AUDIT COMMITTEE

Tuesday 22 June 2004
(*Morning*)

Session 2

£5.00

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by The Stationery Office Ltd.

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AUDIT COMMITTEE
13th Meeting 2004, Session 2

CONVENER

*Mr Brian Monteith (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Mr Kenny MacAskill (Lothians) (SNP)

COMMITTEE MEMBERS

*Rhona Brankin (Midlothian) (Lab)
*Susan Deacon (Edinburgh East and Musselburgh) (Lab)
*Robin Harper (Lothians) (Green)
*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)
*George Lyon (Argyll and Bute) (LD)

COMMITTEE SUBSTITUTES

Chris Ballance (South of Scotland) (Green)
Mr Ted Brocklebank (Mid Scotland and Fife) (Con)
Marlyn Glen (North East Scotland) (Lab)
Mr Andrew Welsh (Angus) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)
Bob Leishman (Audit Scotland)
Arwel Roberts (Audit Scotland)

CLERK TO THE COMMITTEE

Shelagh McKinlay

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Christine Lambourne

LOCATION

Committee Room 2

Scottish Parliament

Audit Committee

Tuesday 22 June 2004

(*Morning*)

[THE CONVENER *opened the meeting at 10:39*]

Items in Private

The Convener (Mr Brian Monteith): Good morning and welcome to the 13th meeting of the Audit Committee in 2004. I remind everyone, including myself, to switch off their mobile phones and pagers.

Rhona Brankin (Midlothian) (Lab): Kenny.

Mr Kenny MacAskill (Lothians) (SNP): I do not have a pager.

The Convener: Kenny just issues instructions.

I am pleased to welcome the Auditor General for Scotland and his team to the meeting. We have a number of reports from Audit Scotland to hear about.

Agenda item 1 is consideration of whether to take items 4, 5 and 6 in private. Item 4 is consideration of a draft report on the committee's inquiry into the report by the Auditor General entitled "Overview of the National Health Service in Scotland 2002/03"; item 5 is consideration of the committee's approach to the report by the Auditor General entitled "Local economic forums: A follow-up report"; and item 6 is consideration of the committee's approach to the report by the Auditor General entitled "Scottish Enterprise: Account management services to high-growth businesses". Do members agree to take items 4, 5 and 6 in private?

Members *indicated agreement*.

Local Economic Forums

10:40

The Convener: Agenda item 2 is a briefing from Audit Scotland and the Auditor General on "Local economic forums: A follow-up report", which was recently published by Audit Scotland.

Mr Robert Black (Auditor General for Scotland): I invite Arwel Roberts to introduce the report to members.

Arwel Roberts (Audit Scotland): Local economic forums—LEFs—are partnerships of public sector agencies and local businesses that are intended to achieve a simpler and more cohesive structure for local economic development in Scotland in order to deliver maximum benefit to businesses and communities.

When LEFs were set up in 2001, the Executive asked Audit Scotland to monitor their progress. In October 2002, we produced a baseline report that set out a benchmark against which to measure progress. The 2004 follow-up report reviews the performance of LEFs against the baseline.

Overall, LEFs have streamlined business support services and have made more effective use of public funding to support local economic development. There have been a number of achievements by LEFs.

First, LEFs have reduced overlap and duplication. They have implemented 80 per cent of their planned actions to eliminate duplication by local enterprise companies—LECs—and councils in areas such as the provision of financial assistance and business skills training. Surveys have shown that the business community thinks that LEFs have made no significant impact, but it is likely that changes that are brought about through LEFs will take time to be felt at a local level.

Secondly, LEFs have delivered most of the financial benefits that were expected of them, which has resulted in better use of public funding.

Thirdly, LEFs have taken steps to improve how public sector bodies communicate with the business community, although the perception among LEF members themselves is that communication among partner organisations has deteriorated.

The report makes a number of recommendations. On the impact of forums, it proposes that the Scottish Executive should review the added value that is delivered by LEFs and consider whether they still have a worthwhile role to play against the backdrop of the introduction of more comprehensive, statutory community planning arrangements. It also proposes that the Executive should work with Scottish Enterprise and Highlands and Islands Enterprise to investigate the wide regional variations in the business sector's views of public sector business support services.

