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# **Economy, Energy and Fair Work Committee** **Comataidh Eaconamaidh, Lùth is Obair Chothromach**

## **Pre-budget scrutiny 2020-21**



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# Economy, Energy and Fair Work Committee

Remit: To consider and report on economy and fair work matters falling within the responsibilities of the Cabinet Secretary for Finance, Economy and Fair Work; matters relating to the digital economy within the responsibilities of the Minister for Public Finance and Digital Economy, and matters relating to energy falling within the responsibilities of the Minister for Energy, Connectivity and the Islands.

(As agreed by resolution of Parliament on 6 September 2018)



<http://www.parliament.scot/parliamentarybusiness/CurrentCommittees/economy-committee.aspx>



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**Gordon MacDonald**  
Scottish National Party



**Andy Wightman**  
Scottish Green Party

# Background

1. This report sets out the Economy, Energy and Fair Work Committee's pre-budget 2020/21 scrutiny.
2. Following a review of the budget process, Scottish Parliament Committees now carry out scrutiny before the publication of the budget. The aim of this is to have greater influence on the Scottish Government's budget proposals. Under the new process, there is more emphasis on what spending is achieving and an increased focus on outcomes. This involves committees building up an evidence base over time on the impact of spending.<sup>1</sup>
3. With this in mind, the Committee agreed to focus this year's budget scrutiny on regional selective assistance (RSA) and other financial assistance offered to businesses by Scotland's enterprise agencies. The Committee has sought to examine the impact of this funding in delivering the Scottish Government's economic goals. The Committee also considered whether RSA impacts employment levels and fair work practices.
4. This inquiry follows on from the Committee's scrutiny of Scottish Enterprise (SE) following the closure of Kaiam, a Livingston based technology company in receipt of RSA which went into administration in January 2019.
5. The Committee has scrutinised the overall budgets and outcomes of the enterprise agencies every year since 2016. This has allowed the Committee to build up evidence over time.
6. The Committee thanks all those who contributed to the inquiry.

## 2020/21 budget - context

7. The Cabinet Secretary for Finance, Economy and Fair Work (Cabinet Secretary) set out the context for this year's budget. The UK Government announced a one-year spending round on 4 September; however, without the tax announcements and the economic forecasts of a full UK budget, he said that the spending round does not give the Scottish Government enough clarity on the funding available for Scotland in 2020-21.<sup>2</sup>
8. The Cabinet Secretary spoke of the need to prioritise in the face of 'a disorderly Brexit' which he described as 'the biggest and most economically disruptive challenge that the Scottish Government has had to face.' The Scottish Government is planning a spending review which will focus on the outcomes and wellbeing in line with the national performance framework (NPF). The economic action plan will also be refreshed in the autumn.<sup>3</sup>
9. The Scottish Government plans to review all of its financial products. The Cabinet Secretary said that this is necessary 'because of the economic turbulence that we face.' The review would also aim to simplify the range of products available and to ensure that the products are appropriate in the current economic context.<sup>4</sup>

10. This review is relevant to the forthcoming introduction of a single portal which will be a single point of entry for businesses trying to access support services. The Cabinet Secretary said:

” I want to simplify the range of assistance that we have for businesses, which is why I am supportive of the single portal. Businesses come in once, and it is up to the enterprise agencies to organise the appropriate response and package of support for an individual applicant or company. That is why the diagnostics behind front-facing business support will be so important.<sup>5</sup>

## Regional Selective Assistance background

11. In Scotland, RSA is the main national scheme of financial assistance to industry. It is administered by SE across the whole of Scotland. It provides discretionary grants to investment projects that will create and safeguard employment in Assisted Areas (areas designated for regional aid under European Community law).

12. The nature of RSA grants means that they can support a range of projects, as long as they will create or protect jobs in Scotland. They should also involve some kind of capital investment and service markets wider than Scotland only or compete with companies outside Scotland.<sup>6</sup>

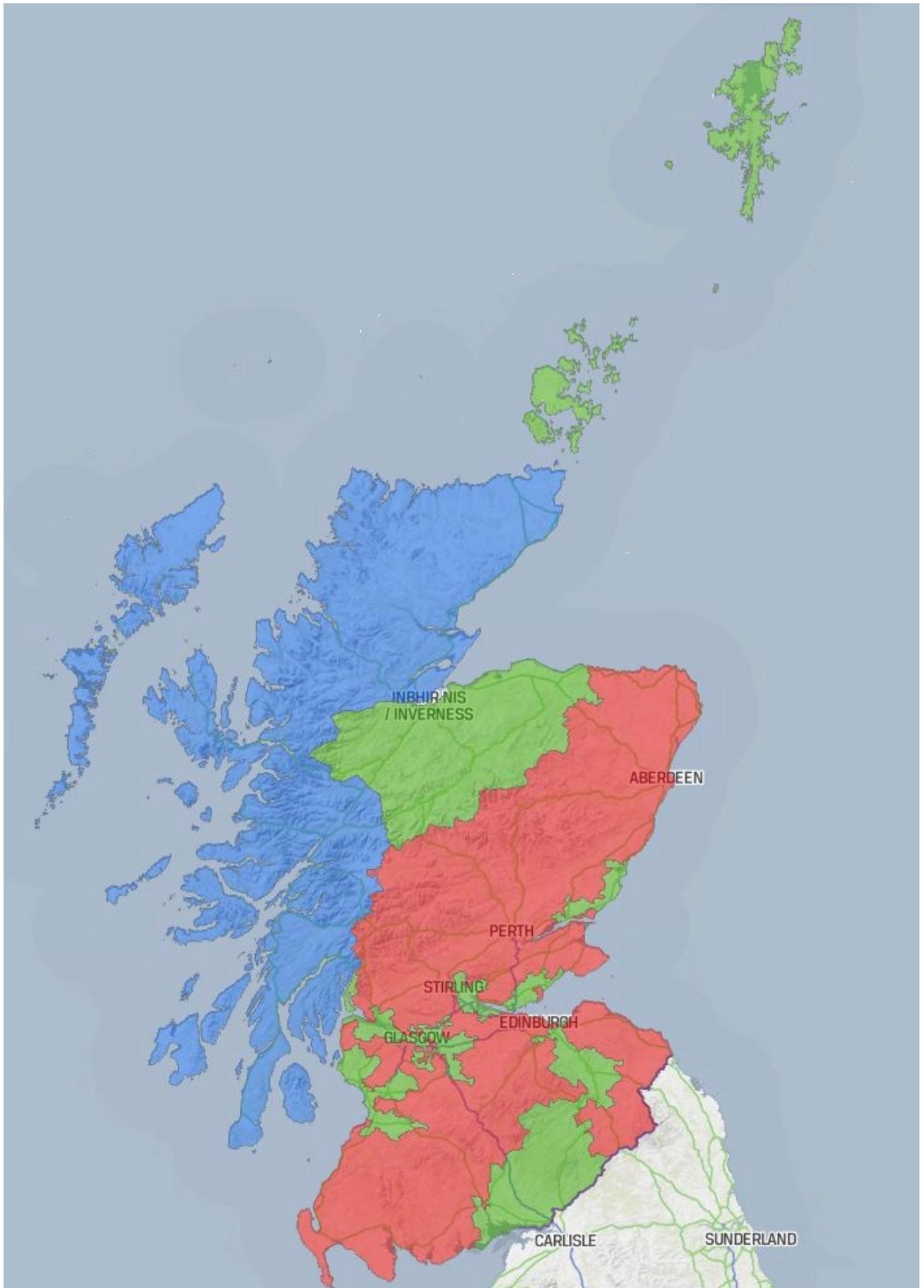
13. The amount a business is eligible for depends on its size and location, as illustrated by the table and map below. Over 90% of grant offers are made to SMEs and most offers are between £100k and £250k, but smaller or larger grants can be offered.

### Maximum aid available by location RSA

Map colour	Tier	Small enterprise	Medium enterprise	Large enterprise
Green	Tier 2	30%	20%	10%
Blue	Tier 2 sparsely populated areas	35%	25%	15%
Red	Tier 3	20%	10%	0%

Map of RSA Tiers [green = Tier 2, blue = Tier 2 sparsely populated, red = Tier 3]

## Map of Regional Selective Tiers



Regional Selective Assistance Map 2014 - 2020

14. The subsidy rate for assisted areas depends on a number of factors, these can include an area's GDP per capita compared to the EU average, population density and unemployment rate.
15. From 1 July 2014, large businesses which are not SMEs will only be eligible if the project involves 'new activity'. Examples are projects which are at a new assisted area location or projects which involve diversification at an existing location.
16. Businesses must be able to demonstrate that their project needs RSA to proceed as planned. RSA will not be offered if a business is already committed to undertaking the project or if SE believes that the project would proceed anyway. The project and the underlying business must be financially viable. It must make commercial sense and contribute towards national economic performance.
17. Projects must have an impact on employment in Scotland and specifically create or safeguard jobs within a business. These jobs must be permanent posts. Only jobs directly employed by the supported business are eligible. A business must be able to demonstrate that the project's employment impact within the business will not be offset by job losses elsewhere in Scotland. For safeguarded jobs, there must be a real threat to these posts if the business did not carry out the project.
18. Through RSA, the aim is for overall gains in net employment in Scotland and therefore assistance is more likely to be approved for projects that service markets wider than Scotland only, or where competitors are largely based outside Scotland. According to the enterprise agencies, this requirement should reduce displacement effects on to other non-subsidised firms serving the same local market. HIE states that sectors that tend to be more local market focused are unlikely to qualify for funding.<sup>i</sup>
19. Payment of RSA is made in instalments, typically over several years as job and capital expenditure targets are met. Not all projects will proceed, nor do all accepted offers result in full payment, as projects are sometimes scaled down or abandoned before payments are made.
20. Recent strategic changes have seen SE's approach to grant funding evolve. In the 2019/20 operating plan:
  - Job-related grants have become contingent on fair work practices and SE tell us that they are considering how to apply this more widely across all grants and services.
  - SE is working on delivery of a new model for business grants, offering transparency, consistency and speed in eligibility and decision-making.
  - SE is establishing a national centre of excellence for grant management during the lifetime of its 3-year plan, according to SE this will tap into artificial intelligence and technology development to transform customer experience.

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<sup>i</sup> HIE provides the following examples of sectors; Retail, catering, household services, personal services, double glazing, general printing, locally-focused recycling plants, general joinery, small-scale customer service/order fulfilment operations, locally-focused food production.

21. From April 2019, fair work conditions applied to RSA, and other large job-related grants, ensuring that:
- Only jobs paying the Real Living Wage will be eligible for grant support.
  - Jobs with zero-hour contracts will be ineligible for grant support and any wider use of zero hours contracts by the company will be reviewed as part of the appraisal process.
  - Applicants with over 250 employees meet the legal requirement to report on their gender pay gap. SE will also support smaller applicants to calculate their gender pay gap; and encourage all applicants to take steps to narrow the gap.
- 7
22. These changes are discussed later in this report.

## Regional Selective Assistance

23. In total, over the period April 2009 to May 2019, over £337 million of RSA was offered to firms. According to SE, since 2010, RSA grants have helped to either maintain or generate more than 20,000 jobs across Scotland. The table below shows the total number and value of RSA offers from 2009/10 to May 2019.
24. Since 2015-16 the number of offers has declined significantly. This is related to state aid rules changes in 2014. The average grant value also declined between 2015-16 and 2017-18. 2018-19 saw a reversal in this trend, although it remains to be seen if this will continue.<sup>8</sup>

	RSA offers accepted	£ Total value of grants offered	£ Average grant value
2009-2010	110	50,673,175	460,665
2010-2011	112	40,422,000	360,911
2011-2012	86	32,810,350	381,516
2012-2013	118	34,667,500	293,792
2013-2014	118	51,380,750	435,430
2014-2015	120	48,600,050	405,000
2015-2016	66	17,581,704	266,389
2016-2017	64	15,416,858	240,888
2017-2018	75	13,959,829	186,131
2018-2019	69	24,468,000	354,609
2019-2020 (as of May 19)	24	7,210,000	300,417
<b>Total</b>	<b>962</b>	<b>337,190,216</b>	

Source: Source: SPICe analysis of data provided by Scottish Enterprise in May 2019

## Overall view of Regional Selective Assistance

25. The Committee received evidence of the positive impact of RSA on the Scottish economy.
26. Matt Lancashire of the Scottish Council for Development and Industry (SCDI) said that this positive impact is due to RSA generating additional jobs in economic downturns.<sup>9</sup> Similarly, Alliance Scotland (part of the Industrial Communities Alliance, an all-party association of local authorities in the industrial areas of England, Scotland and Wales) said that RSA supported investments have 'been instrumental in contributing to the modernisation and expansion of our local work places and economies.'<sup>10</sup>
27. Scottish Local Authorities Economic Development Group (SLAED) highlighted that there is a high level of interaction between RSA, financial readiness and innovation. They believe that this is very positive when compared with the system in England and Wales; RSA is the only public sector award aimed at capital expenditure, which they believe is of great strategic benefit to businesses.<sup>11</sup>
28. West of Scotland European Forum (WSEF) felt that having an established scheme with a distinct budget line gives relevant Scottish areas a distinct advantage compared to their English counterparts in terms of attracting inward

investment. They believe that RSA supported activity makes a significant contribution to the economic strategy's aim 'to reduce disparities in economic performance between regions and local areas within Scotland.'<sup>12</sup>

29. COSLA claimed that RSA and other grants play a valuable role as part of a wider, aligned and integrated programme of support that helps to enhance the viability of a project and a business.<sup>13</sup>

## **Continued relevance of RSA and suggested changes**

30. The Committee heard that the continued relevance of RSA should be considered and a number of changes were suggested.
31. SLAED highlighted the increasing move towards automation in manufacturing and engineering businesses that could ultimately reduce the requirement for staff and queried how RSA is accounting for these changing trends. Matt Lancashire of SCDI also highlighted the importance of artificial intelligence and digital sectors as well as the clean growth sector.<sup>14</sup>
32. On a visit to Musselburgh based fish processing business JK Thomson, Members heard that given the level of bespoke equipment required, investment in automation will be heavily capital intensive. Thus, they are hoping to work with Scotland's enterprise agencies to explore feasibility options for automation.<sup>15</sup>
33. SLAED suggested that RSA could be packaged up with other loan programmes offered through the public sector that can be properly monitored and work to the same timescales and objectives, such as Business Loans Scotland, DSL or Digital Loan Scotland.<sup>16</sup>
34. Women's Enterprise Scotland's (WES) survey of women-owned businesses found that only 24% of respondents had used any form of grant funding to finance their business; yet research evidence shows that access to funding is a key resource for women-owned businesses seeking to grow. The RSA grant is focused on capital outlays and many women-owned businesses do not operate in sectors requiring capital expenditure or seek out significant capital funding. A total of 67% of survey respondents said that they felt more micro finance schemes were needed for small businesses.<sup>17</sup>
35. The Committee notes the comments made in evidence regarding diversifying the purpose of RSA. Its current focus and evaluation of its outcomes are explored further below.

## **Jobs**

36. As noted above, the primary focus of RSA is the creation and safeguarding of jobs in Scotland. The average cost per full-time equivalent job created by RSA is £7,730.<sup>18</sup>

37. SE told us that 99% of RSA now supports SMEs (following changes to state aid which eliminated larger companies from the scheme) and that SMEs tend to have lower job counts. <sup>19</sup>
38. There were suggestions that the objectives for RSA could be widened, particularly given the current high employment rates in Scotland. Matt Lancashire of SCDI suggested that rather than a pure focus on job creation/protection, RSA could promote increasing profit, productivity, exporting and efficiency which would, in turn, lead to better jobs. <sup>20</sup>

## Data on job outcomes

39. Data is available about RSA offers made and the planned number of jobs. Similarly, HIE's annual report sets out projects approved and job forecasts for their financial support rather than actual outcomes. In relation to RSA, as projects are delivered over three to five years, the data is not publicly available to demonstrate the actual number of jobs created and retained. SE explained that the actual impact of spend can only be measured upon completion. SE told the Committee that this information is gathered but not published. <sup>21</sup>
40. 4-Consulting economist Richard Marsh believes that the method of accounting for RSA related jobs should be improved:  

” We need to measure what RSA is doing far better than we do currently. We highlight where RSA is being used to help companies invest and we report the jobs that are going to be safeguarded and created, but we do not measure consistently over time the number of jobs that are sustained over the life of a company in different parts of Scotland.” <sup>22</sup>
41. Following its evidence session with the Committee, SE provided the following table which summarises desk research on RSA for completed projects (i.e. projects at the end of their contractual period – usually three or five years after the last payment associated with the grant). It suggests that SE delivered more jobs than were forecast at the commitment stage. This includes both jobs created and safeguarded.
42. It should be caveated that these are portfolio figures. There will be companies included in the data who will have breached conditions and had money clawed back or written off, likely due to loss of jobs and that will have been taken into account in the totals. <sup>23</sup>

## **JOBS DELIVERED FROM COMPLETED RSA PROJECTS 2014-15 to 2018-19**

FY	No. of Projects	Grant Offered (£m)	Grant Paid (£m)	Total Jobs at Offer Stage	Total Actual Jobs	Capex at Offer (£m)	Actual Capex (£m)
14-15	84	42.5	42.5	5303.0	5633.5	448.6	547.8
15-16	81	32.4	31.9	3948.5	4386.5	173.1	197.2
16-17	74	21.8	21.7	1858.0	1964.0	198.7	202.1
17-18	86	30.2	30.1	3741.5	4124.0	177.6	187.6
18-19	63	12.3	11.6	1582.5	1722.0	40.5	40.6
<b>Total</b>	<b>388</b>	<b>139.2</b>	<b>137.8</b>	<b>16433.5</b>	<b>17830.0</b>	<b>1038.5</b>	<b>1175.3</b>

Source: SPICe analysis of data provided by Scottish Enterprise in May 2019

43. The Committee welcomes the provision of data on actual jobs delivered by RSA projects. It is encouraging that in every case more jobs were delivered than projected. The Committee would have expected this data to be published as part of SE's annual reporting information.

