

Briefing

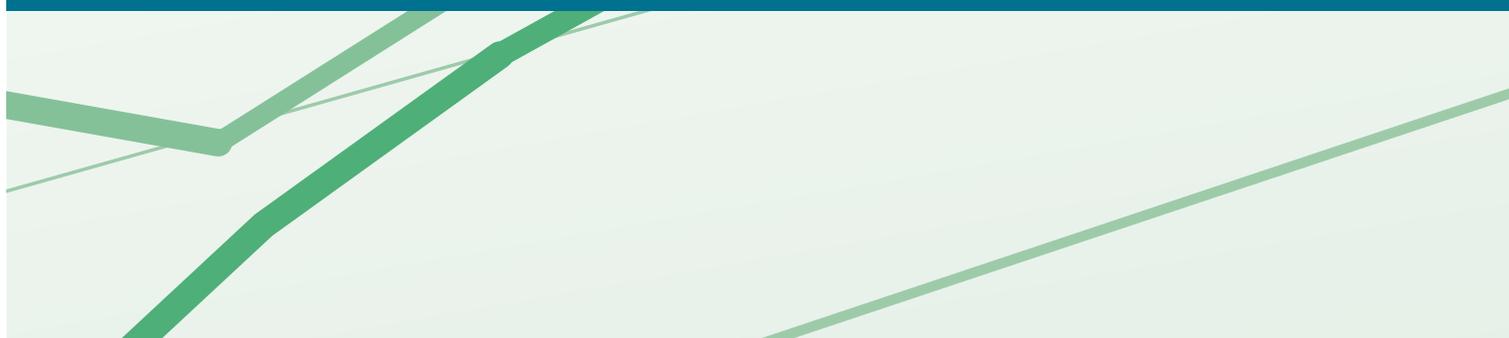
# Enterprise and Skills Review

Core areas of audit interest



AUDITOR GENERAL 

Prepared by Audit Scotland  
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# Introduction

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1. In May 2016, the First Minister announced a review of the roles, responsibilities and relationships of Scotland's enterprise, development and skills agencies, that is: Highlands and Islands Enterprise (HIE), Scottish Enterprise (SE), the Scottish Funding Council (SFC); and Skills Development Scotland (SDS). This was called the Enterprise and Skills Review.
2. The Review was part of a significant focus on economic strategy and growth, at a time when new financial powers for the Scottish Parliament result in a closer relationship between the economy and public finances. It also reflects the Scottish Government's inclusive growth priority, with alignment to the National Performance Framework.
3. As auditors, we are required to understand the organisations we audit and the environment in which they operate. The Enterprise and Skills Review is a significant undertaking and we have been monitoring developments to determine the nature and timing of audit work, in our annual audits and in our programme of national performance audits.
4. This paper outlines progress since the Review was announced and highlights core areas of audit interest, including our planned audit work in areas relevant to the Review.
5. Key events since the Review was announced are set out in [Exhibit 1](#) below.

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## Exhibit 1 Timeline of Enterprise and Skills Review