The report recommends that if LEFs continue in their current form, the Executive should continue to monitor their impact on the business community, and that it should work with Scottish Enterprise and Highlands and Islands Enterprise to determine the views of the business sector and to monitor and evaluate the progress being made by LEFs in achieving their economic development objectives.

My colleagues and I will be happy to answer any questions about the report.

George Lyon (Argyll and Bute) (LD): I was on the original Enterprise and Lifelong Learning Committee that recommended setting up the structures that we are discussing. One of our key concerns was that an on-going process should not develop. We wanted the structures to do the job of trying to eliminate duplication and overlap in services and the report seems to indicate that, in some ways, there have been significant successes. Will you highlight the areas of the country in which local economic forums have not worked and in which duplication and lack of co-operation are continuing, and say why that has been the case in those areas?

10:45

Arwel Roberts: There are details about such LEFs in the report. I invite Bob Leishman, who worked on the project, to say which ones they are.

Bob Leishman (Audit Scotland): I think that LEFs have worked best in areas in which the LEC and the local council share the same boundaries. In areas in which there are cross-boundary issues, work has probably been less effective. There have been particular difficulties in areas such as Highland, where there is one council and half a dozen LEFs.

George Lyon: It is clearly recommended that there should be a review. What is Audit Scotland's view? Have LEFs done their job? Does Audit Scotland think that they should be amalgamated into community planning, or are you hedging your bets?

Arwel Roberts: Many people who are involved in the partnerships hold the view that, now that new community planning arrangements are in place, the purpose for which LEFs were originally set up is in effect being overtaken. That is what lies behind our recommendation that the Executive should review whether LEFs still offer added value.

The Convener: You also recommend an investigation into regional variation in the business sector's views. Do some areas find LEFs more useful than other areas do? If so, is that because LEFs actually have been more useful in some areas, or is it simply that people have different views and the issue is not to do with delivery?

Arwel Roberts: One of our recommendations is that the Executive should consider why such regional variations exist, but it is worth emphasising that we obtained a mixture of results from surveys and the perceptions of the participants. The perceptions are not always the same. Part of the reason for the differences lies in how people see the benefits that have arisen from LEFs.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): I would like you to respond to an anxiety that I will share with you. I am somewhat concerned that much of the report and what has been said this morning seems to imply that one size can fit all. I am not sure about a top-down Scottish Executive review, but I am attracted to the notion that there should be a review that considers the future of LEFs in the light of the developing community planning infrastructure. I would be greatly concerned if we were caught up in the next two years with navel gazing about the particular structures and committees that should be put in place. Is it not important to be clear about what we want to achieve? After all, partnership working is a means to an end and not an end in itself. Is there not some way of allowing greater scope for different local areas to grow structures, partnership working processes, decision-making structures and so on that will deliver most effectively in their area, taking into account, for example, the fact that coterminosity does not exist throughout the country?

Arwel Roberts: Certainly. The guidance under which LEFs were set up recognised that they must tailor their activities and how they put together their structures to match the reality on the ground. Having a one-size-fits-all approach was never the intention. We should also recognise that the ways in which Highlands and Islands Enterprise and Scottish Enterprise deliver their business supports are different in their respective areas, so their partners need to create a different sort of relationship with them.

Each LEF develops its own action plan to ensure an avoidance of duplication and so on. As I said earlier, 80 per cent of those action plans have been delivered, but they have been delivered against a local need and not against a blanket requirement throughout Scotland. Therefore, differences are recognised.

Susan Deacon: To return to your recommendation that the Scottish Executive should carry out a review, I wonder what parameters Audit Scotland or the committee could suggest to avoid what I fear might happen, which is that there will be a hiatus for a year or two while the structures are reviewed and then a rigid template will be introduced for the whole country. Should we try to avoid such an outcome by saying more about what form the review should take?

Arwel Roberts: The additional part of the scenery that has appeared since the establishment of the LEFs is the Local Government in Scotland Act 2003, which has introduced community planning. That act gives councils the lead. We would like the Executive to review and determine whether, in light of that new statutory framework, what it expects from LEFs can best be delivered through the LEF structure or through the new community planning arrangements.