**The Committee recommends that information on jobs delivered from completed RSA and other job-related grant funded projects is published on an annual basis as part of enterprise agencies' annual reports. It is important to be able to scrutinise the outcomes of spend in this way.**

44. The Committee considered whether longer term jobs data should be tracked to demonstrate the sustainability of the jobs beyond the length of the RSA project.

45. SE outlined the challenges associated with tracking this data:

” With regards to the longer-term aspects of job sustainability, companies are only contractually obliged to provide SE with information for the period of their project and associated conditions period, so there is no data available beyond this period. In addition, tracking information beyond the 5 to 7-year period would present challenges given the volume of data this would involve and the administrative burden it would place on companies.

The systems are not capable of providing systematic reports of overall combined final actual jobs at the end of projects and project conditions periods. This would require a significant amount of time and resource, which would be further amplified should we be required to track job numbers in a company beyond the conditions period.

Additionally, over the longer-term, the ability to specifically link jobs back to a single grant supported project becomes increasingly challenging, if not almost impossible, due to the changeable nature of market and economic conditions that most companies are operating in and responding to.’<sup>24</sup>

46. The Committee acknowledges the difficulties in longer term tracking of jobs delivered by RSA. However, the Committee believes that the sustainability of jobs should be an objective of RSA. Whilst we acknowledge that the enterprise agencies seek to achieve sustainable outcomes, it would be helpful to be able to measure longer term outcomes of RSA and other job related financial assistance.

**The Committee recommends that the analytical unit works with the enterprise agencies to determine whether the obstacles to tracking longer term jobs data can be overcome to allow this data to be produced. This would aid scrutiny of enterprise agency spend and assessment of the long-term effectiveness of different interventions.**

## **RSA- regional spend**

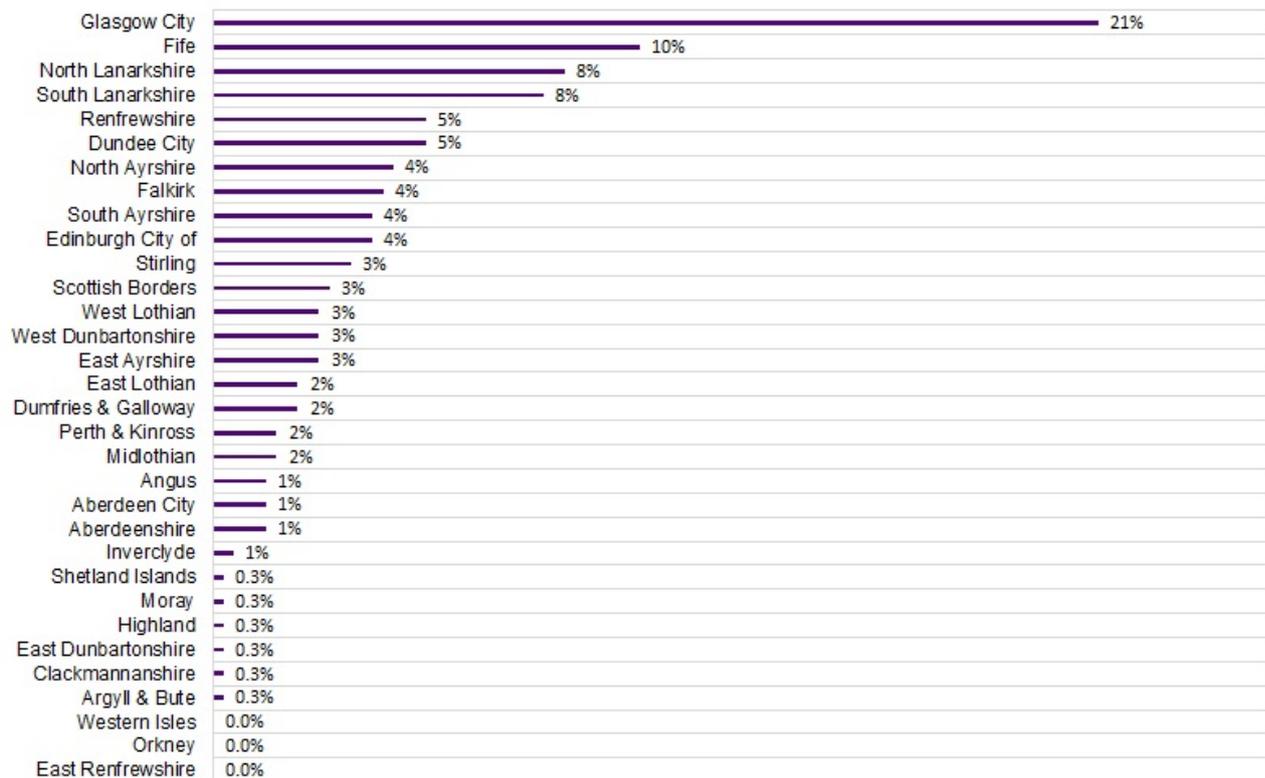
47. The Committee has received data on the distribution of RSA by local authority for a five-year period (2016-17 to 2018-19).

**This data was provided to the Committee after the oral evidence session with Scottish Enterprise, despite it being requested in advance. The Committee is disappointed that the information was not provided on time. The Committee believes that regional data should be produced routinely to allow for scrutiny of the regional spread and recommends that it is produced as part of future annual reports of SE.**

## **Regional data**

48. The chart below summarises regional RSA data aggregated over the five-year period. The full annual regional tables are available in Annexe B.
49. When analysing regional trends, the following factors should be taken into account:
- Commuting patterns will create varying inflows and outflows of residents between local authorities. Thus, areas like Glasgow City have greater workplace populations relative to their resident populations.
  - SE does not have a regional remit and its objective is to grow additional economic activity at a Scotland level.
  - Reducing regional labour market inequalities is the key aim of RSA and reducing regional imbalances is a key strand of inclusive growth.
50. There were 395 RSA grant offers accepted across Scotland between 2014-15 to 2018-19. Despite much of the HIE region offering the highest level of RSA grant (Tier 2 sparsely populated areas), there have been no RSA offers accepted in this region over the last three years and only four offers over the last five years. East Renfrewshire, Clackmannanshire, East Dunbartonshire, and Inverclyde have also had very limited RSA investment over this period.

## RSA offers accepted by LA by number of projects (2014-15 to 2018-19)



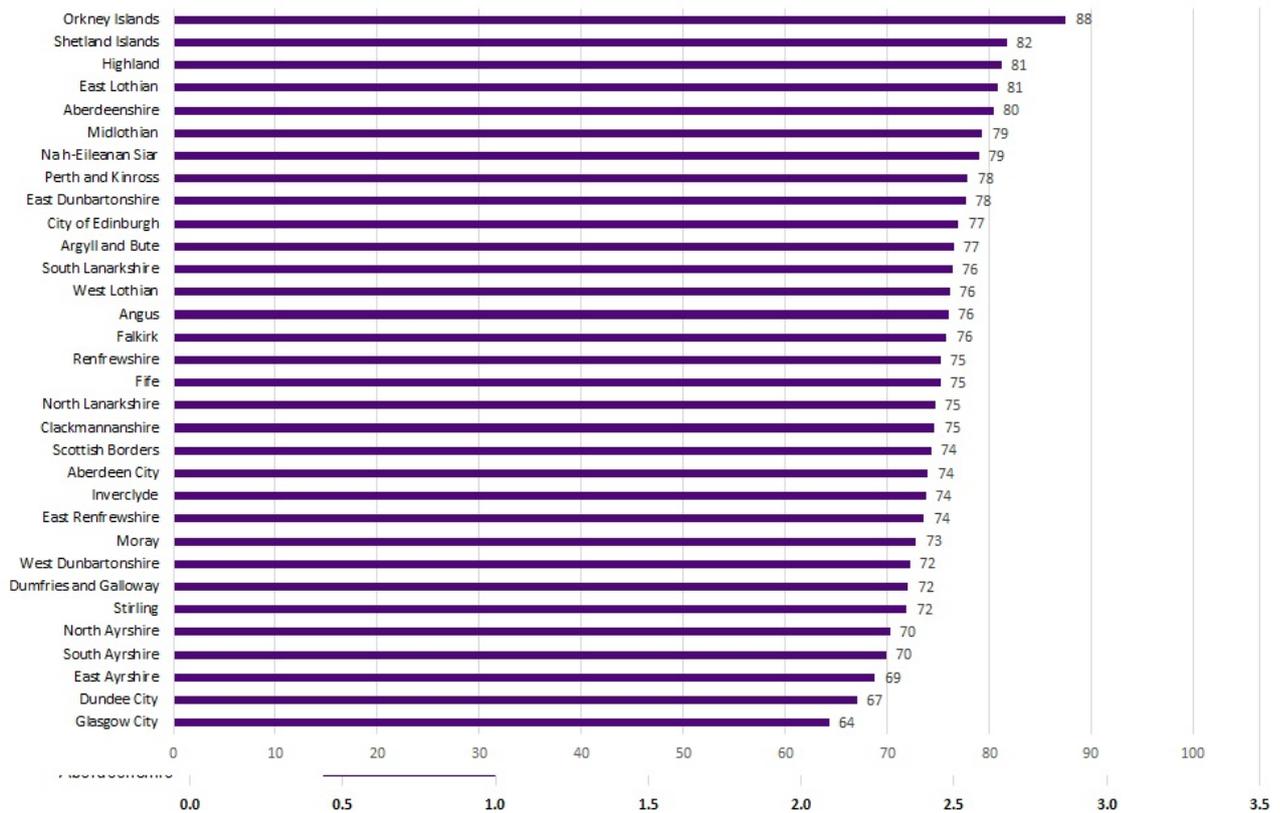
51. Approximately one in five (21%) RSA investments were in Glasgow City over the last five years. Fife (10% of 5-year total) and North and South Lanarkshire (both 8% of 5-year total) were the other areas with clusters of investment.
52. In total, for the period 2014-15 to 2018-19, over £119m in RSA grants were offered across Scotland. From this £44m (37% of total) went to the Glasgow City local authority area. Approximately 56% of all RSA investment over the last five years has gone to the wider Glasgow City Deal Region.
53. The chart below shows each local authority's proportionate share of total RSA over the five-year period related to the area's national population share.
  - A score of one in the below indicates that RSA allocation is in line with population share. Inverclyde, South Lanarkshire, and Stirling all have scores of approximately one and thus have no data markers crossing the vertical axis.
  - A score over one suggests a higher allocation of RSA relative to population, and vice versa for scores under one.

### Value of RSA grant offers accepted by LA relative to population share (2014-15 to 2018-19)



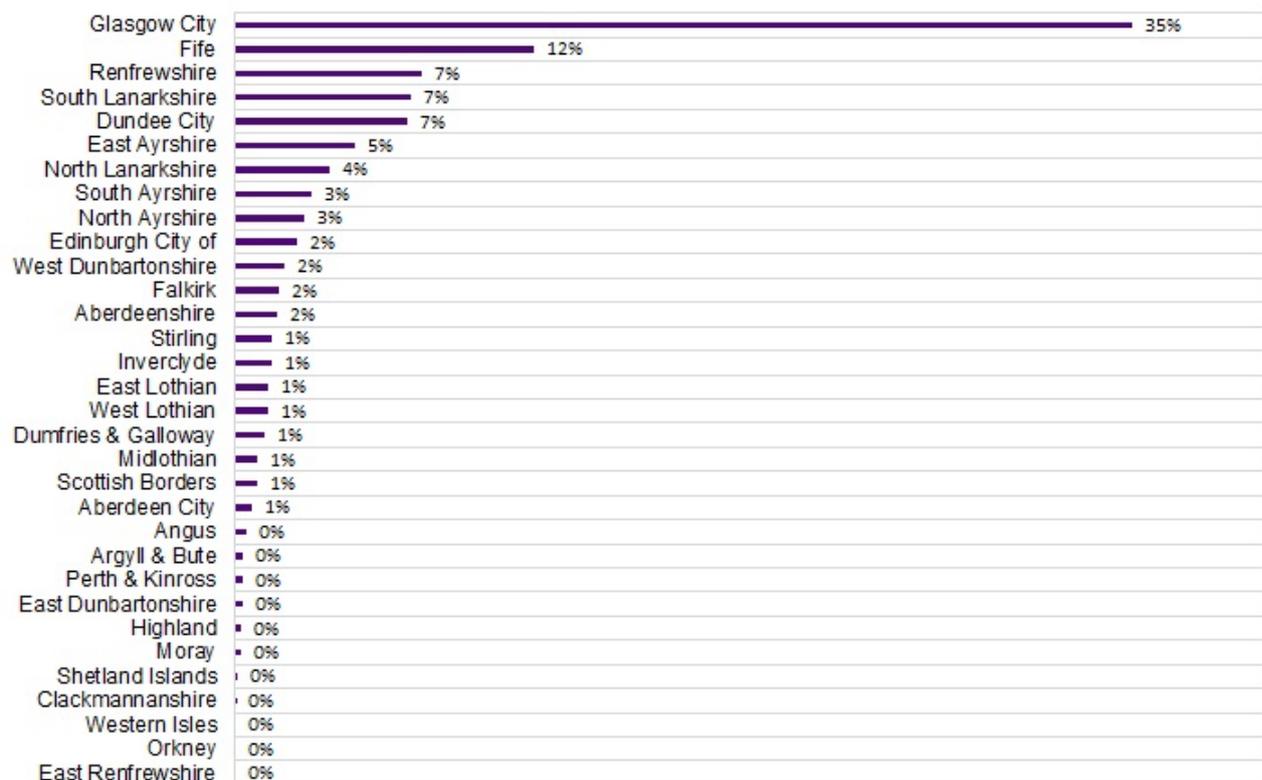
54. The chart above shows that Glasgow City’s share of RSA is 3.2 times greater than the area’s national population share. However, when considering this high score, commuter flow patterns need to be considered. Glasgow City is a significant commuter hub for the residents of other surrounding local authority areas. Other areas with an over-representative share of RSA relative to population were Dundee, Fife, North Ayrshire, Renfrewshire, and South Ayrshire.
  
55. Similarly, when considering the regional distribution of RSA, employment levels should be considered, as low employment levels are a factor in the designation of assisted areas. The chart below shows average employment across local authority areas in 2018. Glasgow City had the lowest employment rates at 64.3% and Orkney Islands the highest at 87.5% (the figures have been rounded in the chart).
  
56. Looking back at 2013 unemployment levels (this is the data that would have been used in the designation of assisted areas), the area with the greatest unemployment challenges were: North Ayrshire (60% employment rate), Dundee City (61%), Glasgow City (63%), West Dunbartonshire (65%), Clackmannanshire (66%), East Ayrshire (68%), Inverclyde (69%), Fife (70%), North Lanarkshire (70%), and Dumfries and Galloway (70%). Some of these areas with employment challenges have benefited most from RSA over recent years.

### Employment rate (aged 16-64 ) 2018 average



57. In total, there are 13,784 planned jobs associated with RSA grant offers accepted over the period 2014-15 to 2018-19. The largest proportion (35%) of the planned jobs are in Glasgow City, as demonstrated in the chart below.