6. The Review aims, as stated in its original remit, were:

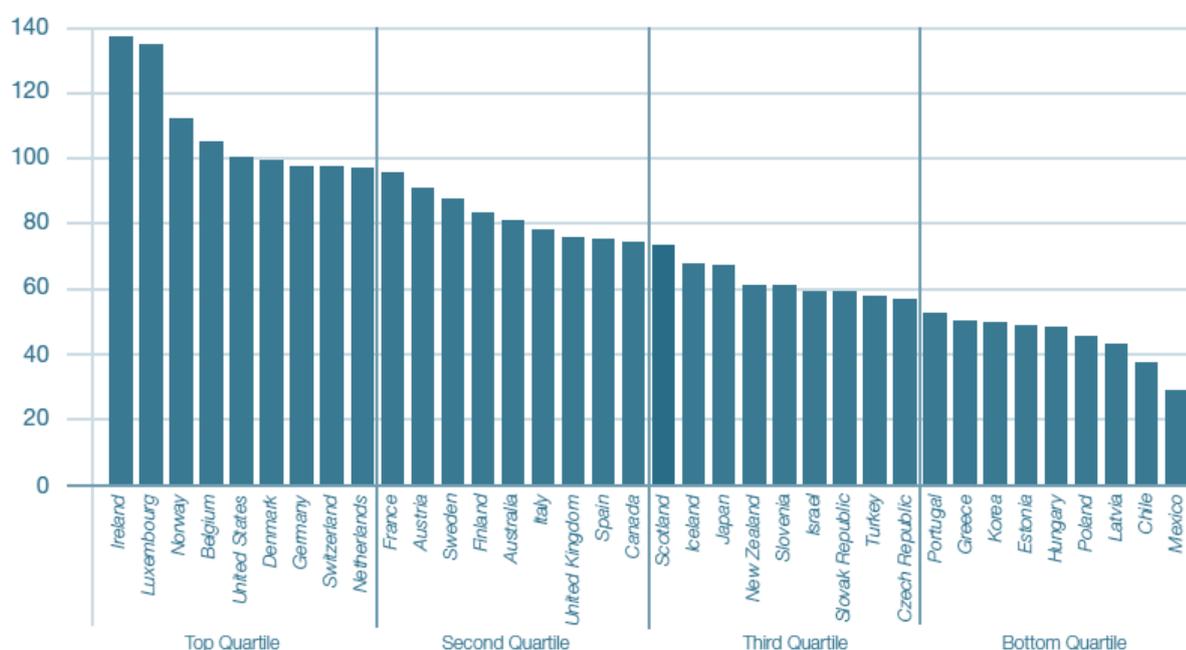
- to significantly improve enterprise and skills support, to help Scotland progress towards achieving the Scottish Government's aim of ranking among the top quartile of the Organisation for Economic Cooperation and Development (OECD) countries in terms of productivity, equality, wellbeing and sustainability
- to be driven by evidence, to listen to the views of service users and to put forward proposals that respond to their needs
- to ensure a simpler and more coherent enterprise and skills support system.

7. Phase one of the Review was a call for evidence to understand stakeholders' views. A report was published in October 2016 outlining a series of recommendations to deliver a better system of national and local support. Phase two commenced in November 2016 and established eight workstreams to take forward the phase one recommendations<sup>1</sup>.

8. The phase two report, published in June 2017, reflected the ambition for Scotland to rank in the first quartile of the OECD countries for productivity, equality, wellbeing and sustainability. Among the 36 OECD members, Scotland currently sits in mid-table for productivity levels (and has done for a long time) ([Exhibit 2](#)).

## Exhibit 2

### Scotland is ranked 19th out of the OECD countries when measured by GDP per hour worked



Source: Working collaboratively for a better Scotland: Strategic plan, Enterprise and Skills Strategic Board, October 2018

<sup>1</sup> The eight workstreams are: Data Performance and Evaluation; Regional Partnerships; South of Scotland Enterprise Agency; Enterprise and Business Support; Innovation; International; Skills Alignment and Learner Journey.

**9.** The phase two report notes that increasing productivity underpins the ability to create a more inclusive, sustainable economy. The performance of the Scottish economy relative to the rest of the UK has a direct impact on Scotland's public finances and the Scottish budget.<sup>2</sup>

**10.** As we noted in our 2016 report, *Supporting Scotland's economic growth*, many factors influence Scotland's economy, most of which are outside the control of the Scottish Government and its agencies, such as global economic performance. The private sector is the main source of economic growth. The Scottish Government and its agencies have a key role in working with others, including the private sector, to support economic growth. This includes creating conditions that encourage business growth, stimulate demand for goods and services, and increase the economic participation of individuals and communities.<sup>3</sup>

**11.** Key developments arising from the Review included:

- establishing an Enterprise and Skills Strategic Board ('the Strategic Board') to support the coordination of the four agencies' activities
- establishing a new Analytical Unit to provide dedicated support to the Strategic Board, agencies and wider stakeholders and to develop a common analytical approach
- creating a new enterprise agency for the South of Scotland, alongside the existing enterprise agencies. The South of Scotland Enterprise Bill was introduced to Parliament on 24 October 2018. This will create a new non-departmental public body, South of Scotland Enterprise, which will operate in the Scottish Borders and Dumfries and Galloway local authority areas
- developing Regional Partnerships (which will include representation from the public, private and third sectors), to develop tailored, regional, economic development solutions
- piloting a £500,000 College Innovation Fund to support colleges to work with businesses on innovation activity. The SFC will manage this fund and has already established a pilot project involving 13 colleges and half of Scotland's eight innovation centres.<sup>4</sup> The pilot has seen innovation centres and colleges working collaboratively to demonstrate a new approach to skills training for the future needs of industry.

