sup>
- GVA per head was £18,720 in Dumfries and Galloway and £17,196 in the Scottish Borders in 2015, compared to £23,685 in Scotland overall.<sup>9</sup>

## Connectivity

- Average drive times to main facilities (i.e. petrol station, GP surgery, post office, primary/secondary schools and retail centre) are consistently above the averages for Scotland.<sup>10</sup>
- Workers commuting out of their home local authority is well below the Scottish average (6.4% in Dumfries & Galloway, 16.1% in Scottish Borders, and 30.5% in Scotland as a whole).<sup>11</sup>
- In 2015, 59% of people in Scottish Borders and 66% of people in Dumfries and Galloway were fairly or very satisfied with local public transport services, considerably lower than the proportion in Scotland as a whole, at 74%.<sup>12</sup>
- The proportion of households with home internet access is lower in South of Scotland than in Scotland as a whole. In 2015, 76% of households in Dumfries and Galloway and 79% in Scottish Borders had home internet access, compared to 80% in Scotland as a whole.<sup>13</sup>

7 ONS, Business Demography, 2015.

8 Business Enterprise Research and Development Scotland 2015.

9 ONS, Gross Value Added.

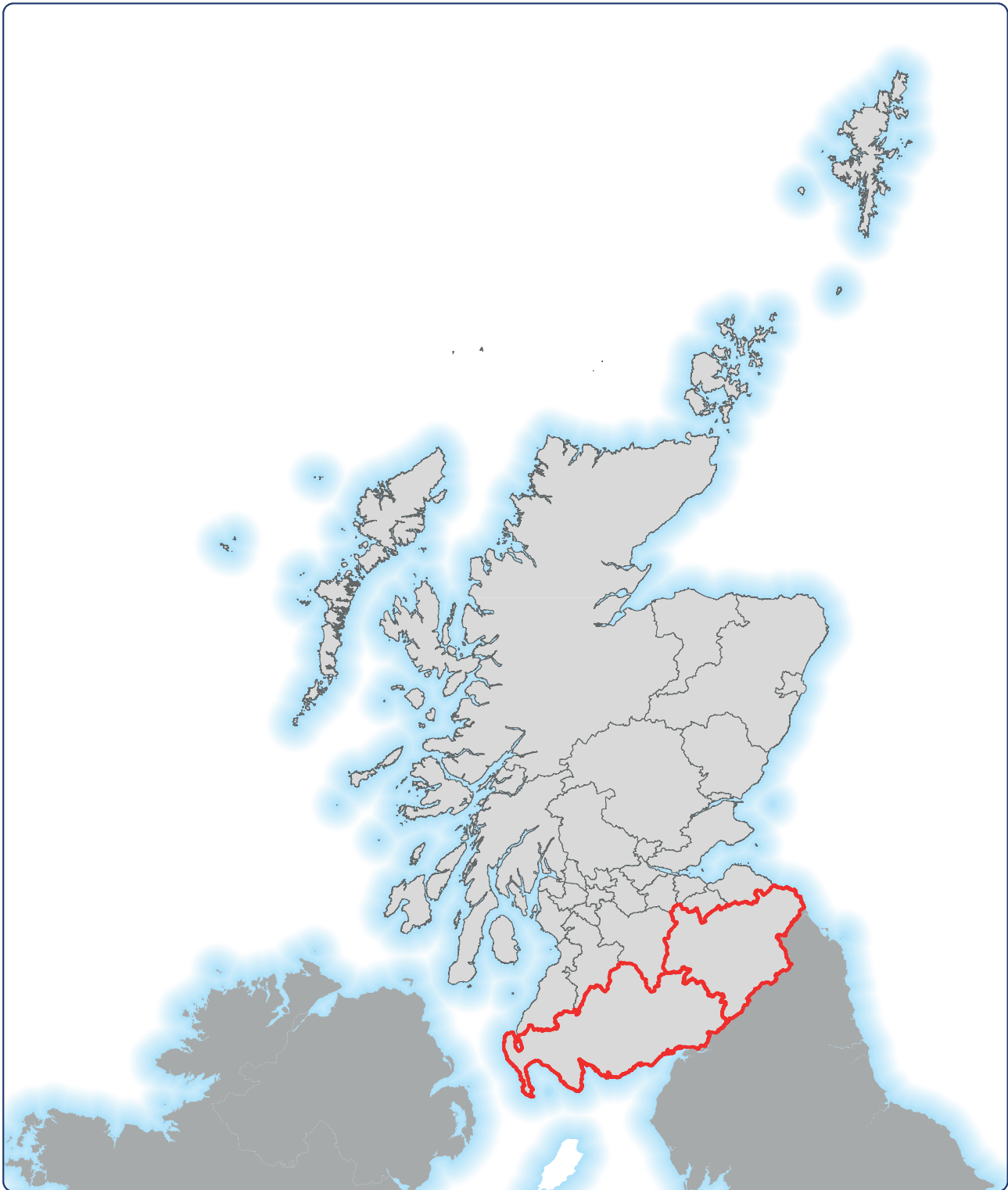
10 Scottish Index of Multiple Deprivation, 2016.