### Planned jobs associated with RSA grant offers (2014-15 to 2018-19)



## RSA - addressing labour inequalities?

58. As noted above, the objective of RSA is to reduce regional labour inequalities. In evidence, SE told the Committee:

” Scotland’s economy still has inequalities and we still need to stimulate the market to invest in the cooler areas of the economy. In the past five years, despite lots of changes to RSA, something like 80 per cent of the jobs that have been created through that investment and more than 90 per cent of the capital investment that has been stimulated have been in those areas.<sup>25</sup>

59. The Committee had not received the regional data when this evidence was given. However, SE did suggest that consideration should be given to a more proactive approach across the regions:

” ‘Our organisation is considering how to use incentivisation across Scotland’s regions—we do not have the answer yet, and it will be interesting to see the committee’s findings, which may be helpful to us. On the question whether we could and should go further in Scotland’s regions to stimulate investment where it is badly needed...’<sup>26</sup>

60. Richard Marsh told the Committee that Scotland still has ‘significant regional inequalities.’<sup>27</sup> Matt Lancashire of SCDI also highlighted the lack of spread across the country:

” The evidence that we found is that the central belt dominates the funding, which continues to be focused there. There are fewer funding applications to the grant fund from businesses from regions in the south of Scotland and further afield. The evidence from our members also shows that there is a regional disparity in how the fund has been awarded in the past.<sup>28</sup>

61. The local context is important when considering the impact of delivering jobs. As Richard Marsh highlighted:

” The creation of a small number of jobs in a deprived area that is in desperate need of jobs is probably worth a lot more than an intervention that creates jobs in the centre of Glasgow or Edinburgh.<sup>29</sup>

62. Tony Mackay agreed:

” I think that the principle of rural areas requiring more assistance than Glasgow and Edinburgh is still very valid.<sup>30</sup>

63. The Scottish Government’s economic strategy lists place and regional cohesion as one of its inclusive growth priorities (along with fair work, the business pledge and promoting equality and tackling inequality). The strategy sets out to ensure that ‘all parts of Scotland benefit from sustainable economic growth.’<sup>31</sup>

64. The Committee notes that SE’s new strategic framework has a greater emphasis on places and highlights regional economic partnerships. The first ‘ambition’ set out in SE’s new strategic framework is to ‘build vibrant economic communities across Scotland, spreading increased wealth and wellbeing.’ The strategy states:

- ” 35% of the working-age population live in local authority areas with below Scottish average employment rates. If employment rates in these areas matched the Scottish average, over 50,000 more people would be in work.<sup>32</sup>
65. Although HIE is not responsible for awarding RSA, they confirmed that they are considering how to measure impact according to location:
- ” We are currently looking at how we can assess the impacts of developments in more fragile areas and weighting them to see how they compare to developments in more urban or central areas. For our purposes, two jobs that are created in Coll are worth an awful lot more to the community than two jobs that are created in Inverness or Elgin.<sup>33</sup>
66. The Cabinet Secretary also highlighted the importance of scale in deploying economic development activities:
- ” Twenty jobs in a more rural or peripheral community could be massive compared with 20 jobs created in the cities of Edinburgh, Aberdeen or Glasgow. That is why we are trying to target efforts towards towns and rural communities as well as the cities.<sup>34</sup>
67. SE emphasised that RSA is, like all SE grants, a demand-led scheme. There are no targets based on area. They also said:
- ” It should [also] be noted that support via a particular grant product for companies in a particular constituency is not necessarily a good measure of economic impact for most constituencies in Scotland. Given commuter flows, investment in one area could result in jobs that are filled by people from a different area or constituency.<sup>35</sup>
68. The demand-led nature of RSA and other grants is discussed in the next section of the report. Although the Committee has only seen five years’ worth of data, it is concerning that certain areas in Scotland are barely benefiting from this funding and that there appears to be a concentration in the central belt. Commuter flows will play their part in spreading the benefit of the funding; however, this is not the case for areas such as the Highlands and Islands. This calls into question the demand-led nature of the funding and whether more could be done to increase demand across the regions.
69. In supplementary evidence, SE outlined the number of applications for RSA which have been rejected over the last five years (the table is attached at annexe B). Out of a total of 32 rejected applications, 13 did not have a specific location at the time of appraisal. This describes projects where the application has been made but the applicant has still to finalise the location of the project as part of their internal planning processes and decision making. None with a known location had been rejected from the Highlands and Islands and one had been withdrawn.
70. Another factor impacting on demand is the dominance of certain sectors in different regions across Scotland. The Committee notes that HIE highlighted that companies operating solely in the local market (such as retail or catering) are less likely to be eligible for RSA.
71. The Cabinet Secretary said that RSA is just one part of the financial support available to companies and that it should be seen within the global context. Although he would like to see further distribution of RSA across the country, he is

satisfied that the enterprise agencies are being proactive in promoting RSA across the country. In his view, the regional disparities are not down to any systemic failure but could be explained by demand and the issue of projects meeting the criteria (around scale and the location of the manufacturing base in Scotland).<sup>36</sup>

**The Committee notes the striking regional disparities in the award of RSA over the last five years. We acknowledge that RSA is part of a wider package of support for businesses across the regions and is demand led. However, the Committee welcomes evidence from SE that they are considering how to use incentivisation across the regions and recommends that this work is carried out as a matter of urgency to maximise demand stimulation. The Committee asks to be kept updated on progress with this work.**

**The Committee invites the analytical unit to consider whether SE should set regional targets to track progress in supporting businesses in regions across Scotland. These targets could take regional factors such as unemployment levels and regional spread of different sectors into account.**

## **Assisted areas: limiting or beneficial?**

72. WOSEF highlighted that historically the bulk of RSA activity in Scotland has been concentrated in the West of Scotland. They said that this reflects the more extensive Assisted Area coverage in the region compared to other parts of Scotland – with the exception of the Highlands and Islands; this designation has been due to the contraction and disappearance of previously dominant industries such as steel and coal.<sup>37</sup>
73. Aberdeenshire Council stated that the criteria for securing Assisted Area status and RSA schemes are such that areas that are relatively affluent, and where macro indicators mask smaller areas of higher economic inequality, are usually deemed ineligible. They believe that this, coupled with the long duration of RSA and Assisted Area legislation (7 years in line with EU funding periods), means that RSA is inflexible and cannot be utilised to respond to economic shocks or opportunities.<sup>38</sup>
74. In the 2014-2020 reassessment of Assisted Areas, the whole of the Aberdeenshire Council area was classed as a Tier 3 area, meaning that only the lowest levels of intervention to support businesses are possible. According to Aberdeenshire Council, this is in spite of the statistically proven similarities (economically and socially) between places such as Buckie (Moray), which has Tier 2 status and the Banff and Buchan area of Aberdeenshire.<sup>39</sup>
75. SLAED believes that some of the qualifying conditions are limiting, especially as it is not within the gift of SE or the Scottish Government to alter Assisted Area coverage or the maximum aid intensities. There are also some ineligible sectors due to the minimum project size and value, which is often out of scope for many of the clients that Business Gateway and local authorities engage with. They note that a blanket

approach in not supporting certain sectors is also at odds with businesses that are innovating and disrupting markets.<sup>40</sup>

76. WES stated that women-owned businesses which had applied for RSA commented that it was a “post-code lottery” and they were unable to benefit due to the location of their business.<sup>41</sup>

## Regional aid guidelines

77. WOSEF is concerned that the impact of the 2014-20 Regional Aid guidelines has been to diminish the contribution that assistance uniquely available through the Guidelines has made to regional development within the West of Scotland. They asserted that the impact of the current guidelines has been to reduce the value of RSA awards in Scotland by around two thirds compared to the previous period.<sup>42</sup>
78. Alliance Scotland highlighted that while the proportion of Scotland’s population covered by Assisted Areas (and hence eligible for the full RSA offer) increased slightly compared to the previous period, this was more than offset by the reduction in permissible aid intensities and in particular by the prohibition on support for ‘expansion’ investments undertaken by larger firms already located within an Assisted Area. They noted that there is no convincing evidence that economic disparities – as measured for example by indicators such as Gross Value added (GVA) and labour market participation – have narrowed within Scotland to the extent that the need for a geographically targeted instrument such as RSA has become redundant.<sup>43</sup>
79. Many of the submissions highlighted that there may be opportunities to change the legal framework for regional aid in the UK as a consequence of Brexit. The scope, however, to do this would be dependent on the nature of the UK’s withdrawal from the EU and would ultimately be constrained by World Trade Organisation obligations.

## RSA - demand led

80. As noted above, RSA is a demand-led grant, responding to opportunities presented by businesses.
81. The state aid rule changes in 2014 (e.g. aid could no longer be granted to expansion projects, only new activity) meant that larger companies found it more difficult to apply RSA to their projects. As larger companies tended to undertake projects of a greater scale than SMEs, there was an overall decline in commitments. Following the changes, SE launched a targeted customer engagement programme aiming to increase the number of applications. They indicated that after an initial dip, commitments have risen again as of 2018/19.<sup>44</sup>
82. SE told the Committee that since the change to state aid rules:

- ” we have worked extremely hard with our SME community to remind everybody that the scheme is still open for business.<sup>45</sup>
83. Steve Dunlop, Chief Executive of SE, described demand stimulation as a ‘growth area’:
- ” We see ourselves as being one of the family that is responsible for creating a large queue of businesses that are ready to be invested in. Demand stimulation is something that we do now and will continue to do. In our new strategic framework, it will have to be a growth area for Scottish Enterprise, and we will therefore be looking for talent to help us with that.<sup>46</sup>
84. Similarly, HIE confirmed that they have recruited an additional staff member deal with funding opportunities and to work with the new Scottish National Investment Bank (SNIB).<sup>47</sup>
85. The need for demand stimulation activity by the enterprise agencies suggests that there might be a mismatch between the market demand for grants and what the public sector is offering. The Committee explored similar themes around demand stimulation in its Stage 1 scrutiny of the SNIB Bill.
86. Matt Lancashire of SCDI believes that businesses have to take responsibility for informing themselves of funding options such as RSA but that:
- ” Awareness is sporadic depending on the type of business and where it is located. Raising awareness of any type of grant programme, but RSA in particular, would be beneficial, because it would give business leaders the option to suggest whether it is a useful fund to support their future capital expenditure.<sup>48</sup>
87. The Cabinet Secretary, responding to the assertion that there may be a mismatch between products and demand, said:
- ” A wide range of financial products are able to support businesses. However, I am reassured that we can create bespoke packages and engage with companies to design the financial support that is right for them. It can be bespoke; it can be tailored to the needs of a business.<sup>49</sup>
88. In supplementary evidence, the Cabinet Secretary highlighted that HIE had delivered £123.6m and SE £471.3m (excluding RSA and Scottish Investment Bank funding) to companies over the period 1 April 2015 to 31 March 2019, representing five times the total amount of RSA awarded over the same period.<sup>50</sup>
89. In last year’s budget scrutiny, the Committee explored the lack of progress in committing the money for the Scottish-European Growth Co-investment Programme (SEGCP). This issue was also followed-up on in the Committee’s scrutiny of the SNIB Bill and the related need for demand stimulation.
90. The Scottish Enterprise/Scottish Investment Bank submission to the Committee on the SNIB Bill suggested that a ‘significant impact’ has been made in ‘addressing the demand and supply challenges of the Scottish market for risk capital and more recently debt finance’. It accepted, though, ‘that even more needs to be done in an increasingly uncertain economic environment’. SIB’s integration into SNIB and

alignment between SE and SNIB were 'essential to make a step change in the market'. SE/SIB said that substantial demand stimulation activities were necessary alongside the additional 'investment capability' of SNIB. <sup>51</sup>

91. SE did not meet its growth funding target in 2018/19. SE explained the reasons for this:

” A number of programmes contribute to this Measure, including anticipated funding raised via the Scottish European Growth Co-Investment Programme (SEGCP), announced by Scottish Government in June 2017. The programme focuses on companies looking for equity investment above £2 million. Take up from companies was slower than expected for most of 2018/19, despite promotional activity. Dedicated Scottish Investment Bank resources were put in place to focus on more demand stimulation activity across Scottish Enterprise to raise awareness of the funding opportunity and identify pipeline projects. Interaction and engagement with investors was positive throughout the year and this together with the additional work to raise awareness resulted in projects coming forward, but not early enough in the year to contribute to the Growth Funding measure at the anticipated scale. For information, SEGCP delivered £6.12m of equity investment to the first cohort of companies to come through the process towards the end of the 2018/19 financial year, facilitating investment rounds totalling £16.26m. <sup>52</sup>

92. When asked about this in evidence, the Cabinet Secretary said that of the overall £500 million from the Scottish growth scheme, to date, 233 companies have received £149.5 million of investment. <sup>53</sup> He stressed that the fund is demand led and has been adapted over time to seek to suit the needs of businesses:

” there has been some leverage through the scheme, but not as much as we would have hoped. Still, there is plenty of support elsewhere through the different financial products that we have. <sup>54</sup>

93. The Scottish Government announced its intention to create the Scottish Growth Scheme in the 2016 Programme for Government. The Scheme was intended to deliver up to £500 million of investment through a combination of equity, loans and guarantees over 3 years. The Cabinet Secretary described it as 'funding a range of financial interventions aimed at helping SMEs realise their growth and export ambitions.' <sup>55</sup>

94. In supplementary evidence, the Cabinet Secretary confirmed that as of 31 August 2019, the total of £149.5m public and private investment made in 233 companies under the Scheme is made up of £39.8m investment from the public sector and £109.7m from the private sector. The public sector investment consists of £24.1m through Scottish Enterprise, £12.2m in European funding and £3.5m direct from the Scottish Government. <sup>56</sup>

95. The Cabinet Secretary confirmed that the public/private investment breakdown of each component of the Scottish Growth Scheme is as follows:

- Scottish European Growth Co-investment Programme as at 31 August 2019: Scottish Enterprise and European Investment Fund investment of £2.8m each unlocked private sector investment of £9.4m bringing the total investment to £15m invested in five companies;

- Equity investment below £2m – fund closed in October 2018: Scottish Enterprise investment of £18.3m unlocked £10m ERDF and £75.3m from the private sector bringing the total investment to £103.6m invested in 81 companies;
- Fund Managers as at 31 August 2019: Scottish Government investment of £3.4m unlocked £2.2m ERDF and £11.1 private sector investment totalling £16.7m. This funding supported the Scottish Growth Scheme overall by funding five fund managers providing microfinance up to £25k; debt of £25-100k; and equity up to £2m. This funding has supported 127 companies;
- Scottish Loan Scheme as at 31 August 2019: Scottish Enterprise investment of £3m, which has supported 8 companies. The loan scheme's purpose is to provide direct loans therefore there is no match funding from the private sector included in this scheme.<sup>57</sup>

96. The Cabinet Secretary said:

” current uncertainty in the economy has had a major impact on demand for the available funds under the Scottish Growth Scheme from Scottish SMEs.

97. He went on to say that the Scottish Growth Scheme aims to unlock investment for growth and exporting businesses, especially young technology based that would not readily access the capital they need from traditional sources, like banks.<sup>58</sup>

98. The Scottish Government has proposed that the Scottish Investment Bank, currently administered by Scottish Enterprise, be transferred to SNIB; it is also proposed to align the Scottish Growth Scheme and the SME Holding Fund within SNIB.

99. In last year's budget report, the Committee said:

” The Committee is concerned about the lack of progress in committing the money for the Scottish-European Growth Co-investment Programme. With only £0.5 million invested by Scottish Enterprise out of a pot of £10 million, the programme has not been a success to date.

Given the underspend in financial transaction money over the last year, the Committee does not have confidence that Scottish Enterprise will commit the increased funds, consisting of financial transaction money, which largely accounts for its increased budget for the forthcoming year.