**12.** The Review and the actions arising from it sit alongside other strategies and developments, including, for example, the Scottish Government's Economic Strategy and its Youth Employment Strategy, and the Scottish Government's plans to establish a Scottish National Investment Bank (SNIB).

## The Strategic Board

**13.** The Strategic Board's purpose is to maximise the impact of the collective investment in enterprise and skills development, and to create the conditions conducive to delivering inclusive and sustainable growth. It is tasked with improving the overall performance of the economy and, as part of this, it is leading implementation of the Phase 2 report of the Enterprise and Skills Review. Its membership is drawn from the chairs of each of the enterprise and skills agencies, as well as non-executive members from academic and private-sector bodies.<sup>5</sup> The Strategic Board first met in December 2017 and has been meeting around every two months since then.

<sup>2</sup> *Scotland's new financial powers*, September 2016.

<sup>3</sup> *Supporting Scotland's economic growth*, Audit Scotland, July 2016.

<sup>4</sup> Innovation centres in Scotland are funded by the SFC with support of the Scottish enterprise agencies (SE and HIE). These centres bring together academia and industry in areas where Scotland has world-leading research capacity and high potential for economic growth.

<sup>5</sup> Strategic Board membership: <https://www.gov.scot/groups/enterprise-and-skills-strategic-board/>

**14.** In June 2018, the Strategic Board published its outline Strategic Plan that set out its initial priorities (referred to as 'missions'). The full Strategic Plan was published in October 2018 and provided further detail on each of the missions:

- Business Creation and Growth – business creation can spur productivity growth.
- Business Models and Workplace Innovation – harness the full potential of progressive business models, workplace innovation and Fair Work.
- Future Skills Needs – providing the future workforce with the required complex skill-set.
- Exporting – significantly improve Scotland's productivity through export growth.

**15.** Each mission aims to maximise the effect of the enterprise and skills system on productivity and inclusive growth, with a focus on 'hard alignment' between the agencies. Teams have been set up to develop the four missions and a Strategic Planning Joint Working Group ensures coherence among them. The Scottish Government has established an Analytical Unit, to support the Strategic Board in its decision-making and assessment of the agencies' performance. Across the missions, customer focus and better use of data are central issues.

**16.** The Strategic Plan also identified 14 actions for the agencies and 18 recommendations for the Scottish Government which are set out around the four inter-connected missions. A list of these is provided in Appendix 1 of this paper. The Strategic Plan is a plan for the longer-term, with a 20-year 'horizon'. The plan notes that it will be updated regularly, to ensure it is fit-for-purpose and able to adapt in response to changing global conditions.

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# Core areas of audit interest

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**17.** Against this background, we have sought to identify the key issues as we see them from an audit perspective. We believe these will help those involved in implementing the Strategic Plan. Setting out the key issues also provides an indication of the areas we will look to consider through our audit work. At the end of this section, we summarise planned audit work relevant to the work of the Review and of the Strategic Board.

## Governance

**18.** The Strategic Board has no formal powers, ie it cannot direct the agencies and it has no control over their funding. Its key role is to provide strategic direction and to coordinate the work of the agencies. The chairs of each of the enterprise and skills agencies have a central role and will need support from their organisations in delivering alignment and collaboration with the other agencies.

**19.** The agencies are accountable to different parts of the Scottish Government and this requires the relevant Scottish Government Directorates to work closely together. There is already evidence of this, with annual Ministerial Letters of Guidance to the agencies developed jointly and issued at the same time. Our initial review of the Letters of Guidance indicates that these provide a consistent and coherent basis for aligned working.

**20.** The Scottish Government issued an additional Letter of Guidance to the four agencies in January 2019. The letter makes clear that individual agencies are to undertake operational and strategic planning in line with the Strategic Board's Strategic Plan, and collectively pursue its actions. There is an expectation that the individual agencies work collaboratively with the other agencies, with the Scottish Government, and more widely as required to support the Strategic Board's aims. In our view, this will be key to the success of the new arrangements. Ministers wrote to the agencies again in March 2019, reiterating the importance of strategic alignment of individual agency plans.

