



T: 0131-244 5598
E: DGEconomy@gov.scot

Terry Shevlin
Clerk to the Public Audit and Post-legislative Scrutiny
Committee
Public Audit and Post-legislative Scrutiny Committee
Room T 3.60
The Scottish Parliament
EDINBURGH
EH99 1SP

By email only to :
papls.committee@parliament.scot

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Our ref: DG Econ/1 Nov

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Dear Mr Shevlin

Thank you for your letter of 5 October outlining the Public Audit and Post-legislative Scrutiny Committee's request for a formal response to the recommendations of the Auditor General for Scotland's report entitled 'Supporting Scotland's Economic Growth' and two further points.

The Scottish Government welcomed Audit Scotland's report, and considered the recommendations as part of our Enterprise and Skills Review. The report formed a key part of our evidence base and guided our considerations. On 25 October, Ministers published their Report on Phase 1 of the review, and we are confident that their decisions respond to the Audit Scotland recommendations.

SG approach to strategy development, targets and monitoring progress and impact

Audit Scotland recommended that *the Scottish Government should work with its main partners to strengthen its approach to developing, delivering and monitoring its economic strategy, specifically by:*

- *Developing clear targets, timescales and actions for different aspects of the strategy and setting out specific responsibilities for public sector bodies;*
- *Monitoring and reporting progress against the targets and actions;*
- *Summarising how evidence, including stakeholder consultation, is used to develop future strategies and making this publicly available; and,*
- *routinely reviewing the economic strategy to ensure it remains relevant and fit for purpose.*

We accept these recommendations, which will assist us in our aim of providing a clearer and more transparent approach to the development, delivery and monitoring of our interventions relating to economic development in Scotland. We will endeavour to deliver these

recommendations in full. We would highlight that some of the of detail specified (for instance, around setting out specific responsibilities for public sector bodies) is not appropriate for inclusion in the Economic Strategy itself, but we recognise the importance of communicating the agencies' specific roles, responsibilities and wider contribution to the delivery of economic policy in Scotland more clearly.

The monitoring and reporting of performance against the Economic Strategy's high level objectives will continue to be undertaken through Scotland Performs and the National Performance Framework. We will look to strengthen our approach in this regard, and also develop performance metrics for the agencies that are more clearly aligned with the National Performance Framework.

The Economic Strategy was informed by a range of published evidence. We will look to develop and strengthen our approach for future iterations of the Economic Strategy, in keeping with Audit Scotland's recommendation.

Audit Scotland also recommended that the Scottish Government estimate total spending on the four strategic priorities, by the main partners involved, to determine whether funding is being targeted appropriately.

We recognise that implementation of this recommendation may be complicated by the fact that spending can have multiple objectives, and by the interaction of key policies across the whole system, but will endeavour to implement it, in partnership with the agencies and within the context of implementation of the findings of the Enterprise and Skills Review.

Audit Scotland also made recommendations related to assessment of the impact of public sector support for the growth and other key sectors to help determine the most appropriate focus for public sector support.

We agree with Audit Scotland on the importance of assessing the impact of public support, and on the importance of policy evaluation. Decision 2 of the Enterprise and Skills Review Phase 1 report commits to a review of existing data and evaluation functions to ensure robust evaluation of activity and impact.

Delivering the economic strategy

Audit Scotland recommended that *the Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise should:*

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

The question of how the enterprise bodies can best support the delivery of the Economic Strategy was a key consideration during the Enterprise and Skills Review. Our decision to ensure stronger coherence through a single statutory board goes beyond the original Audit Scotland recommendation. This board will direct and coordinate the activities of not only Scottish Enterprise and Highlands and Islands Enterprise, but also Scottish Development International, Skills Development Scotland and the Scottish Funding Council.

The single statutory board will be supported by our review of agency data and evaluation functions, and the evaluation team's work to agree common performance measures where appropriate. As noted above, this will be clearly aligned to the National Performance Framework as we build on our approach to monitoring and reporting agency progress against the Economic Strategy through Scotland Performs. The Phase 2 review of public sector enterprise support (see below) will consider individual examples, such as involvement in task forces, that have not yet been considered during Phase 1.

Review of public sector support and its delivery

Audit Scotland recommended that *the Scottish Government should work with relevant partners to*

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

The report on Phase 1 of the Enterprise and Skills Review accepts that whilst our strategic framework is broadly correct, there are areas where operational support can be improved. In Phase 2 we will consider the full range of public sector support with a view to streamlining it, ensuring broader and more coherent core support to more businesses, and better targeted specialist support with clearer entry and exit points. This will also identify the most appropriate areas for the private sector to engage in providing services.

All of this, together with the direction of the new board, will enable clearer signposting. In addition to clarifying roles and responsibilities, the board will facilitate clearer communication and understanding of the support on offer to users and other providers. In setting it up, we will also during Phase 2 review the potential to streamline the various economic partnerships and groups across the business landscape, and ensure appropriate membership, including from the business community.

Additional Points Raised by the Committee

With reference to the Committee's question on the **role of Scottish Enterprise in rural areas**, the review recognised both the need to respond to local circumstances and the fact that the Highlands and Islands and South of Scotland share a range of socio-economic challenges. Whilst considering extending Scottish Enterprise's remit to cover community growth in rural areas, Ministers decided it would be more appropriate to respond to the unique challenges facing the South of Scotland by creating a new vehicle. This will recognise existing partnerships, such as the South of Scotland Alliance, and work with local

government provision to help support businesses shape and realise their growth aspirations; to develop rural growth sectors; and to respond to regional opportunities.

Regarding the Committee's question around the merit of having a **central evaluation unit** within the Scottish Government, we have already noted that implementing the decision to evaluate data and evaluation functions may involve bringing expertise into at a virtual central team and that where this will sit and its functions will be considered during Phase 2 of the review.

I would be happy to explore this formal response with the Committee should members feel that this would be helpful.

Yours sincerely

Liz Ditchburn
Director General, Economy