The Committee recommends that Scottish Enterprise take urgent action to ensure that this money is spent to benefit the Scottish economy.<sup>59</sup>

**In its consideration of the regional spread of RSA, the Committee noted that consideration is being given to incentivisation for uptake of interventions across the regions. The Committee notes the enterprise agencies' plans to increase their demand stimulation activity, particularly with SNIB offering new opportunities to businesses in the next year. The Committee believes that this is vital work and**

**recommends that sufficient resources are allocated to this activity in the forthcoming budget.**

**The Committee notes that limited progress has been made in allocating the £500 million funding for the Scottish Growth Scheme. Only £39.8 million (and £109.7 million from the private sector) has been invested through the public sector since the fund was announced in 2016. This calls into question whether the Scottish Growth Scheme has the right range of products to meet business demand.**

**The Committee notes that the Scottish Government plans to review all of its financial products.<sup>60</sup> The Committee recommends that the Scottish Government reviews the range of products within the Scottish Growth Scheme and sets out changes required for increasing its uptake. The Committee asks to be kept updated on progress with this work. The Committee also asks the Scottish Government to clarify how it will meet the original £500 million Scottish Growth Fund target over the next two years.**

## **Role of local authorities in stimulating demand**

100. COSLA said that nearly 50% of RSA grants are accessed through the connections made by Business Gateway advisers into the wider support system. They highlighted the importance of sufficient resources for local authorities (including their role in promoting inclusive growth):

” This is why it is vitally important to see enterprise agency financial support in the context of overall Local Government budgets, particularly in light of reduced spend on employability and business support.<sup>61</sup>

101. COSLA urged the Committee to consider the overall local government settlement ‘as fundamental to specific consideration about enterprise agency financial support.’<sup>62</sup>

102. In its report on its Business Support inquiry, the Committee noted the variance in spend on Business Gateway services in different areas across the country and that the spend has not increased in the last decade.<sup>63</sup> In response, COLSA said that this service, along with all council services, has been impacted by the financial crisis of 2008 and subsequent years of austerity and budget cuts.<sup>64</sup> The Scottish Government responded that:

” In the context of respecting local accountability and discretion, we will work with local authorities and Business Gateway to ensure there is adequate transparency and consistency regarding budgets and what is being prioritised in any spending.’<sup>65</sup>

103. The Cabinet Secretary spoke of the importance of the forthcoming single portal in assisting with signposting businesses to the appropriate support. He also confirmed that he is discussing the Committee's recommendations with COSLA:

” The engagement with Business Gateway has been positive so far but, because of the nature of that local government function, I am trying to do things in partnership with it...<sup>66</sup>

**The Committee invites the Scottish Government to consider the evidence from COSLA on the role of local authorities in stimulating demand for enterprise agency products, not least through Business Gateway. The Committee welcomes the update from the Cabinet Secretary and will await a further response from the Scottish Government on how to address the role of Business Gateway as part of the wider economic development system.**

## Risk

104. In some of Committee's previous work, questions have arisen about value for money with RSA, especially where RSA funding has gone to businesses that have subsequently collapsed.<sup>ii</sup>

105. Kaiam was in receipt of a £850,000 RSA grant award and SMAS<sup>iii</sup> project support with an SE contribution of £9,600, matched with £9,600 from the company.<sup>67</sup> At a one-off evidence session with SE the Committee explored the circumstances of the demise of Kaiam whilst it was in receipt of RSA. Issues raised included:

- system of early warning signals or flags that might show early signs that a company is in distress;
- due diligence carried out prior to award of RSA (particularly in relation to a parent company offering guarantees);
- breach of conditions of RSA awards and
- granting awards and conditions attached to fair work (Kaiam did not sign up to the Scottish Business Pledge).<sup>68</sup>

106. SE's new strategy states 'we will embrace change and not be afraid to take calculated risks. And we will celebrate success and learn from our mistakes.'<sup>69</sup> In evidence, Steve Dunlop confirmed SE's ambitions to take risk where necessary; he has invited the Cabinet Secretary to 'reinforce what our risk appetite should be.'<sup>70</sup>

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ii Examples of some larger companies that have recently ceased trading or experienced difficulties and had been in receipt of an RSA grant include: Hutchison Networks, Michelin tyre factory Dundee, Kaiam, Two Sisters Poultry, Havelock International, Bi-Fab, Ferguson Marine Engineering Limited.

iii Scottish Manufacturing Advisory Service

107. The Cabinet Secretary confirmed that he does not think that there is an issue with the appraisal mechanism for RSA. Whilst not every company will be a success, he believes that due diligence is carried out at the time of award.<sup>71</sup>
108. SE highlighted the fact that ‘grants are provided in response to a defined market failure’ which requires ‘an inherent level of risk.’ Funds are clawed back where the conditions of a grant are breached; however SE said:
- ” It is not usually in the best interests of the Scottish economy for SE to force a company into administration to recover grant funding.<sup>72</sup>
109. STUC acknowledged the role of RSA and other grants in securing strategic assets in Scotland’s economy. However, they went on to say that such interventions should be considered in a systematic way:
- ” rather than considering simply what we can give people access to and what sticking plaster we can put on today. That approach could play a large role in an industrial strategy within Scotland.<sup>73</sup>
110. Richard Marsh also believes that it is worth exploring the strategic direction of RSA grants. He acknowledged that by investing in Kaiam SE was seeking to save a large employer ‘in an area that desperately needed jobs’; however he questioned whether RSA was the right tool, given its focus on capital investment and workforce expansion. He went on to say that direct funding for these purposes ‘seems to be a very brave decision if a company is possibly facing cash-flow problems.’<sup>74</sup>
111. In terms of strategic direction, Tony Mackay cited the fabrication industry (in relation to renewables) as one sector that could be proactively supported by the enterprise agencies.<sup>75</sup> Matt Lancashire of SCDI said that consideration must be given to how businesses create wealth which is linked to leadership and management.<sup>76</sup>
112. Audit Scotland’s 2018/19 audit of the Scottish Government Consolidated Accounts recommended that the Scottish Government develop a framework outlining its approach to financial interventions in private companies.<sup>77</sup> The Cabinet Secretary pointed to the economic strategy and NPF which guide the Scottish Government’s activities but argued that when some companies require Government support, ‘an ad hoc financial intervention has been the right thing to do.’<sup>78</sup>

**The Committee accepts that enterprise agencies must take risks in supporting businesses. The conditions attached to RSA mean that it will not be awarded to a failing company, although the company may face challenges whilst in receipt of the funding. In relation to Kaiam, the Committee queried whether warning signs of failure could have been detected earlier. The Committee highlights the need to be vigilant and take action at the earliest opportunity to protect staff.**

## Application process

113. The Committee heard in evidence that the RSA application process can be onerous for businesses. However, it was acknowledged that in awarding substantial sums of public money due diligence must be carried out.
114. SLAED noted that RSA funding applications require a high volume of information and evidence, and some clients have expressed concern around the time required to complete this before funding is released. In this sense, evaluation is more stringent than most SE grants. They said that the process can be ‘daunting’ for SMEs who often require significant support from advisers.<sup>79</sup>
115. Three respondents to the Committee’s online survey successfully applied for RSA and two of these highlighted the challenging application process:
- ” We found this a very difficult process. The form for the financials was a spread sheet which we had to get our chartered accountant to fill in, and he found it very difficult and time consuming to fill in as it used an arcane accounting system. It took a lot of time and expense to fill these forms in. These forms are designed for large companies which have the resources to fill them in, but you do not find in these business areas which qualify for RSA. So, it is a Catch 22 situation which (by accident or design) would mean a low uptake of this scheme.
116. Similarly, Ceramco Ltd, a ceramics company based in Dumbarton, told us of the need for companies to have or hire somebody with RSA experience (otherwise the process is too difficult to navigate), on which basis many SMEs may miss out.<sup>80</sup>
117. SE said that the application and approval process varies depending on the level of funds requested. The larger the investment from SE, the more detailed the diligence process. Work is underway, as part of SE’s digital transformation, to simplify and streamline the grant application process using online channels.<sup>81</sup>

**The Committee notes the evidence that the RSA application process may deter SMEs from applying, or require them to invest in consultancy services to complete the process. We welcome evidence from SE that work is underway to simplify the process and ask SE to provide a timescale for completing this work.**

## Overall enterprise agency direction

118. In June 2019 at an event entitled 'Building Scotland's Future Today' both Scotland's enterprise agencies launched a new vision aimed at helping build a more economically vibrant country. They are planning to enhance collaboration and their strategic plans were devised with the Enterprise and Skills Strategic Board (Strategic Board) and the Scottish Government, with the aim of delivering a shared vision of a more sustainable and inclusive economy.
119. SE's new strategy comes after a year-long review of the agency, led by new Chief Executive Steve Dunlop, who took the helm in 2018. It marks a significant change in direction for the agency. Until now SE's efforts were on supporting a segmented group of businesses and favoured sectors. However, SE now plan on delivering support to all businesses, particularly with a focus on creating more quality jobs and tackling inequalities.
120. HIE's three-year strategy sets out the agency's plans to help improve productivity, equality, wellbeing and sustainability, aiming to build an inclusive rural economy through a place-based approach across all parts of the Highlands and Islands. Included in it is a commitment to grow the working age population by attracting and retaining more young people, as well as aiming to increase incomes and embracing the 'Fair Work First' approach.<sup>82</sup>
121. In evidence, SE explained:
- ” Scottish Enterprise, in focusing on key sectors and key businesses of a certain scale, had disconnected from the rest of the economic community. People were very clear about that. They wanted us back in those places and wanted us to play a full part, whether through a regional economic partnership or through collaborative work.<sup>83</sup>
122. STUC welcomed the change in strategic direction from SE, particularly the shift away from a high growth sector strategy to one focused on supporting the creation of 'quality jobs'. STUC believes that the challenge will be to 'turn positive principles into meaningful change for workers.'<sup>84</sup>

## SE Annual Report performance metrics

123. Scottish Government grant-in-aid to Scottish Enterprise reduced by 20% in real terms between 2008/09 and 2018/19 (this equates to £60.4m using the SPICe deflator). Figures for the most recent financial year, 2018/19, show an underspend of £1.9m. The majority of this (£1.6m) relates to income attributable to the sale of investments made from financial transactions funding and which was subsequently returned to the Scottish Government.<sup>85</sup>
124. During 2018/19 there were 46 'claims wavered or abandoned', loans to companies or equity arrangements that were written-off during the year. These totalled £12.4m (up £4m on the previous year).<sup>iv</sup>
125. SE's 2018-19 Annual Report states that:

” Reflecting on the recommendations from the Enterprise and Skills Review we have been working with partners during 2018/19 to establish a new comprehensive measurement framework that will capture data and evidence across the wider economic development arena in future years. This includes working proactively with our partner Highlands and Islands Enterprise to identify how we best align our measurement and reporting.

126. SE further states that as an interim measure for 2018/19, they have applied a simplified measurement framework, aligned to Scotland’s National Performance Framework (as explored below), and reflecting the drivers of productivity and inclusive, sustainable economy factors set out in the Enterprise and Skills Review. This interim framework is illustrated in the chart below.

Measure Description 2018/19	Result	2018/19
£350m - £400m planned R&D investment	◀▶	£384m
£300m - £350m planned turnover from innovation	▲	£479m
£275m - £325m growth funding raised by supported companies	▼	£225m
£150m - £200m planned business and sector capital asset investment	▲	£570m
6,500 - 8,000 inward investment jobs paying at least the real living wage	▲	9,489
£1.25bn - £1.5bn planned international exports	▲	£1.56bn

Key: ▲ Exceeded; ▶ Achieved; ▼ Not Achieved

127. SE delivered five of the six published targets for 2018/19, with four of those exceeding the target range. The growth funding was the only target not met (discussed above).

## HIE Annual Report performance metrics

128. HIE’s 2018-19 Annual Report states that in 2018-19:

” We approved £54.6m to support 564 new projects representing a total combined investment of £185m. This will deliver well over 1,000 jobs, raise turnover among supported enterprises by nearly £118m, and boost international trade by £46m a year.

129. The chart below shows their key performance measures.<sup>86</sup>

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iv Details of some of the larger write-offs are included in the SE 2018/19 Annual Report. These include: Havelock Europa £3.2m; Burntisland Fabrications £1.5m; MDL 2016 Limited £0.9m

THE MEASURES	THE TARGET	WHAT WE ACHIEVED
Forecast increase in turnover by supported businesses (Year 3)	£80m - £100m	TARGET £117.9m
Forecast increase in international sales by supported businesses and social enterprises.	£30m - £40m	TARGET £46.7m
Jobs supported (created/retained)	700-900 FTEs	TARGET 1,051 FTEs
Fragile jobs supported (created/retained)	125 - 175 FTEs	166.75 FTEs TARGET
Average salary from jobs supported.	£25,000	TARGET £26,487
Increase in turnover in the social economy	£3m - £4.5m	TARGET £4.8m
Turnover generated in social economy by community-owned assets.	£1.5m - 2m	TARGET £3.04m
No of new/improved income-generating assets	25 - 30	25 assets TARGET

130. When asked about meeting all their targets, HIE said:

” With hindsight and in retrospect, we could have set more challenging targets. For future years, we are considering reviewing that as we go through the year. If it looks as if certain targets were not as challenging as they should have been, we would look to enhance them as the year goes on.<sup>87</sup>

## Cairngorm Funicular Railway and HIE budget issues

131. The table below summarises the key financial data for 2018-19 relating to HIE’s involvement in the Cairngorm Funicular Railway.<sup>88</sup>

132. Audit Scotland has prepared the section 22 report to draw to the attention of the Scottish Parliament—

” ...the circumstances related to HIE’s establishment of a subsidiary company, Cairngorm Mountain (Scotland) Ltd (CMSL), to take over the operation of the Cairngorm Mountain ski resort, including the funicular railway. This was in response to the previous operator Cairngorm Mountain Ltd (CML), entering administration in November 2018.<sup>89</sup>

133. The figures in Audit Scotland’s report focus mainly on HIE’s balance sheet as at 31 March 2019. This provides a snapshot of HIE’s financial position, including the impact of its involvement in CMSL, with a focus on the implications for its finances in future.

### Expenditure incurred by HIE during 2018-19 in relation to CMSL

Item	Value	Notes
<b>HIE revenue expenditure</b>		
HIE expenditure on professional legal and accountancy advice associated with establishing CMSL and considering options for the future financial sustainability of the ski resort	£244,000	
HIE estimate of cost of staff time involved in dealing with Cairngorm situation	£262,000	Not an additional cost as staff were already employed by HIE, but an indication of resources devoted to dealing with the Cairngorm situation that could otherwise have been deployed elsewhere
<b>HIE capital expenditure</b>		
HIE purchase of shares in CMSL	£461,000	Impaired to £46,000 in HIE accounts to reflect the lower valuation of CMSL at 31 March 2019 – this impairment has the effect of reducing the value of the shares in HIE's balance sheet
Purchase of snowmaking and snow-spreading equipment	£1,000,000	Approved October 2018
<b>CMSL net expenditure</b>		
Expenditure of CMSL less income generated by CMSL	£561,000	From establishment of CMSL in Dec 2018-end March 2019 (total expenditure of £804,000 less income of £243,000)

134. An overspend of £2.3 million was authorised by Scottish Government during 2018-19 to cover costs relating to Cairngorm Mountain operations (the actual overspend across all HIE's activities was £1.8 million). A similar arrangement is in place for 2019-20.<sup>90</sup>

## Other accounting impacts of CMSL

Item	Value	Notes
Provision for costs of repairing funicular railway	£9.6 million	The amount that has been included in the accounts to recognise HIE's obligation to repair the funicular railway. Costs have not yet been incurred but are likely to be incurred in 2020-21 <sup>[i]</sup>
Valuation of Cairngorm ski resort including snow making equipment	£0.7 million	
Loan from HIE to CMSL to provide working capital	£0.7 million	Impaired by 90% to reflect uncertainty around repayment of loan – this impairment has the effect of reducing the value of the asset in HIE's balance sheet. <sup>91</sup>

135. HIE highlighted a number of financial risks going forward for the organisation:

- Finalisation of the potential backdated VAT liability with HMRC. This figure is not quantified with any certainty;
- Operating losses at CMSL;
- The loss of rental income arising from the sale of the Centre for Health Science (CfHS) was mitigated by profit on disposal in 2019/20 but there will be an ongoing impact;
- Risk regarding the Space Hub Sutherland project due to its novelty and complexity. This risk would essentially encompass delay, costs overrun or 'scope creep';

- The funicular railway at Cairngorm is another risk that is certain to require significant investment. Most of the cost is likely to crystallise in 2020-21. Discussions are ongoing with the Scottish Government regarding funding for this. One potential source of funding is the sale proceeds from the sale of CfHS and
  - Uncertainties associated with Brexit represent a further risk both directly to HIE (in view of HIE's ability to access EU funding in the past) and indirectly given the potential impact on the local economy.<sup>92</sup>
136. In evidence, HIE confirmed that it has access to external expert resources that would supplement its own customer knowledge.<sup>93</sup> HIE quantified this for 2019-20 as follows:
- Cairngorm: HIE has assessed the cost of staffing and external support as £1,629,000 for Cairngorm;
  - Centre for Health Science: HIE has paid professional fees of £32,300 to property consultants for the sale of the Centre for Health Science;
  - Space Hub Sutherland: HIE spend to date is £610k, with a forecast of £1,513,000 for the remainder of the year giving a full year forecast of £2,123,000;
  - VAT: HIE estimated costs of VAT advice and staff costs is c£250k for 2019-20.<sup>94</sup>
137. The proposed Space Hub Sutherland project, which HIE is expected to support with a contribution of £9.8m, was mentioned in the Audit Scotland 2018-19 Annual Audit Report. It stated:
- ” Recent indications are that the costs of the project are increasing, and it is not yet clear how these will be funded. HIE recognises this project is high risk and is in active discussion with key stake holders, including the Scottish Government and the United Kingdom Space Agency.
138. HIE stated that the 2019-20 budget-setting process within HIE was ‘quite challenging in view of the very tight financial settlement.’<sup>95</sup>
139. In supplementary evidence, the Cabinet Secretary for the Rural Economy provided further information on VAT expenditure. In 2017, HMRC reviewed HIE's VAT arrangements and concluded that they should be reviewed and updated. HIE commenced a review and engaged Ernst and Young to provide expert advice in this technically complex area on both the reviewing of their VAT arrangements and in terms of agreeing a settlement with HMRC on any backdated liability which could date back to 1 April 2014. HIE have therefore made a provision for this totalling £4.534m in their accounts.<sup>96</sup>
140. Members were concerned that funds are being diverted from other investments to fund the management of the Cairngorm project. HIE told the Committee that it has retained significant income from the sale of a significant asset (Centre for Health

Science), and they are positive about potentially using that money in addition to their core budget.<sup>97</sup>

141. HIE said that there is a section 50 agreement which means that the funicular, if it is out of operation or ceases to operate for a period and there are no plans to repair it, has to be removed from the hill which has to be reinstated to how it was before the funicular was built. HIE said that currently, the estimated cost of doing that is significantly greater than the cost of repairing the funicular. A final decision on next steps is expected by the end of the year.<sup>98</sup>
142. The Committee wrote to the Cabinet Secretary for the Rural Economy highlighting the risks currently faced by HIE; he responded as follows:

” HIE continue to provide economic development support to the Highlands and Islands region and as outlined in their annual report, they successfully delivered all of their key measures for 2018-19, with six out of eight measures exceeding the target range and successfully supported 1051 FTE jobs to be created or safeguarded in addition to 166.75 FTE jobs in fragile areas. This is in tandem with managing the Spacehub and Cairngorm complex areas of work.