**21.** The Scottish Government has no oversight of the summary actions of the agencies set out in the Strategic Plan. This responsibility will lie with the individual Boards. The most recent Letter of Guidance does not include any timescales. In the absence of specific timings, there is the risk that the pace of change does not meet the expectation of the Strategic Board or that the timings set by individual agencies are not aligned. It is important for the Strategic Board to agree timescales or milestones and monitor progress in aligning corporate plans with the strategic direction of the Strategic Plan. How this will happen is not yet clear.

**22.** There is some early evidence of further and increased collaboration among the agencies. For example, SDS and SFC are working together to introduce a 'five-step model' for skills alignment. This is expected to establish a single demand and provision planning cycle for skills. An interim joint skills alignment director has also been appointed to support improved skills alignment. A group led by Scottish

Enterprise, and including HIE, SDS and Business Gateway<sup>6</sup> is looking at setting-up a single digital online portal for customers to access information.

**23.** The enterprise and skills arrangements will have some impact on the governance of the agencies as they adjust to the new context. Their plans should show how each contributes to the Strategic Plan and how they will work collaboratively with the other agencies. The individual agencies have deferred some business and financial planning activity, to ensure their plans reflect the requirements of the Strategic Plan. Given the changes and competing demands on resources within the agencies, there is a risk that the transition to the new arrangements could affect on-going business in the short-term.

**24.** One of the aims of the Review is to simplify the system for stakeholders. The review has already introduced some structural changes (the creation of the Strategic Board, the plans for the new South of Scotland enterprise agency, further development of regional partnerships and the four mission groups). This will require capacity for change and creates a potential risk, particularly in the short-term, of more complexity, and lack of clarity for both users and the bodies involved.

**25.** The strategic landscape is set out in the Strategic Plan and other documents including the Scottish Government's recently published Economic Action Plan<sup>7</sup>. Alignment of these documents is needed to ensure clarity of purpose for stakeholders and to ensure that elements of the Strategic Plan are effectively implemented. At this stage, it is not clear how the actions and recommendations in the Strategic Plan relate to the Economic Action Plan. Alignment of the two plans and clarity on how, together, they contribute to the Scottish Government's overarching priority of inclusive economic growth, is a key issue. It will also be important that the Scottish Government clarifies how it will effectively align improved productivity with inclusive growth.

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## Governance: summary of key issues

- The Strategic Board's ability to align effectively the activities of the individual agencies.
- The effect of the transition to the new arrangements on the work of the agencies in the short term.
- Clarity about roles and responsibilities in the enterprise and skills system, and capacity within the system to support change.
- Alignment of the Scottish Government's Economic Action Plan and the Enterprise and Skills Strategic Board's Strategic Plan.

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## Performance monitoring

**26.** Performance monitoring can be considered at two levels. Firstly, the Strategic Board will need to be able to assess progress against the Strategic Plan. At this stage, no timings have been specified for the actions and recommendations in the Strategic Plan. While we recognise the Strategic Plan has a 20-year horizon, it is important that timescales and milestones are agreed so the Strategic Board can both be assured and provide assurance that actions are being implemented and are having the desired effect.

<sup>6</sup> Business Gateway is a publicly funded service contributing to the economic well-being of Scotland by providing access to free business support services.

<sup>7</sup> *Scottish Government Economic Action Plan*, October 2018.

**27.** Secondly, the Strategic Board will want to know that the various actions and recommendations are improving productivity, equality, wellbeing and sustainability. We understand that the Analytical Unit has developed a performance framework to support this. The framework will be used to trace the links in the chain that run from inputs to activities to outputs to outcomes to impact. The Analytical Unit intends to use relevant indicators from the National Performance Framework (NPF), with a focus on the OECD productivity indicator.

**28.** If the Analytical Unit identifies additional, or alternative, measures of performance to those used currently by the agencies, it would be likely to result in changes to their individual performance management and reporting arrangements. It will be important, therefore, that the performance framework is developed in conjunction with the agencies. At this stage, no timescale has been specified for the performance framework.