11 Annual Population Survey.

12 Scottish Household Survey, 2015.

13 Scottish Household Survey, 2015.

## Annex B



# Map of Scotland's Local Authorities

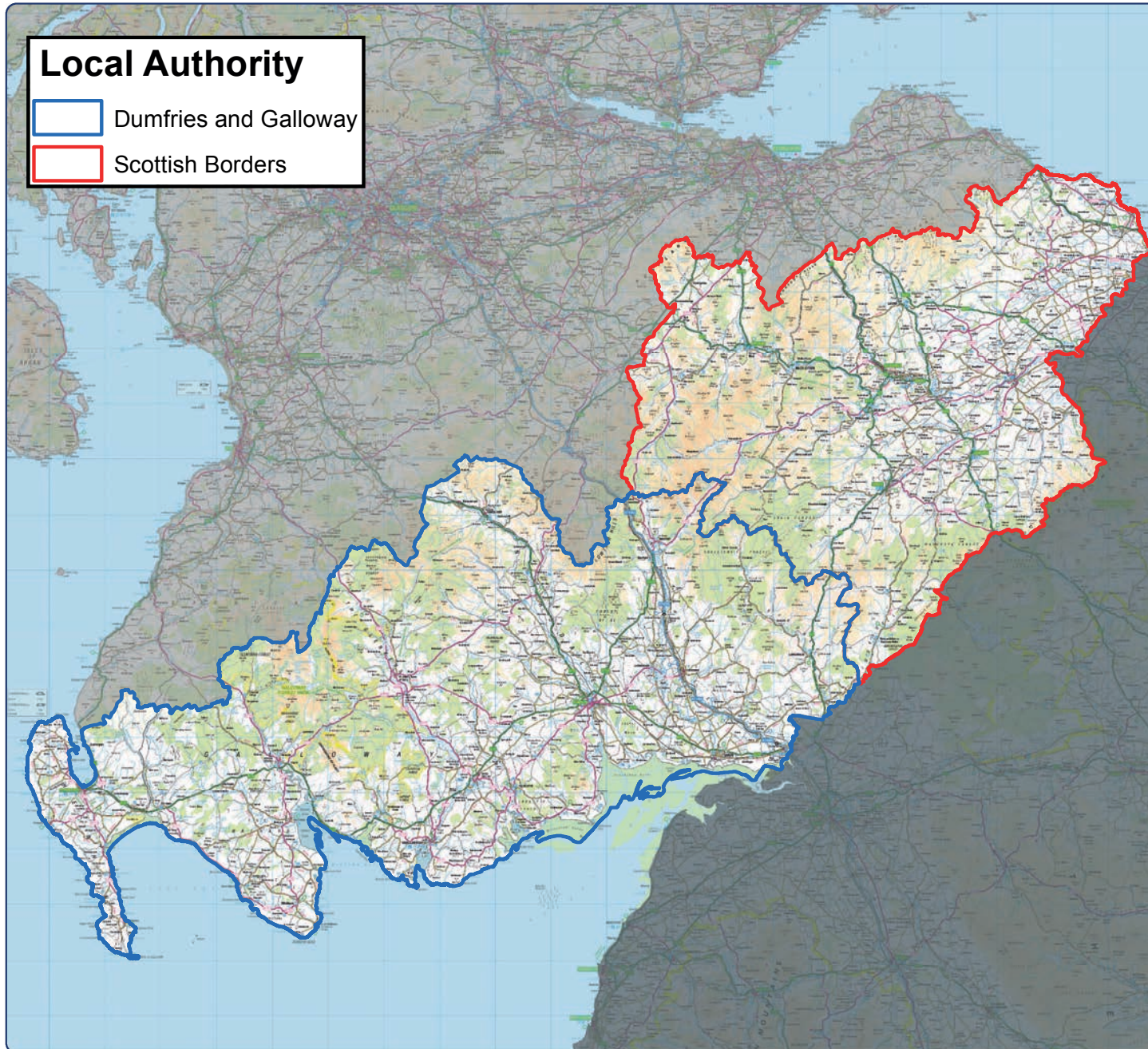
*With Dumfries & Galloway and Scottish Borders Council highlighted*

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Scale: 1:3,340,000

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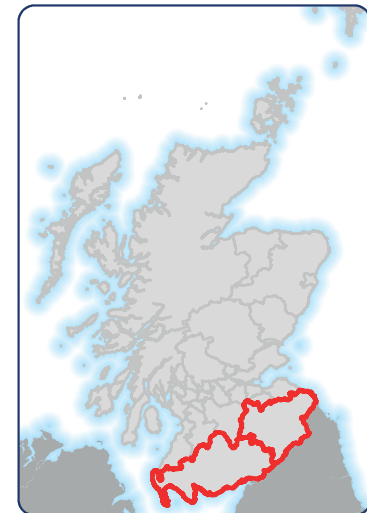




**Local Authority**

-  Dumfries and Galloway
-  Scottish Borders

## Map of Dumfries & Galloway and Scottish Borders Council Local Authorities



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The Scottish Government  
St Andrew's House  
Edinburgh  
EH1 3DG

ISBN: 978-1-78851-021-9 (web only)

Published by The Scottish Government, June 2017

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA  
PPDAS265196 (06/17)

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