As outlined above HIE recognises the need to devote considerable staffing resource and procure external expertise to ensure that major projects and challenges are managed effectively, and I have assurances from senior management at HIE that they are alert to the risks that this presents.<sup>99</sup>

**The Committee notes that HIE is managing a number of additional risks this year, not least the Cairngorm project. The Committee also notes the additional expenditure associated with managing these risks. The Committee seeks confirmation from the Scottish Government that the costs associated with ongoing management of the Cairngorm project will not impact on HIE's other economic development activities and support for other businesses in the region.**

## Enterprise agency targets

143. In previous budget reports, the Committee has commented that the enterprise agencies created their own targets and assessed their own performance. In last year's budget report, the Committee said that the Strategic Board must ensure that the enterprise agencies set ambitious and stretching targets.<sup>100</sup>
144. SE told the Committee that the enterprise agencies are now working with the strategic board to seek to work to consistent measures.<sup>101</sup> They described this as a work in progress with the Scottish Government's analytical unit now supporting that work, and the enterprise agencies working towards the NPF targets:<sup>102</sup>
- ” ‘In year 1, we did not even have the same definitions for targets as HIE—we measured things in slightly different ways. We decided that we needed to sort that out, getting the basics done first in order to ensure that we were much more consistent in our definitions. The strategic board looked at the targets across the enterprise and skills agencies and challenged us to think very differently.’<sup>103</sup>
145. Similarly, HIE said:
- ” As a result of the Enterprise and Skills Strategic Board work, we are getting closer alignment between the agencies..... It is not a huge impact. In relation to the social community impact and the inclusive growth model that we want to pursue, some of the things that we would like to do as an agency require system changes... That requires adjustment both to information technology and to data collection. It will take a number of years to come through, but that alignment is there.<sup>104</sup>

**The Committee welcomes the role of the Strategic Board in aligning the targets of the enterprise agencies. As set out below, this is a work in progress.**

## Linkages to NPF

146. Measuring the activities of the enterprise agencies against the Scottish Government's budget and intended outcomes has been an ongoing challenge for the Committee.
147. The NPF was developed by the Scottish Government in 2007 and last updated in 2016. It is a tool to support the delivery of the Scottish Government's purpose and priorities and is based on delivering outcomes that improve the quality of life for people in Scotland.
148. In a recent SPICE blog entitled *Linking budget to outcomes: the impossible dream?*, it was argued that linking spend to NPF outcomes is still a challenge:

- ” it is not immediately clear how the [NPF] baseline report, or indeed the new website, supports efforts to identify linkages between budget decisions and outcomes as recommended by the Budget Process Review Group.

Linking budgets to outcomes is notoriously difficult, for who can say that complex social and economic outcomes are ever neatly attributable to any one budget line? However, it should still be possible for parliamentarians to gain an understanding of the *extent* to which a budget line has made a positive contribution to an outcome. After all, budgets buy inputs which should lead to measurable outputs. The effectiveness of these outputs can then be assessed against desired outcomes. <sup>105</sup>

149. Looking at the National Indicators Performance Overview, it is striking that none of the eight indicators relating to the business and fair work show any improvement over the most recent reporting period. Three indicators - the percentage of high growth businesses, the total number of businesses and the percentage of innovation-active businesses - have seen performance worsening, and the living wage and employee voice indicators have both seen little change over recent years despite being the subject of considerable policy focus.
150. STUC noted this lack of improvement and stated that ‘significant focus will need to be placed on these issues in order to move forward with Scotland’s Fair Work and economic development ambitions.’ They said that there should be a focus on fair work in a range of business subsidies to start to address this. <sup>106</sup>
151. As part of our outcome focused budget scrutiny process, it should be possible for the Committee to take a view on the extent to which RSA and other enterprise agency expenditure has contributed to the Scottish Government’s indicators, and the following related National Outcomes:
- We have thriving and innovative businesses, with quality jobs and fair work for everyone.
  - We have a globally competitive, entrepreneurial, inclusive and sustainable economy.
152. In response to the Committee’s budget report last year, the Cabinet Secretary said:

- ” The Strategic Board’s Analytical Unit is developing a measurement framework which will allow the Board to track progress against outcomes and impacts using relevant indicators from the newly refreshed National Performance Framework, and to use the agencies’ management information and existing performance frameworks to shed light on the agencies’ contribution to outcomes and impacts. Importantly, agency level information about inputs, activities and outputs will be aligned with the NPF to ensure that there is a clear understanding of which agency activities contribute to which outcome and consistency in terms of the outcomes which are measured. The Board will then use this information to inform its recommendations on agency targets and priorities. <sup>107</sup>

153. SE told the Committee that they now relate their activity with the NPF. For example, they have headline target measures around jobs, R and D and exports, all of which link to the framework. <sup>108</sup> They said:

- ” economic development is really complex. There is not a magic bullet or a single number; there have to be a plethora of things. What does the dashboard look like over the piece? The national performance framework is probably the right route to follow to see whether shifts are happening in the economy. <sup>109</sup>

**The Committee welcomes the move by the enterprise agencies towards tracking targets of relevance to the NPF. However, it remains challenging for the Committee to assess enterprise agency spend against Scottish Government outcomes. The Committee also notes the lack of progress in relation to NPF fair work and business indicators. <sup>110</sup>**

**The Committee invites the Strategic Board and enterprise agencies to set out how their work on targets will progress to enable meaningful scrutiny of outcomes related to spend.**

## Inclusive growth

### Definition and measurement

154. Inclusive growth is a central plank of the Scottish Government’s economic policy; its inclusive growth priorities are: place and regional cohesion, fair work, the business pledge and promoting equality and tackling inequality. However, the Committee has heard repeatedly that there is no commonly adopted definition of the term.

155. HIE said that the diverse nature of place in Scotland leads to challenges in creating a single definition of inclusive growth:

- ” What inclusive growth feels and looks like in the centre of Glasgow will be different from what it feels and looks like in the Highlands and Islands, where businesses and communities will have different priorities and face different challenges. Similarly, the opportunities that land at their doors will look and feel different.

In Scotland, we share the same concept and we understand what that is, but we need to look at the issue from a particular organisational or regional perspective. It is very important that HIE does that, given our social and community remit. <sup>111</sup>

156. HIE said that inclusive growth evaluation is ‘challenging’ but that they will work with SE:

- ” We have particular targets for fragile areas. We will work with Scottish Enterprise and the emerging south of Scotland enterprise agency on developing the pilot more accurately to measure inclusive growth. <sup>112</sup>

157. SE acknowledged that there is no single measure of inclusive growth. In its new strategic plan document, they said:

- ” we will continue to work closely with our partner agencies, and Highlands & Islands Enterprise in particular, to further align our measurement approaches. For example developing common measures on how to more effectively monitor and evaluate inclusive growth. <sup>113</sup>
158. HIE explained that the enterprise agencies have a range of target measures that relate to matters such as community investments, generating income from assets in communities and average wages. They track the quality of jobs and their salaries. They also look at where the investment is being made. HIE spoke of ‘a strong place-based approach.’:
- ” We are looking not just at the numbers but at where the impact is felt across our region. <sup>114</sup>
159. HIE highlighted that measures alone do not convey the relative impact of interventions in different geographic areas or among groups that are under-represented or facing disadvantage in social or economic terms and therefore do not represent the extent to which investments contribute to inclusive growth. To address this gap, HIE is developing a model through which individual investment options can be compared not only in terms of their economic benefit but also in terms of their contribution to inclusive growth. <sup>115</sup>
160. In last year’s budget report the Committee recommended that the enterprise agencies produce more explicit, measurable inclusive growth targets in future business plans. The Committee made a similar recommendation in its report on Scotland’s Economic Performance. <sup>116</sup>
161. In September 2018, the Scottish Government set out its definition of inclusive growth in its response the economic performance report:
- ” The Scottish Government defines inclusive growth as growth that combines increased prosperity with greater equality, creates opportunities for all, and distributes the dividends of increased prosperity fairly. The Government is committed to creating a shared understanding of both what inclusive growth is, and how it can be achieved. <sup>117</sup>
162. The Cabinet Secretary believes that the definition is clear and that the way in which it is expressed in actions, through the economic action plan, is helpful. <sup>118</sup> However, this definition has not been used by the enterprise agencies in evidence to the Committee.
163. In December 2018, the Scottish Government’s response to the Committee’s budget report stated:
- ” The delivery of sustainable and inclusive growth underpins the business plans of both Scottish Enterprise’s and Highlands and Islands Enterprise. ....The recording of the average salary of jobs supported was introduced in 2016/17 and, in the absence of comprehensive regional statistics, this target provides a useful inclusive growth indicator as it allows Highlands and Islands Enterprise to track the contribution its interventions make to raising average wage earnings across the region.

164. The Committee heard that there was still room for improvement around promoting and measuring inclusive growth. Economist Richard Marsh believed that RSA had the potential to make more of an impact; however he thought that inclusive growth was 'ill-defined and currently not fit to shape policy interventions.' STUC believed that the relationship between inclusive growth and fair work has not sufficiently filtered down to all the agencies. They pointed to the target for Scotland to be a fair work society by 2025 and said that there has been a change in 'policy speak' but there has not been any visible change.<sup>119</sup>

**Inclusive growth is a key plank of the Scottish Government's economic policy. The Committee has previously recommended that a commonly understood definition of inclusive growth is needed so that progress can be properly measured. We welcome the planned work across the enterprise agencies in this area. However, it appears from evidence that there is still no commonly adopted definition being applied across their activities.**

**The Committee recommends that the Strategic Board monitors progress in aligning inclusive growth across the enterprise agencies. The Committee will take evidence from the Board in early 2020 and asks for an update to be provided at that meeting.**

## **Jobs and conditionality**

165. The Scottish Government's Fair Work initiative asks employers to commit to:
- investment in skills and training;
  - no inappropriate use of zero hours contracts (for example using zero hours contracts when people are working regular hours; exclusive contracts that stop flexible workers working for other people);
  - action to tackle the gender pay gap;
  - genuine workforce engagement such as trade union or employee association recognition, and
  - payment of the real living wage.
166. The Scottish Government stated that, in 2019/20, it will test this new approach by attaching fair work criteria to RSA and other large Scottish Enterprise job-related grants. This will focus on grant recipients paying the real living wage, no inappropriate use of zero hours contracts and meeting the legislative requirements to publish information on the gender pay gap.<sup>120</sup>
167. Both agencies said that jobs are key to their work on promoting inclusive growth. SE now aims to secure jobs that pay at least the real living wage but they also monitor high-value jobs:

- ” A quality job is one that pays the real living wage in a company that adopts fair work practices. It is about the sense of being a valued employee. We also use a definition of value-added jobs, such as our research and development jobs. That is a Scottish Government definition, which means salaries of more than £40,000. A quality job is one in which the employee feels valued, and they are earning enough money to live. You can see that right through our strategic framework. <sup>121</sup>
168. The STUC believed that collective bargaining coverage is important as companies might pay the living wage but deny employees other benefits such as subsidies:
- ” We see the collective bargaining coverage element of the national performance framework indicators as a key indicator of how well we are pushing out fair work in Scotland, as it gives the workforce the ability to shape the work, and it gives employers and workers in a sector the ability to make tools that fit the sector rather than simply very blunt instruments that we can sometimes see in other ways. <sup>122</sup>
169. HIE confirmed that just under 65% of the businesses for which they have evidence are paying in excess of the real living wage. <sup>123</sup>
170. It was suggested in evidence that the more conditions that are attached, the less likely companies are to take up an intervention. COSLA said:
- ” We do recognise that there is a fine line between increased conditionality applied to RSA and a point where the desire for inclusivity might mean some viable projects may not be supported but this is a concern to Local Government. These funds are aimed at businesses in assisted areas where even modest growth is important. If the question is survivability of the business and safeguarding of jobs, then it is even more important, and conditionality should not get in the way of common sense. In short, these conditions need to be flexible in the light of local circumstances and not hard and fast rules. <sup>124</sup>
171. However, it was also highlighted by STUC that companies will be attracted to setting up and creating jobs in Scotland due to other factors such as ‘a highly skilled workforce’ and good connectivity. <sup>125</sup>
172. SE told us that the introduction of ‘Fair Work First’ has had no impact on the number of applications, with the figures from the first quarter of 2019/20 being broadly similar to those of 2018/19. They said:
- ” A balance needs to be struck, when considering conditionality, between ensuring that only socially responsible businesses are accessing support and not placing too many barriers in the way of much needed investment. <sup>126</sup>

**The Committee welcomes the introduction of conditionality to the awarding of RSA and other large Scottish Enterprise job-related grants. Consideration should be given to working towards all support for business being contingent on fair work practices such as paying the real living wage. As outlined by SE, experience is that these conditions have not led to a drop in applications for RSA funding.**

## Lack of gender data

173. WES highlighted the value of gender-disaggregated data and the fact that there does not appear to be any gender disaggregation on the ownership of companies receiving the RSA grant. WES believed that this lack of measurement is at odds with the stated sustainable and inclusive growth strategies of the enterprise agencies.<sup>127</sup>
174. WES noted that the absence of gender-disaggregated data in RSA grant disbursement points to a failure to monitor the implementation of the stated inclusive and sustainable growth policies and believes that this calls into question the commitment of the agencies to turn strategy into action.<sup>128</sup>
175. In last year's budget report, the Committee recommended that SE set clear, measurable diversity targets in future business plans.<sup>129</sup> In its response, the Scottish Government said that SE's equality outcome targets are set out in its Equality Mainstreaming Report. The report indicated that gathering this data was delayed due to GDPR considerations.<sup>130</sup>
176. The Committee notes evidence from WES and highlights its previous recommendation on data on female-led businesses, in its gender pay gap inquiry report:
- ” The Committee expresses disappointment in the lack of information given in evidence by Scottish Enterprise on the number of account managed companies run by women, and on the potential economic benefit to Scotland of greater levels of female employment and female entrepreneurship.<sup>131</sup>

**The Committee agrees with WES that the enterprise agencies should gather and publish data on gender disaggregation on the ownership of companies receiving the RSA grant and other enterprise agency funding. We recommend that the enterprise agencies publish this data in their future annual reports.**

## Scottish business pledge

177. The Scottish Business Pledge is a voluntary commitment made by companies in Scotland. Made up of nine components; companies seeking to commit to the Scottish Business Pledge must pay the living wage to all direct employees over 18, be delivering on at least two other elements and be committed to achieving the rest over time (such as committing to prompt payment or investing in youth).<sup>132</sup>
178. As at July 2019, 650 businesses had signed up to the Business Pledge – representing 0.4% of the Scotland's registered business base.<sup>133</sup> In its letter of guidance to the enterprise agencies, the Scottish Government said:

” ‘SE/HIE should have a key role in promoting the Business Pledge, particularly as they understand the benefits it delivers for productivity and competitiveness. SE/HIE should actively promote it to account-managed and, where appropriate, non-relationship managed businesses.’<sup>134</sup>

179. SE told us that Kaiam did not opt to sign up to the pledge, although it met six of the nine characteristics of the pledge in how it operated as a business. SE said:

” Signing up is down to companies. We encourage that, but we do not dictate that companies should do it; we say that it is a welcome thing for them to do, that it presents a positive endorsement of their commitment to Scotland and that it can help to attract staff to work with them.<sup>135</sup>

180. HIE told the Committee that ‘not a huge number of businesses in the Highlands and Islands have adopted the business pledge’; but that they have a business values ladder which reflects many of the aspects of the business pledge and enables them ‘to get a feel for which businesses are adopting fair work practice’:

” We have a business values ladder, against which we plot all our account managed businesses. We plot the fair work practices that the clients whom we account manage have adopted in their businesses, and we plot how those businesses progress up the ladder year on year. Those are the key areas that specifically relate to inclusive growth.<sup>136</sup>

181. HIE confirmed that about 75% of their businesses and social enterprises are currently plotted on the ladder.<sup>137</sup>

182. SE does not have a business values ladder; they explained:

” Highlands and Islands Enterprise has its business values ladder, which takes a values-based approach with things such as social enterprises and workforce and workplace practices. We do not call our approach by the same name, but the HIE ladder is an interesting piece of work that Scottish Enterprise could potentially mirror so that, again, we would be talking in the same language in taking a values based approach to business growth and challenges.<sup>138</sup>

**The Committee notes that SE has introduced conditionality to RSA and other large job-related grant but this does not include a requirement to sign up to the Scottish Business Pledge.**

**It is clear that the Scottish Business Pledge is not gaining traction, despite anecdotal evidence that some companies meet the requirements but do not sign up. The Committee invites the Scottish Government to consider what steps can be taken to increase uptake.**

**The Committee notes that HIE has introduced the business values ladder which seems to mirror the Scottish Business Pledge. Given the low uptake of the**

**Scottish Business Pledge, the Committee questions why a similar product has been launched by HIE. This has the potential to add to the range of terms and products aimed at inclusive growth. As SE has not adopted the business values ladder, it creates a lack of alignment in this area. The Committee seeks a response from the enterprise agencies on how alignment will be achieved in this area.**

## Enterprise agencies and productivity

183. SE's new strategic framework states that 'Scotland's productivity lags most other small advanced economies, reducing the ability of businesses to raise wages'.
184. The Strategic Board has tasked the enterprise and skills agencies with collectively helping Scotland move towards the top quartile of OECD countries for productivity, equality, wellbeing and sustainability.<sup>139</sup>
185. SE's new strategic framework sets out the following activities in relation to productivity:
- Work with more businesses to develop fairer and more progressive workplace practices that will boost productivity;
  - Weak capital investment/low capital stock is impacting on dynamism, productivity, wages and the creation of quality jobs. Thus, SE will focus on stimulating the right kind of demand through compelling local, regional and national investment prospectus and
  - Companies that export tend to be more innovative, productive and competitive and create more, better jobs. Thus, SE will focus on working more intensively with those companies, networks and markets that offer the greatest potential to grow exports from Scotland.<sup>140</sup>
186. HIE's strategy states:
- ” ...increasing productivity is a key priority and challenge across all of Scotland. In the Highlands and Islands it is exacerbated by the nature of our business base and geography, the higher cost of doing business and a lack of company headquarters in the region. The latter masks our real output and contribution to the national economy particularly from our energy and food and drink sectors.<sup>141</sup>
187. The HIE strategy further states that core to its measurement approach are the 'ladders' representing factors recognised as drivers of productivity and growth. These are designed to understand client progress and identify opportunity for intervention. HIE activities targeted at productivity include:
- Developing core business skills with a particular focus on leadership and management capabilities;

- Tailored support and accelerator programmes (e.g. Impact 30, Pathfinder, Elite);
- Increasing demand for, knowledge of and access to finance and investment;
- Working with partners, including SNIB, to develop suitable products, services and support to fill gaps in the market;
- Attracting new inward and financial investment to the region, leveraging public and private sector support;
- Working closely with our foreign direct investors at site and at headquarters to attract expansion and mobile investment and
- Providing specialist support to boost overseas acquisitions. <sup>142</sup>

188. SE told us that companies which invest in capital and undertake research and development tend to be more productive. Kenny Richmond said:

” We look at how all our types of support influence the drivers of productivity so that we ensure that we can make the link between what we are doing and the impact on productivity, which...is really important for driving high-quality jobs, increasing wages. <sup>143</sup>

189. SE is developing a diagnostic tool for productivity but said:

” In the context of the Committee’s inquiry into grant support and RSA, it would not be realistic to expect that one grant product alone could impact on the overall productivity performance of a company, given the many other factors influencing and impacting upon it. <sup>144</sup>

190. SE highlighted the work of the Scottish Manufacturing Advisory Service, which engages manufacturing businesses to improve their productivity through directly helping with efficiency savings and identifying investment opportunities as well as its engagement across business sectors on the digital agenda. <sup>145</sup>

191. HIE spoke of the importance of investment in human capital, particularly in high-level leadership. <sup>146</sup> Matt Lancashire of SCDI said that the RSA plays a role in driving productivity, but it depends where it is invested and in what type of businesses. He spoke of the challenges of an artificial intelligence data company writing a five year plan for RSA when the sector is developing at such pace. <sup>147</sup>

192. Richard Marsh said that SE should publish the productivity of the workforce of a company before, during and after the completion of an RSA project. <sup>148</sup>

193. The Cabinet Secretary said that RSA is aimed primarily at safeguarding jobs but that capital investment should help with productivity by providing machinery, etc. He said that the Committee should look at other support mechanisms too. <sup>149</sup> The Strategic Board has tasked the enterprise agencies to address productivity, including prioritising investment in management and leadership skills.

**The Committee recognises that there are many factors which impact on productivity and that enterprise agency interventions are one piece of the jigsaw. However, given Scotland's productivity challenges, it is important to be able to assess what works in seeking to improve Scotland's productivity.**

**The Committee recommends that the enterprise agencies report on productivity baseline and productivity post-intervention across the support products that they offer to businesses.**

# Evaluation

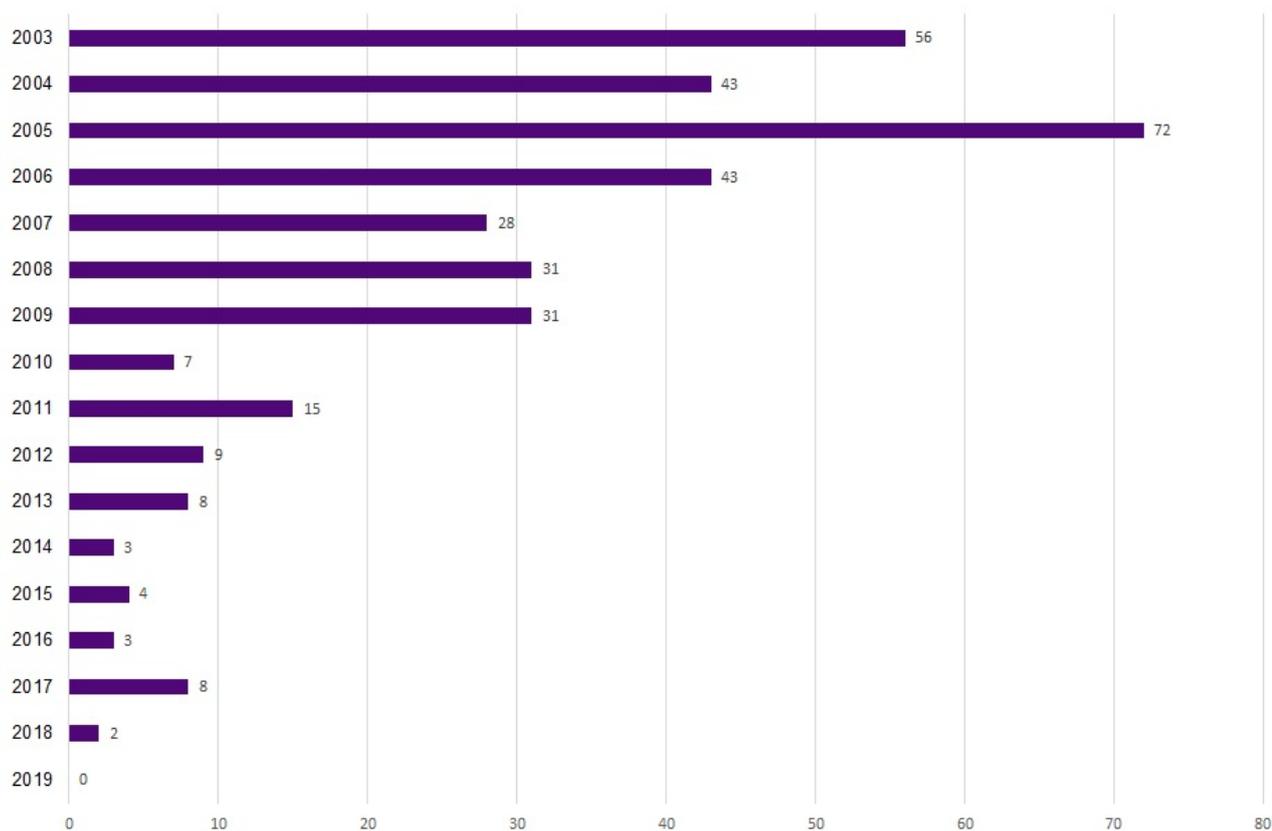
- 194. As part of this inquiry, the Committee was keen to explore how the enterprise agencies evaluate the impact of their interventions.
- 195. There are two broad ways of measuring impact: company surveys and econometric analysis. Econometric analysis evaluates impact by comparing supported companies to similar companies that have not received support using official government statistics. There are issues with both types of evaluation with a risk of respondent bias in surveys. The small sample size in Scotland is also an issue.<sup>150</sup>

## SE evaluation activity

- 196. SE has created detailed guidance that aims to ensure that all economic impact assessments of its interventions are undertaken in a consistent manner. Its approach to appraisal and evaluation focuses on employment and GVA.
- 197. The chart below shows that over the last 17 years, the level of evaluation activity at SE has decreased significantly. Pre-2010 SE was averaging about 40 evaluation reports per annum. From 2010 to present this average has fallen to about five. Over the last five years the average number of publications is three.

### SE evaluation publications 2003-2019 (to date)

#### PUBLISHED SE EVALUATIONS



- 198. SE told the Committee that the reduction in the number of evaluations is due to a shift from specific project evaluation towards evaluations that consider a bundle of

activities (such as exporting support). They do, however, carry out internal process evaluations of individual projects. <sup>151</sup>

## HIE evaluation activity

199. Over the last five years, HIE has commissioned two large thematic evaluations to review support to account managed businesses and community led development. These studies covered extended time periods and were an independent assessment of the ongoing validity of fundamental aspects of HIE's approach. Both studies endorsed HIE's priorities and the methodologies used but also provided recommendations to enhance efficiency and effectiveness. <sup>152</sup>
200. Due to the increasing number of large, complex and long-term projects within its portfolio, HIE is refreshing its approach to benefits realisation and impact measurement. To ensure a consistent approach, the delivery of each transformational project will be supported by a benefits realisation and risk management plan. <sup>153</sup>
201. In addition, HIE is piloting an approach to measurement to capture the long-term gains that result from investment in community assets and sectoral/business infrastructure. This approach will be applied to projects where HIE's engagement is longer-term and investment is effectively a catalyst for further generated development. This includes community assets which provide a valuable income stream and change the stock of productive, human, social and natural capital that is available in an area. <sup>154</sup>
202. In evidence, HIE set out the challenges it faces with evaluation:
- ” We [also] lean a bit more heavily on the qualitative evaluation approach, because of the nature of our region, the lack of statistics and the difficulties in finding control groups and so on. We get a lot of value from that qualitative and cross border work. <sup>155</sup>

## Evaluation of RSA activity

203. Economic Impact Assessments (EIAs) help inform RSA appraisals by providing a range of economic indicators relating to the wider economic impact and benefits of a project relative to the level of grant proposed. This quantification helps to assess the appropriate level of support that should be awarded, ensuring value for money in terms of the ratio of GVA to the grant award. <sup>156</sup>
204. This information allows an estimate of the potential net additional economic impact of the project in terms of:
- gross and net additional employment impact;
  - assessment of gross and net additional GVA impact;

- Impacts relative to value of RSA grant.

205. If a project does not appear to represent good value for money, the appraisals team use the EIA outcomes as leverage to negotiate the scale of the RSA offer. <sup>157</sup>
206. The assessment of the number and type of jobs being created or safeguarded by a RSA project is undertaken at the grant application stage. Projects which are likely to create over-capacity and/or displace jobs from another UK assisted area will not qualify. Similarly, relocation projects will not normally qualify unless relocation involves a significant increase in net employment. During appraisal, SE ensures that jobs created/safeguarded meet fair work policies and procedures and that jobs being safeguarded are proven to be genuinely at risk. <sup>158</sup>

## Limitations on evaluating RSA

207. Evaluating programmes such as RSA can be a challenge. Regional assistance policies are difficult to assess because areas that receive support are different to those that do not. In this case, the policy targets what are classed as more economically deprived areas of the country. Furthermore, firms have to apply for support. This means that firms that chose to apply for the assistance may have been better managed than those that did not.
208. SE's submission notes that some companies receive other support in addition to RSA, adding to the complexity of evaluation:
- ” Measuring the impact of any one particular form of support, such as RSA grants, is challenging as it is rare that a company will receive only a single intervention. Many of the companies in receipt of RSA support (around two thirds of recipients in the last nine years) have been account managed and will likely have received a variety of other support as part of the overall package. Identifying the impact of one element in isolation is difficult and, our evidence shows, it is the total package of support which really drives impact. <sup>159</sup>
209. The Committee discussed difficulties in evaluating the impact of RSA related to the sample size in Scotland and the extent to which an adequate control group can be established when comparing assisted companies with non-assisted companies. SE said that whilst factors such as size and sector are clear, other criteria (such as quality of management skills) are 'less observable'. <sup>160</sup>
210. However, overall, SE is confident that it has been able to measure the monetary and job-related impact of its interventions:
- ” For RSA, we are putting in 30 per cent of the costs at maximum, so we are getting very good private sector leverage of 70 per cent for Scotland's economy. That is very important. The second area is the investment that we are putting in and the outcomes. Some of the evidence that we have shared with the committee shows that we have invested £129 million over the past five years, which has achieved almost £1 billion of capital investment for the areas across Scotland that need it and created more than 16,500 jobs. That is value for money. <sup>161</sup>

211. Richard Marsh also highlighted difficulties in evaluating enterprise agency interventions:

” we are talking about helping companies that face challenges in areas that the market has found it more difficult to invest in. <sup>162</sup>

212. Richard Marsh questioned SE’s previous assertion that for every £1 it invests returns up to £9. <sup>163</sup> In relation to Kaiam, he highlighted that SE had told us that the value of the grant had been ‘recouped fourfold’:

” Claims of a 300% return on investment, after the business ceased trading, should be treated with some caution... Given that the business is no longer trading it is likely that the value of any private sector capital investment will be significantly reduced or perhaps lost. Ideally the losses of other investors should not be treated as a positive economic outcome.

It is important to consider whether a business support product or process was delivered successfully. While the response considers capital leverage and tax revenues it does not address the outcome that should be the primary focus of any form of business support; improving the long-term viability of the business. <sup>164</sup>

213. When asked about the assertions made in relation to returns for its investment, SE explained:

” The figure that we put out was an attempt to answer the question “What is the sum of your parts and what does that rack up to?” <sup>165</sup>

214. SE spoke of the activities that sit below its interventions and monetary outcomes:

” How can we put a figure on brokering relationships, bringing people together, trying to create more impact as a result of bigger projects and so on? That is a challenging thing to do. <sup>166</sup>

215. The Committee notes the comprehensive work being done by the enterprise agencies to evaluate their activities. However, over many years of scrutinising their activities, there have been challenges in understanding what lies beneath the economic outcomes that they report.

216. The Committee acknowledges the challenges and complexities in assessing the impact of economic development activities. However, we believe that economic impact assessment as a tool should be strengthened to support scrutiny by the Parliament and other organisations.