**29.** The Strategic Board has also agreed that the Analytical Unit should prioritise the development of an evaluation and research programme, to better determine the impact of significant agency activities. SDS's approach to measuring the impact of Modern Apprenticeships already considers productivity, equality and wellbeing, and the Analytical Unit is considering how this could be further developed for the agencies' other interventions.

**30.** The Scottish Parliament's Economy, Energy and Fair Work Committee is monitoring progress of the Review. The chair of the Strategic Board gave evidence on 27 February 2018<sup>8</sup> and 8 January 2019<sup>9</sup> to update members.

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## Performance monitoring: summary of key issues

- As no timings have been specified, the Strategic Board will need assurance that actions have been implemented and are having the desired effect.
  - The absence of timescales could mean the pace of change is not in line with the Strategic Board's expectations, or that the timings set by individual agencies are not in line with other agencies.
  - Alignment of any new or revised performance measures with the agencies' activities with the NPF; and underlying systems and processes need to produce reliable, consistent performance information.
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## Planned audit work

**31.** Audit Scotland has previously reported on matters relevant to the Enterprise and Skills Review. For example, we have published reports on: modern apprenticeships; economic growth; colleges; higher education; and the annual audits of the four agencies.

**32.** We will continue to monitor the progress of the Review through our annual audit work in the four agencies. Early progress with actions in the individual agencies will be outlined in the annual audit reports. These annual reports reflect our work both on each organisation's financial statements and on our wider audit dimensions, which include governance related matters.<sup>10</sup> We report in public and annual audit reports are available on our website.

<sup>8</sup> <http://www.parliament.scot/parliamentarybusiness/report.aspx?r=11393>

<sup>9</sup> <https://www.parliament.scot/parliamentarybusiness/report.aspx?r=11872>

<sup>10</sup> Our four audit dimensions are: Financial management; Financial sustainability; Governance and transparency; and Value for money.

**33.** Several upcoming audits in our performance audit programme will also pick up on elements of the review. For example:

- Finances and funding of Scottish universities – higher education is an important part of the enterprise and skills system. Any changes proposed by the Strategic Board as to how universities are funded or delivered, or to how it connects to other parts of the skills system, could have implications for university finances.
- City Deals – as part of the audit, we will consider how well partners have worked together in the development of City Deals, including the role of the enterprise bodies. Any areas of good practice or lessons learned can be expected to help inform the wider development of economic regional partnerships.
- Local economic development – there will be scope for this audit to comment on the role of councils in supporting the Strategic Board’s first mission (business creation and growth). There are also links to several of the Review’s workstream projects, including enterprise and business support, Regional Partnerships and the South of Scotland enterprise agency.
- Skills investment and planning – the audit will directly link to several strands of the Review. There would be scope to comment specifically on progress with the Strategic Board’s third mission (future skills needs).
- Scotland’s colleges 2019 – this audit will focus on key aspects of financial performance and student outcomes. Like universities, college education is an important part of the enterprise and skills system. Student outcomes, such as student destinations, will be an important focus for the Strategic Board’s third mission (future skills needs).
- Education outcomes – the audit will look at trends in educational outcomes and spending across Scotland and assess the impact of actions by the Scottish Government and councils to improve outcomes. There is potential to consider the relationship between education and skills within the audit scope.

# Appendix

## Summary actions

<b>BCG (A1)</b>	Establish a campaign to foster entrepreneurship and ambition across society, with particular focus on inclusivity (including women, minority ethnic groups, rural considerations etc).
<b>BCG (A2)</b>	Create a main online entry point as part of a wider transformation to a truly digitally-enabled business support service providing rapid, tailored support.
<b>Exp (A1)</b>	Coordinate a national exporting service – a one Scotland approach to export delivery organisations and services.
<b>Exp (A2)</b>	Explore a new public/private sector partnership which will provide support to scale-up, and refresh export support resources.
<b>Exp (A3)</b>	Develop digital, sales and international language training programmes for exporters.
<b>BMWI (A1)</b>	Deliver an 'Innovating Workplaces' campaign to create awareness of productivity issues of business models, workplace innovation and Fair Work.
<b>BMWI (A2)</b>	Utilise data-led approaches to proactively identify and support sectors and firms who can exploit opportunities for growth or to enhance their resilience.
<b>BMWI (A3)</b>	Coordinate a programme of business models and workplace innovation activity that is driven by agency-fluid teams.
<b>BCG (A3)</b>	Boost overseas acquisitions through specialist support for scale up from a new public/private/SNIB collaboration.
<b>FS (A1)</b>	Implement the 5-stage skills alignment model <sup>11</sup> and a one system approach for learners and employers.
<b>FS (A2)</b>	Define the meta-skills <sup>12</sup> for use in future skills provision.
<b>AU (A1)</b>	Analytical Unit to lead on work to develop the performance framework.
<b>AU (A2)</b>	Analytical Unit to lead on an evaluation and research programme to better determine the impact from significant agency activities.
<b>Del (A1)</b>	Develop 'big data' systems that robustly inform agency planning and shared information.