Mr MacAskill: I was intrigued by the comment that the LEFs seemed to work best where they had some geographic correlation with local authority areas. After all, we seem to be in a time of change. For example, the Edinburgh city region has now developed to cover south Fife, Dunfermline and Rosyth, even though the borders of Scottish Enterprise Edinburgh and Lothian do not straddle the Forth. There has also been a drive towards, if not an M8 corridor perspective, then co-operation between Edinburgh and Glasgow. Are the LEFs managing to maintain some fluidity and move with those developments or have they become hidebound and stuck? Are they capable of making the changes that are necessary to address certain structural changes?

Arwel Roberts: The fundamental point is that LEFs are partnerships. They are vehicles for bringing together businesses and public sector agencies and unless those agencies and businesses are coterminous, the LEFs themselves cannot achieve coterminosity. That goes back to the earlier question whether the concept of LEFs as a vehicle for establishing partnerships of public sector bodies remains the right solution for bringing the public and private sector together or whether community planning is overtaking that approach.

Rhona Brankin: I am interested in the extent to which it is possible to evaluate the LEFs' effectiveness. Much of the report focuses on how well they are managing the process of bringing the various private and public sector aspects together. However, I presume that it is still fairly early days to evaluate whether they have delivered what they were intended to deliver or have made a difference with regard to economic development.

Arwel Roberts: One of the difficulties in determining the impact of LEFs is that they are partnerships and do not have a being in themselves. As they are the result of a number of parties coming together to decide how best to deal with a local issue, they can be only as good as the agreements that various partners make in that respect. In a sense, they are only a vehicle for bringing people together; they are not bodies in their own right.

Rhona Brankin: But the rationale for establishing LEFs was to create economic development in their areas. There has to be some way of measuring whether they are doing that.

Arwel Roberts: The basic rationale for establishing LEFs was to help to overcome a perceived overlap or duplication in the provision of business support and a lack of communication between the private and public sectors. Their impact is therefore measured by the extent to which those involved feel that they have achieved improvements. Funding is still provided through the same sources; LEFs do not provide any additional funding for the system, but simply rationalise its use.

Rhona Brankin: So a LEF would be seen as successful not necessarily because it added value through measurable outcomes but because everyone involved felt positive and got on well together.

Arwel Roberts: LEFs were set the objective of saving about £3.7 million out of an available budget of between £120 million and £125 million. They have achieved savings of £2.8 million, which means that that amount has been rescued from duplication and overlap and has become available for additional purposes. That money is not additional; instead, it is more of an efficiency bonus that has come about by bringing people together.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): I am concerned that if community planning is used as the new vehicle of LEFs, individuals will go back into their silos. For example, in Ayrshire, there are three distinct local authorities with different demands and aspirations. However, the Ayrshire LEF managed to get individuals from the public and private sectors around the table to discuss what would be best for Ayrshire. I do not think that I would be able to sit here and say that the A77 extension was nearly complete if those people had stayed in their silos instead of considering the bigger picture.

That is why I am concerned about your comment that community planning could represent the next stage as far as the LEFs are concerned. Its advent would remove such an overview, would have no benefits in terms of the boundaries of

LEC areas and would not encourage individuals to come outside the silo. Obviously, you have focused on what the LEFs have achieved, but do you have a feel for their ability to take an overview of the situation?

Arwel Roberts: Basically, our recommendation about what we want the Executive to examine hangs on the phrase "added value". If relying on community planning as an alternative to LEFs is a retrograde step as far as avoiding duplication and so forth is concerned, it will not be adding value. We invite the Executive to consider whether LEFs justify their further existence by continuing to offer added value. On the other hand, if the new community planning arrangements maintain those advantages, there might not be a need to continue with LEFs.

George Lyon: One of the issues that drove the committee to its conclusion was that in many instances in which councils still had an economic development department—

The Convener: Are you talking about the Enterprise and Lifelong Learning Committee that you served on?

George Lyon: Yes.

The Convener: I just wanted to clarify that.

George Lyon: When people drilled down into the figures, they found that the half a million or million pounds that the council spent was basically used to employ people to direct businesses to the local enterprise company, which had the money to provide grants. We just wanted the councils to agree that one or the other body did that. However, it is important to remember that that can happen only once. Once it has been agreed that the LEC will lead and that the council will play a strategic role through planning and its other bits and pieces, that saving cannot be replicated. As a result, we must consider LEFs within the context of whether they continue to deliver financial benefits, which is why I support Audit Scotland's view. Margaret Jamieson raised a separate issue about the LEFs' ability to take a strategic overview, but I would hope that community planning should address that.