**The Committee acknowledges the complexities involved in evaluating economic development activities. However, the Committee and stakeholders of the enterprise agencies should be able to clearly see and, critically, understand the impact of their spend. We invite the enterprise agencies to consider how this can be addressed.**

# Brexit

217. The Committee asked the enterprise agencies how they were helping businesses prepare for Brexit. Steve Dunlop highlighted the need for a 'full-system' response.  
167
218. HIE confirmed that it is a partner in the 'Prepare for Brexit' website. Their account managers have been discussing key challenges with clients and offering any support for planning for Brexit. The main challenges identified included access to markets and to labour.<sup>168</sup>
219. The Brexit support grant is a Scottish Government-funded grant administered by Scottish Enterprise on behalf of Enterprise and Skills agency partners. The grant is available to all SME VAT registered companies in Scotland, with companies able to apply directly through the 'Prepare for Brexit' website. To date, four companies in the HIE region (plus one pending) have received a Brexit support grant. They said:
- ” In quite a lot of cases, they are using it to access advice to plan for specific aspects of Brexit. In the main, it has been used for advice and support.<sup>169</sup>
220. SE spoke of the response of businesses to the assistance it is offering:
- ” We are seeing that businesses are really beginning to take up that assistance and to be very active in that space. To be honest, we would like them to do more, but they are going in the right direction.<sup>170</sup>
221. In supplementary evidence, the Cabinet Secretary confirmed that the Scottish Government has spent/committed £2.2m to preparing business for Brexit through the Prepare for Brexit campaign over the period 18/19 and 19/20. In addition £1.5m has been allocated for the Brexit Support Grant. This figure does not capture:
- the cost associated with the work of their staff to support companies with Brexit challenges through their normal 'business as usual' activities;
  - cross cutting work to ensure markets function or work on devolved regulation and legislation, transport preparedness and the rural economy.
222. The Cabinet Secretary also confirmed that from 2017 to end-September 2019, the Scottish Government has spent or approved £6.6 million on No Deal-specific preparations; this activity has occurred across all DGs and includes a range of activities including supporting preparation of legislation, supporting UK Government guarantees preparation, and supporting negotiations.<sup>171</sup>
223. The Scottish Government has also requested £52 million from the UK Government's £1 billion operational contingency fund broken down by portfolio, set out in the table below:

Bids are captured in the table: Directorate	Amount (£m)
Health and Sport	18.5
Justice	10.95
Communities and Local Government	8.0
Rural Economy and Connectivity	7.0
Environment, Climate Change and Land Reform	5.1
Finance, Economy and Fair Work	1.68
Government Business and Constitutional Relations	0.54
Transport and Infrastructure	0.21
Corporate Administration	0.11
<b>TOTAL</b>	<b>52.09</b>

The Committee notes the support being provided by the enterprise agencies to businesses to prepare for Brexit. At the time of writing this report, the outcome of Brexit was still to be determined. Once the outcome is clarified, the Committee asks the Scottish Government and the UK Government to provide additional information on how they intend to support businesses in Scotland through the budgetary process. The Committee will keep a watching brief on its impact on businesses in Scotland and on what further support will be needed in the future.<sup>v</sup>

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<sup>v</sup> Dean Lockhart proposed an amendment to paragraph 250 of the draft report (recommendation after paragraph 223 of the final report). The original paragraph read as follows: 'The Committee notes the support being provided by the enterprise agencies to businesses to prepare for Brexit. At the time of writing this report, the outcome of Brexit was still to be determined. The Committee will keep a watching brief on its impact on businesses in Scotland and on what further support will be needed in the future.' Dean Lockhart proposed inserting the following after the second sentence of the paragraph: 'Once the outcome is clarified, the Committee asks the Scottish Government and the UK Government to provide additional information on how they intend to support businesses in Scotland through the budgetary process.' The proposal was agreed to by division: For 4 (Jackie Baillie, Jamie Halcro Johnston, Gordon Lindhurst, Dean Lockhart), Against 4 (Colin Beattie, Willie Coffey, Richard Lyle, Gordon MacDonald). The proposal was agreed on the casting vote.

# Annexe A: Minutes

Extracts from the minutes of the Economy, Energy and Fair Work Committee and associated written and supplementary evidence

## Minutes of Meetings

### 16th Meeting, Tuesday 14 May 2019

**Pre-Budget Scrutiny (in private):** The Committee considered its approach to pre-budget scrutiny and agreed to consider further.

### 24th Meeting, Tuesday 10 September 2019

**5. Pre-Budget Scrutiny:** The Committee took evidence as part of its pre-budget scrutiny from—

- Lorna Gregson-MacLeod, Head of Planning and Partnerships, and Rachel Hunter, Director of Service Delivery, Highlands and Islands Enterprise;
- Kenny Richmond, Head of Insight and Economics, and Dr Wendy Hanson, Team Leader, Grant Appraisal, Scottish Enterprise.

**7. Pre-Budget Scrutiny (in private):** The Committee considered the evidence heard at today's meeting.

### 25th Meeting, Tuesday 17 September 2019

**4. Pre-Budget Scrutiny:** The Committee took evidence as part of its Pre-Budget Scrutiny from—

- Helen Martin, Assistant General Secretary, Scottish Trades Union Congress;
- Matt Lancashire, Director of Policy and Public Affairs, SCDI;
- Richard Marsh, Director, 4-Consulting;
- Tony Mackay, Economist, Mackay Consultants.

### 26th Meeting, Tuesday 24 September 2019

**4. Pre-Budget Scrutiny:** The Committee took evidence as part of its Pre-Budget Scrutiny from—

Carroll Buxton, Interim Chief Executive, Nick Kenton, Director of Finance and Corporate Services, and Sandra Dunbar, Director of Business Improvement and Internal Audit, Highlands and Islands Enterprise;

Steve Dunlop, Chief Executive, Linda Hanna, Managing Director, Strategy and Sectors, Douglas Colquhoun, Director of Finance, and Jane Martin, Managing Director, Business Services and Advice, Scottish Enterprise.

**5. Pre-Budget Scrutiny (in private):** The Committee considered the evidence heard at today's meeting.

## 27th Meeting, Tuesday 1 October 2019

**2. Pre-Budget Scrutiny:** The Committee took evidence as part of its Pre-Budget Scrutiny from—

Derek Mackay, Cabinet Secretary for Finance, Economy and Fair Work, and Richard Rollison, Interim Director of Economic Development, Scottish Government.

**5. Pre-Budget Scrutiny (in private):** The Committee considered the evidence heard at today's meeting.

## 28th Meeting, Tuesday 8 October 2019

**Pre-Budget Scrutiny (in private):** The Committee considered a draft report on its Pre-Budget Scrutiny; various changes were agreed to, and the Committee agreed to consider a revised draft in private at a future meeting.

## 29th Meeting, Tuesday 29 October 2019

**Pre-Budget Scrutiny (in private):** The Committee considered a draft report. A number of changes were agreed (one by division). See full note below.

**Record of division in private:** Dean Lockhart proposed an amendment to paragraph 250 of the draft report (recommendation after paragraph 223 of the final report). The original paragraph read as follows:

'The Committee notes the support being provided by the enterprise agencies to businesses to prepare for Brexit. At the time of writing this report, the outcome of Brexit was still to be determined. The Committee will keep a watching brief on its impact on businesses in Scotland and on what further support will be needed in the future.'

Dean Lockhart proposed inserting the following after the second sentence of the paragraph:

'Once the outcome is clarified, the Committee asks the Scottish Government and the UK Government to provide additional information on how they intend to support businesses in Scotland through the budgetary process.'

Dean Lockhart's proposal was agreed to by division: For 4 (Jackie Baillie, Jamie Halcro Johnston, Gordon Lindhurst, Dean Lockhart), Against 4 (Colin Beattie, Willie Coffey, Richard Lyle, Gordon MacDonald). The proposal was agreed to on the casting vote.

## Written Evidence

Written Submissions to the [Call for Views](#)

- [Scottish Local Authorities Economic Development](#)
- [West of Scotland European Forum](#)
- [Aberdeenshire Council](#)
- [Industrial Communities Alliance Scotland](#)
- [COSLA](#)

- [COSLA's submission to Local Government and Communities Committee](#)
- [Women's Enterprise Scotland](#)
- [STUC](#)
- [4-Consulting](#)
- [Gilmour Aitken](#)

### **Written statements from the enterprise agencies**

The Committee wrote to Scottish Enterprise and Highlands and Islands Enterprise on 20 June 2019.

- [Letter to Scottish Enterprise](#)
- [Letter to Highlands and Islands Enterprise](#)
- [Scottish Enterprise](#)
- [Scottish Enterprise Regional Selective Assistance](#)
- [Highlands and Islands Enterprise](#)

### **Supplementary Evidence from Enterprise Agencies**

- [Scottish Enterprise](#)
- [Scottish Enterprise - Additional Evidence](#)
- [Scottish Enterprise - Supplementary Evidence](#)
- [RSA: Rejections and Withdrawals](#)
- [Highlands and Islands Enterprise](#)

The Committee wrote to Scottish Enterprise on 25 September 2019 seeking additional information on regional selective assistance. Scottish Enterprise provided additional evidence on 26 September and Steve Dunlop responded on 30 September.

- [Letter to Steve Dunlop, Chief Executive, Scottish Enterprise](#)
- [Scottish Enterprise - Regional Selective Assistance](#)
- [Letter from Steve Dunlop, Chief Executive, Scottish Enterprise](#)
- [Aim of the RSA Scheme](#)

### **Supplementary Evidence from the Scottish Government**

On 8 October the Cabinet Secretary for Finance, Economy and Fair Work provided additional evidence.

- [Letter from the Cabinet Secretary](#)

On 22 October Cabinet Secretary for Finance, Economy and Fair Work wrote to the Committee regarding the Scottish Growth Scheme.

- [Scottish Growth Scheme Letter](#)

### **Correspondence**

On 2 October the Committee wrote to the Cabinet Secretary for Rural Economy. The Cabinet Secretary responded on 7 October.

- [Letter to Fergus Ewing](#)
- [Fergus Ewing's response](#)

### **Committee Visits**

On 6 September 2019, a Committee member visited JK Thomson.

- [Note of meeting with JK Thomson](#)

On 16 September 2019, a Committee member visited Ceramco Ltd.

- [Note of meeting with Ceramco](#)

## Annexe B: Tables of information

### OFFERS ACCEPTED (by number of project)

LOCAL AUTHORITY	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015
Aberdeenshire	1	1		1	2
Aberdeen City	1	1		1	2
Angus	1	1		1	2
Argyll & Bute					1
Clackmannanshire					1
Dumfries & Galloway		5	2	1	
Dundee City	4	1	3	2	10
East Ayrshire		3	1	2	4
East Dunbartonshire					1
East Lothian	6	2			
East Renfrewshire					
Edinburgh City of	4	2	4	2	3
Falkirk	1	2	1	3	9
Fife	10	6	5	6	13
Glasgow City	12	21	15	17	18
Highland					1
Inverclyde				2	
Midlothian		1	3	1	1
Moray					1
North Ayrshire	3	4		4	6
North Lanarkshire	6	6	8	6	7
Orkney					
Perth & Kinross	3		2	1	
Renfrewshire		4	2	1	13
Scottish Borders	2	2	2	2	3
Shetland Islands					1
South Ayrshire	4	3	3	1	4
South Lanarkshire	4	6	5	6	10
Stirling	4	2	4	1	2
West Dunbartonshire	2	1	2	1	4
West Lothian	1	1	3	4	1
Western Isles					
<b>TOTALS</b>	<b>69</b>	<b>75</b>	<b>65</b>	<b>66</b>	<b>120</b>

## **GRANT - ACCEPTED OFFERS (£000s)**

<b>LOCAL AUTHORITY</b>	<b>2018/2019</b>	<b>2017/2018</b>	<b>2016/2017</b>	<b>2015/2016</b>	<b>2014/2015</b>
<b>Aberdeenshire</b>	97	370		34	2,000
<b>Aberdeen City</b>	375	400		30	215
<b>Angus</b>	250	50		70	90
<b>Argyll &amp; Bute</b>					375
<b>Clackmannanshire</b>					20
<b>Dumfries &amp; Galloway</b>		330	300	1,500	
<b>Dundee City</b>	630	250	800	1,190	2,420
<b>East Ayrshire</b>		495	42	230	1,370
<b>East Dunbartonshire</b>					500
<b>East Lothian</b>	1,611	149			
<b>East Renfrewshire</b>					
<b>Edinburgh City of</b>	2,480	169	446	700	341
<b>Falkirk</b>	220	141	150	317	1,035
<b>Fife</b>	2,527	930	705	935	9,919
<b>Glasgow City</b>	11,540	5,070	6,735	6,546	13,594
<b>Highland</b>					490
<b>Inverclyde</b>				1,709	
<b>Midlothian</b>		480	430	170	90
<b>Moray</b>					200
<b>North Ayrshire</b>	430	558		841	2,330
<b>North Lanarkshire</b>	1,187	1,170	1,376	1,004	1,573
<b>Orkney</b>					
<b>Perth &amp; Kinross</b>	190		85	35	
<b>Renfrewshire</b>		362	240	90	5,743
<b>Scottish Borders</b>	204	118	233	161	375
<b>Shetland Islands</b>					125
<b>South Ayrshire</b>	500	440	2,370	250	1,270
<b>South Lanarkshire</b>	938	1,799	745	955	2,577
<b>Stirling</b>	720	185	768	90	80
<b>West Dunbartonshire</b>	345	100	310	200	480
<b>West Lothian</b>	225	150	182	525	220
<b>Western Isles</b>					
<b>TOTALS</b>	<b>£24.468m</b>	<b>£13.715m</b>	<b>£15.917m</b>	<b>£17.582m</b>	<b>£47.432m</b>

## **PLANNED CAPITAL EXPENDITURE (at offer) (£000s)**

<b>LOCAL AUTHORITY</b>	<b>2018/2019</b>	<b>2017/2018</b>	<b>2016/2017</b>	<b>2015/2016</b>	<b>2014/2015</b>
<b>Aberdeenshire</b>	489	3,733		171	30,130
<b>Aberdeen City</b>	1,067	315		167	30
<b>Angus</b>	1,250	250		306	764
<b>Argyll &amp; Bute</b>					2,520
<b>Clackmannanshire</b>					107
<b>Dumfries &amp; Galloway</b>		2,557	1,451	28,000	
<b>Dundee City</b>	3,577	1,490	3,553	13,366	14
<b>East Ayrshire</b>		2,984	141	969	869
<b>East Dunbartonshire</b>					2,988
<b>East Lothian</b>	3,731	803			
<b>East Renfrewshire</b>					
<b>Edinburgh City of</b>	713	578	385	137	109
<b>Falkirk</b>	2,421	600	941	1,325	6,485
<b>Fife</b>	16,636	5,623	3,339	5,628	105,221
<b>Glasgow City</b>	256,954	4,910	7,732	14,120	91,007
<b>Highland</b>					2,296
<b>Inverclyde</b>				16,753	
<b>Midlothian</b>		2,100	982	574	325
<b>Moray</b>					100
<b>North Ayrshire</b>	1,254	914		4,879	25,112
<b>North Lanarkshire</b>	6,766	2,690	5,458	5,781	7,698
<b>Orkney</b>					
<b>Perth &amp; Kinross</b>	1,153		854	285	
<b>Renfrewshire</b>		1,135	950	132	10,332
<b>Scottish Borders</b>	991	556	1,144	599	736
<b>Shetland Islands</b>					1,019
<b>South Ayrshire</b>	1,567	1,646	2,073	4,127	13,299
<b>South Lanarkshire</b>	5,288	10,858	3,052	5,334	20,954
<b>Stirling</b>	10,750	534	2,831	454	647
<b>West Dunbartonshire</b>	426	400	595	30	2,995
<b>West Lothian</b>	1,342	50	1,232	1,197	2,206
<b>Western Isles</b>					
<b>TOTALS</b>	<b>£316.374m</b>	<b>£44,726m</b>	<b>£36,712m</b>	<b>£104,334m</b>	<b>£327,963m</b>

## **PLANNED JOBS**

<b>LOCAL AUTHORITY</b>	<b>2018/2019</b>	<b>2017/2018</b>	<b>2016/2017</b>	<b>2015/2016</b>	<b>2014/2015</b>
<b>Aberdeenshire</b>	9	35		4	180
<b>Aberdeen City</b>	30	35		3	20
<b>Angus</b>	25	6		7	24
<b>Argyll &amp; Bute</b>					44
<b>Clackmannanshire</b>					3
<b>Dumfries &amp; Galloway</b>		32	25	100	
<b>Dundee City</b>	104	61	94	73	592
<b>East Ayrshire</b>		190	5	33	413
<b>East Dunbartonshire</b>					39
<b>East Lothian</b>	162	19			
<b>East Renfrewshire</b>					
<b>Edinburgh City of</b>	162	17	56	66	35
<b>Falkirk</b>	35	14	10	28	150
<b>Fife</b>	253	85	69	110	1,084
<b>Glasgow City</b>	1,087	662	648	754	1,665
<b>Highland</b>					36
<b>Inverclyde</b>				198	
<b>Midlothian</b>		38	47	28	10
<b>Moray</b>					28
<b>North Ayrshire</b>	72	68		86	143
<b>North Lanarkshire</b>	102	22	127	101	155
<b>Orkney</b>					
<b>Perth &amp; Kinross</b>	21		15	5	
<b>Renfrewshire</b>		43	35	8	914
<b>Scottish Borders</b>	16	15	28	22	41
<b>Shetland Islands</b>					9
<b>South Ayrshire</b>	72	60	120	38	119
<b>South Lanarkshire</b>	131	167	71	110	465
<b>Stirling</b>	65	22	95	9	10
<b>West Dunbartonshire</b>	54	10	121	24	58
<b>West Lothian</b>	36	17	21	68	31
<b>Western Isles</b>					
<b>Total</b>	<b>2,436</b>	<b>1,618</b>	<b>1,587</b>	<b>1,875</b>	<b>6,268</b>

**NOTE:** The reporting system used for this analysis is a LIVE system and updates are made on a daily basis. As individual projects are updated during their lifetime (for example job numbers, offer amounts and capex), these changes are reflected in the latest report produced here. Thus, variations may appear in the annual totals presented in these tables when compared to the published annual totals captured on 1 April of the individual FYs.