Key: Business Creation and Growth (BCG); Exporting (Exp); Business models and workplace innovation (BMWI); and Future skill needs (FS)

<sup>11</sup> 1: Agree skills demand assessment, 2: Joint provision planning, 3: Integrated Processes for Progressing Institutional Outcome Agreements & Commissioning with Training Providers, 4: Coordinated Outcome Agreement Execution & Training Provider Contract Management, and 5: Joint review and evaluation.

<sup>12</sup> Meta-skills are higher-order skills – self-management, social and emotional intelligence innovation skills – that enable other skills to be developed.

## Summary recommendations to Scottish ministers

<b>FS (R1)</b>	Use funding for colleges, universities and training providers to provide more agile support for employees and employers to upskill and reskill, increasing in-work learning using new models of provision.
<b>FS (R2)</b>	Integrate, expand or re-design forms of upskilling and reskilling support such as Individual Training Account or tax incentives.
<b>FS (R3)</b>	Create a flexible and sustainable funding model to meet the future expansion of demand for work-based and work-integrated learning.
<b>Exp (R1)</b>	Increase international awareness and exposure throughout the education system and champion the re-introduction of the post-study work visa.
<b>FS (R4)</b>	Accelerate, set a timescale for and align existing funds to facilitate delivery of the Learner Journey recommendations to reduce duplication and accelerate pathways to employment.
<b>BMWI (R1)</b>	Embed Fair Work principles across the public sector and increase conditionality in business support.
<b>BMWI (R2)</b>	Task agencies to oversee provision of world class management and leadership training accessible across Scotland for a targeted number of business leaders annually.
<b>BCG (R1)</b>	Focus support on scale-up and frontier businesses, including young, ambitious and capable businesses with international aspirations and high growth potential businesses that contribute to the low carbon economy. Adopt a focus on inclusivity.
<b>BCG (R2)</b>	Engage with Business Gateway on support for start-ups. Adopt a focus on inclusivity (inc. women, minority ethnic groups and rural considerations).
<b>BCG (R3)</b>	Build on the existing Brexit readiness work of public agencies and business organisations to strengthen the Scottish-level response.
<b>BCG (R4)</b>	Support Scotland's businesses to respond to challenges by leveraging maximum funds from the Industrial Strategy Challenge Fund.
<b>Del (R1)</b>	Agencies should take a greater role, working collaboratively with local authority partners, the private sector and others, in delivering place-based economic development that responds to local opportunities and takes housing, infrastructure and digital connectivity into consideration.
<b>BCG (R5)</b>	Develop and promote Scotland as a Digital Nation, equipping and providing opportunities for digital business.
<b>BCG (R6)</b>	Increase investment in college and university spin-out venture programmes and in organisations focussed on driving entrepreneurship, innovation and research (such as Scotland Can Do, and Scotland is Now).
<b>Exp (R2)</b>	Develop an exporting partnership plan which will increase the involvement of private sector expertise and world-wide resources to grow our exports and imports.
<b>Exp (R3)</b>	Increase ministerial visibility in existing and potential trading partner countries and fast-growing priority markets and create stronger government-to-government and business-to-government networks.
<b>Exp (R4)</b>	Explore the full potential of the international dimension of colleges and universities in supporting economic growth.
<b>Del (R2)</b>	Develop a National Asset Register of sectors, skills and capabilities that is geographically-focused.

## Briefing

# Enterprise and Skills Review

### Core areas of audit interest

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