**TOTAL REJECTIONS AND WITHDRAWALS OVER 5 YEAR PERIOD 2014/  
 15 - 2018/19**

LOCAL AUTHORITY	REJECTIONS	WITHDRAWALS
Aberdeen City		3
Aberdeenshire	2	
Angus	1	
Argyll & Bute		1
Clackmannanshire		
Dumfries & Galloway		1
Dundee City		4
East Ayrshire		1
East Dunbartonshire		
East Lothian		1
Edinburgh, City of		2
Falkirk		1
Fife	3	4
Forth Valley		
Glasgow City	5	8
Highland		1
Inverclyde		1
Midlothian		2
Moray		
North Ayrshire		1
North Lanarkshire	1	2
Orkney		
Perth & Kinross	1	
Renfrewshire	2	3
Scottish Borders	2	1
Shetland Islands		
South Ayrshire		1
South Lanarkshire	1	3
Stirling		
West Dunbartonshire		3
West Lothian	1	1
Western Isles		
Project location tbc at time of appraisal	13	18
<b>TOTALS</b>	<b>32</b>	<b>63</b>

- 1 <https://www.parliament.scot/parliamentarybusiness/CurrentCommittees/100930.aspx>
- 2 Economy, Energy and Fair Work Committee, Official Report, 2 October 2019, col 2
- 3 Economy, Energy and Fair Work Committee, Official Report, 2 October 2019, cols 2-3
- 4 Economy, Energy and Fair Work Committee, Official Report, 2 October 2019, col 8
- 5 Economy, Energy and Fair Work Committee, Official Report, 2 October 2019, col 13
- 6 <https://www.scottish-enterprise.com/support-for-businesses/funding-and-grants/growing-your-business/regional-selective-assistance-grant>
- 7 <https://www.scottish-enterprise.com/media/3109/scottish-enterprise-building-scotlands-future-today.pdf>
- 8 Written evidence
- 9 Economy, Energy and Fair Work Committee, Official Report, 17 September 2019, col 35
- 10 Written evidence
- 11 Written evidence
- 12 Written evidence
- 13 Written evidence
- 14 Written evidence and EEFW Committee, Official Report 17 September 2019, col 54
- 15 Visit note
- 16 Written evidence
- 17 Written evidence
- 18 EEFW Committee Official Report, 24 September 2019, col 23
- 19 EEFW Committee Official Report, 10 September, col 47
- 20 EEFW Committee Official Report, 17 September 2019, col 45
- 21 EEFW Committee, Official Report, 10 September, col 42
- 22 EEFW Committee, Official Report, 17 September 2019, col 32
- 23 Supplementary written evidence
- 24 Written evidence
- 25 EEFW Committee, Official Report, 24 September 2019, col 22
- 26 EEFW Committee, Official Report, 24 September 2019, col 22
- 27 EEFW Committee, Official Report, 17 September 2019, col 32

- 28 EEFW Committee, Official Report, 17 September 2019, col 32
- 29 EEFW Committee, Official Report, 17 September 2019, col 44
- 30 EEFW Committee, Official Report, 17 September 2019, col 45
- 31 <https://www.gov.scot/publications/scotlands-economic-strategy/>
- 32 <https://www.scottish-enterprise.com/media/3109/scottish-enterprise-building-scotlands-future-today.pdf>
- 33 EEFW Committee, Official Report, 24 September 2019, col 6
- 34 EEFW Committee, Official Report, 1 October 2019, col 7
- 35 Supplementary written evidence
- 36 EEFW Committee, Official Report, 1 October 2019, cols 4-6
- 37 Written evidence
- 38 Written evidence
- 39 Written evidence
- 40 Written evidence
- 41 Written evidence
- 42 Written evidence
- 43 Written evidence
- 44 Written evidence
- 45 EEFW Committee, Official Report, 10 September 2019, col 55
- 46 EEFW Committee, Official Report, 24 September 2019, col 30
- 47 EEFW Committee, Official Report, 24 September 2019, col 17
- 48 EEFW Committee, Official Report, 17 September 2019, col 33
- 49 EEFW Committee, Official Report, 1 October 2019, col 13
- 50 [https://www.parliament.scot/S5\\_EconomyJobsFairWork/Inquiries/20191008-CabSecFEFW-Budget.pdf](https://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/20191008-CabSecFEFW-Budget.pdf)
- 51 SE/SIB submission on the SNIB bill
- 52 SE Annual report and accounts, March 2019
- 53 EEFW Committee, Official Report, 1 October 2019, cols 22-23
- 54 EEFW Committee, Official Report, 1 October 2019, col 24

- 55 [https://www.gov.scot/publications/plan-scotland-scottish-governments-programme-scotland-2016-17https://www.parliament.scot/S5\\_EconomyJobsFairWork/Inquiries/20190614-CabSecFEFW.pdf](https://www.gov.scot/publications/plan-scotland-scottish-governments-programme-scotland-2016-17https://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/20190614-CabSecFEFW.pdf)
- 56 [https://www.parliament.scot/S5\\_EconomyJobsFairWork/Inquiries/20191008-CabSecFEFW-Budget.pdf](https://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/20191008-CabSecFEFW-Budget.pdf)
- 57 [https://www.parliament.scot/S5\\_EconomyJobsFairWork/Inquiries/20191022-CabSecFEFW-ScottishGrowthScheme.pdf](https://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/20191022-CabSecFEFW-ScottishGrowthScheme.pdf)
- 58 [https://www.parliament.scot/S5\\_EconomyJobsFairWork/Inquiries/20191022-CabSecFEFW-ScottishGrowthScheme.pdf](https://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/20191022-CabSecFEFW-ScottishGrowthScheme.pdf)
- 59 EEFW Committee, Pre-budget scrutiny report, 31 October 2018
- 60 EEFW Committee, Official Report, 1 October 2019, col 8
- 61 Written evidence
- 62 Written evidence
- 63 [https://sp-bpr-en-prod-cdnep.azureedge.net/published/EEFW/2019/2/20/Business-Support-1/EEFW052019R02Rev.pdf\[2\]](https://sp-bpr-en-prod-cdnep.azureedge.net/published/EEFW/2019/2/20/Business-Support-1/EEFW052019R02Rev.pdf[2])
- 64 [https://www.parliament.scot/S5\\_EconomyJobsFairWork/Inquiries/20190503-COSLA\\_Response.pdf](https://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/20190503-COSLA_Response.pdf)
- 65 [https://www.parliament.scot/S5\\_EconomyJobsFairWork/Inquiries/20190418-Scottish\\_Gov\\_Response.pdf](https://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/20190418-Scottish_Gov_Response.pdf)
- 66 EEFW Committee, Official Report, 1 October 2019, col 21
- 67 outlined in supplementary written evidence from Scottish Enterprise - ([https://www.parliament.scot/S5\\_EconomyJobsFairWork/Inquiries/20190125-Scottish\\_Enterprise-Kaiam.pdf](https://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/20190125-Scottish_Enterprise-Kaiam.pdf))
- 68 EEFW Committee, Official Report, 15 January 2019
- 69 SE strategic framework, 2019-22
- 70 EEFW Committee, Official Report, 24 September 2019, col 33
- 71 EEFW Committee, Official Report, 1 October 2019, cols 7 and 9
- 72 Written evidence
- 73 EEFW Committee, Official Report, 17 September 2019, cols 38 and 40
- 74 EEFW Committee, Official Report, 17 September 2019, cols 39 and 40 and written evidence
- 75 EEFW Committee, Official Report, 17 September 2019, cols 40-41
- 76 EEFW Committee, Official Report, 17 September 2019, cols 39

- 77 [https://www.audit-scotland.gov.uk/uploads/docs/report/2019/s22\\_190926\\_scottish\\_gov.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/s22_190926_scottish_gov.pdf)
- 78 EEFW Committee, Official Report, 1 October 2019, cols 17-18
- 79 Written evidence
- 80 Visit note
- 81 Written evidence
- 82 HIE 2019-22 strategy
- 83 EEFW Committee, Official Report, 24 September 2019, col 28
- 84 Written evidence
- 85 SE Annual Report and Accounts, year ending 31 March 2019
- 86 HIE 2018-19 Annual Report
- 87 EEFW Committee, Official Report, 24 September 2019, col 4
- 88 Highlands and Islands Enterprise Annual Report and Accounts 2018/19; Audit Scotland: Highlands and Islands Enterprise Annual Audit Report 2018/19; Audit Scotland s22 report: The 2018/19 audit of Highlands and Islands Enterprise (Cairngorm mountain and funicular railway)
- 89 2018/19 Audit of HIE: Cairngorm mountain and funicular railway
- 90 2018/19 Audit of HIE: Cairngorm mountain and funicular railway
- 91 HIE Annual Report and Accounts 2018-19
- 92 HIE Annual Report and Accounts 2018-19
- 93 EEFW Committee, Official Report, 24 September 2019, col 15
- 94 Supplementary written evidence
- 95 HIE Annual report and Accounts 2018-19
- 96 [https://www.parliament.scot/S5\\_EconomyJobsFairWork/Inquiries/20191007-CabSec-RE.pdf](https://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/20191007-CabSec-RE.pdf)
- 97 EEFW Committee, Official Report, 24 September 2019, col 11
- 98 EEFW Committee, Official Report, 24 September 2019, col 12
- 99 Letter from the Cabinet Secretary for Rural Affairs
- 100 Pre-budget scrutiny report, 31 October 2018
- 101 Pre-budget scrutiny report, 31 October 2018
- 102 EEFW Committee, 10 September 2019, cols 38-40

- 103 EEFW Committee, 24 September 2019, cols 42-43
- 104 EEFW Committee, 10 September 2019, cols 38-39
- 105 <https://spice-spotlight.scot/2019/06/07/linking-budgets-to-outcomes-the-impossible-dream/>
- 106 Written evidence and EEFW Committee, Official Report, 17 September 2019, col 34
- 107 SG response to the Pre-budget scrutiny report, 19 December 2018
- 108 EEFW Committee, Official Report, 10 September 2019, col 38
- 109 EEFW Committee, 10 September 2019, col 38 and 24 September 2019, col 39
- 110 <https://nationalperformance.gov.scot/measuring-progress/national-indicator-performance>
- 111 EEFW Committee, Official Report, 10 September 2019, col 54
- 112 EEFW Committee, Official Report, 10 September 2019, cols 39 and 44
- 113 <https://www.scottish-enterprise.com/media/3109/scottish-enterprise-building-scotlands-future-today.pdf>; EEFW Committee, Official Report, 10 September 2019, col 39
- 114 EEFW Committee, Official Report, 10 September 2019, col 39
- 115 HIE 2019-22 Strategy
- 116 The Committee notes that the Scottish Government is developing an inclusive growth framework and we call on the Scottish Government to promote a consistent, commonly held and settled definition. The enterprise and skills agencies should be working from the same understanding of inclusive growth and this should be reflected in their operational plans. (Pre-budget scrutiny report, 31 October 2018 and Scotland's Economic Performance Report, 21 June 2018)
- 117 [https://www.parliament.scot/S5\\_EconomyJobsFairWork/Inquiries/20180903-Scottish\\_Government-Response.pdf](https://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/20180903-Scottish_Government-Response.pdf)
- 118 EEFW Committee, Official Report, 1 October 2019, col 19
- 119 <https://economicactionplan.mygov.scot/fair-work/> and EEFW Committee Official Report, 17 September 2019, cols 36 and 50
- 120 <https://economicactionplan.mygov.scot/fair-work/fair-work-first/>
- 121 EEFW Committee, Official Report, 24 September 2019, col 25
- 122 EEFW Committee, Official Report, 17 September 2019, col 35
- 123 EEFW Committee, Official report, 24 September 2019, col 5
- 124 Written evidence
- 125 EEFW Committee, Official Report, 17 September 2019, col 36

- 126 Written evidence
- 127 Written evidence
- 128 Written evidence
- 129 Pre-budget scrutiny report, 31 October 2018
- 130 <https://www.scottish-enterprise.com/media/2972/se-equality-mainstreaming-report.pdf>
- 131 [https://www.parliament.scot/S5\\_EconomyJobsFairWork/Reports/EJFWS052017R06.pdf](https://www.parliament.scot/S5_EconomyJobsFairWork/Reports/EJFWS052017R06.pdf) (para 203)
- 132 There are nine components to the business pledge: Pay the Living Wage, Not using exploitative zero hours contracts, Supporting progressive workforce engagement, Investing in youth, Making progress on diversity and gender balance, Committing to an innovation programme, Pursuing international business opportunities, Playing an active role in the community, Committing to prompt payment
- 133 <https://scottishbusinesspledge.scot/information/scottish-business-pledge-statistical-overview-april-2019/>
- 134 Scottish Government letters of guidance to SE and HIE 2019-20: <https://www.scottish-enterprise.com/media/3116/correspondence-from-cabinet-secretary-from-finance-economy-and-fair-work-02-july-2019.pdf>; <http://www.hie.co.uk/about-hie/what-we-do.html>
- 135 EEFW Committee, Official Report, 15 January 2019, cols 31 and 32
- 136 EEFW Committee, Official Report, 24 September 2019, col 5
- 137 Enterprise and Skills Board Strategic Plan
- 138 EEFW Committee, Official Report, 24 September 2019, col 43
- 139 Enterprise and Skills Strategic Board: Strategic Plan: <https://www.gov.scot/publications/working-collaboratively-better-scotland/>
- 140 SE 2019/20 Operating Plan
- 141 HIE 2019-22 Strategy
- 142 HIE 2019-22 Strategy
- 143 EEFW Committee, Official Report, 10 September 2019, col 52
- 144 Supplementary written evidence
- 145 Supplementary written evidence
- 146 EEFW Committee, Official Report, 10 September 2019, col 52
- 147 EEFW Committee, Official Report, 17 September 2019, col 42
- 148 EEFW Committee, Official Report, 17 September 2019, col 43

- 149 EEFW Committee, Official Report, 1 October 2019, cols 9-10
- 150 Written evidence
- 151 EEFW Committee, Official Report, 10 September 2019, col 37
- 152 Written evidence
- 153 Written evidence
- 154 Written evidence
- 155 EEFW Committee, Official Report, 10 September 2019, col 35
- 156 Written evidence
- 157 Written evidence
- 158 Written evidence
- 159 Written submission
- 160 EEFW Committee, Official Report, 10 September 2019, col 49
- 161 EEFW Committee, Official Report, 24 September 2019, col 23
- 162 EEFW Committee, Official Report, 17 September 2019, cols 43-44
- 163 EEFW Committee, Official Report, 17 September 2019, col 47
- 164 Written evidence
- 165 EEFW Committee, Official Report, 24 September 2019, col 39
- 166 EEFW Committee, Official Report, 24 September 2019, col 39
- 167 EEFW Committee, Official Report, 24 September 2019, col 35
- 168 EEFW Committee, Official Report, 24 September 2019, col 8
- 169 EEFW Committee, Official Report, 24 September 2019, col 8
- 170 EEFW Committee, Official Report, 24 September 2019, col 29
- 171 Supplementary written evidence