Arwel Roberts: While LEFs have been in existence, Highlands and Islands Enterprise and Scottish Enterprise have both developed what amount to gateway mechanisms to offer businesses a one-stop shop that gives them an improved and more accessible means of accessing business support.

The Convener: I thank Arwel Roberts and Bob Leishman for helping to present that report.

Scottish Enterprise

11:00

The Convener: Under agenda item 3, we shall hear from Audit Scotland about "Scottish Enterprise: Account management services to high-growth businesses".

Mr Black: Members of the committee will recall that I reported last November on the results of a special audit examination that related to specific concerns about aspects of the performance of Scottish Enterprise. This second report is an entirely separate exercise and is an output from the on-going programme of value-for-money studies that extends across the whole of the public sector.

The report that is before you today examines the impact of a particular account management service provided by Scottish Enterprise. That service is targeted towards businesses that Scottish Enterprise has identified because they have the potential for high growth. There are two main reasons why we have selected that service for examination. First, the service is important in relation to the goal of growing businesses, which is set out in the Executive's strategy "A Smart, Successful Scotland: Ambitions for the Enterprise Networks". Secondly, Scottish Enterprise and others have undertaken a lot of research into and evaluation of the impact of programmes to encourage new business starts, but much less evaluation has been undertaken of the support offered to existing businesses to encourage their growth. The service that we have looked at provides that support to existing businesses, so it is different from most of the studies that have previously been undertaken.

We estimate that Scottish Enterprise spent some £40 million through the account management service over a three-year period from 2000. The report's findings suggest some positive results from that investment. In the group of companies as a whole, jobs and turnover have grown and businesses are generally satisfied with the service that Scottish Enterprise has provided. However, there are some weaknesses in how the programme is administered and those weaknesses prevent a clear conclusion from being reached on the extent to which the expenditure has provided value for money.

The report shows that local enterprise companies identify high-growth businesses in different ways and different approaches have been used to assist businesses. Some LECs appear to have provided relatively more advice to businesses, whereas others seem to have provided relatively more in the way of financial assistance. We must also recognise that there will be differences in the local economic environment and that each LEC will respond accordingly. There is an exhibit on page 26 that contains case studies relating to three LEC areas, and from that exhibit members can see examples of the different economic structures and the different impacts of global market conditions and how they affect the effectiveness of the LEC's intervention.

The findings show that local enterprise companies do not document fully in every instance the case for financial assistance; nor do they always record the basis of the judgments that lead them to continue to support the same businesses over a period of years. Public money should be paid to businesses only if it is clear that the benefits would not be achieved without public assistance. Also, public support should go only to projects that will be self-sustaining after that assistance has been given for a period. We found, however, that information on key decisions relating to the case for financial support was not always available, so it was not possible to determine whether value for money was being achieved in that area.

LECs monitor sufficiently to ensure that the assistance payments meet the grant conditions, but they hold less information on the results and, in particular, on the extent to which businesses make progress against high growth potential. There was a wide variation in the results recorded by different LECs. Overall, results are positive, but some LECs appear to achieve much more than others do. Exhibit 25 on page 36 highlights the fact that the specific measure of cost per job varies by a factor of 13. We also found variations in the average support given to businesses over the three-year period. In exhibit 20 on page 32, members will see that the average support is roughly five times greater in one area than in another.

There may be many reasons for the variation. As I mentioned earlier, it is likely to reflect the circumstances of the local economy to some extent, but it may also reflect the quality of judgment made by LECs and the officials within LECs and their differing approaches to the delivery of services. We would not recommend for a moment a one-size-fits-all approach, but the report does recommend, quite properly, that Scottish Enterprise should investigate the situation further to ensure that value for money is being achieved.

In concluding, I would like to comment on the positive steps that Scottish Enterprise is taking to address some of the issues. Within Scottish Enterprise's business transformation programme, about which the committee heard in relation to my earlier report, there are initiatives that are intended to improve the consistency of services. In addition, Scottish Enterprise has developed an action plan to improve the way in which the case for assistance is documented and progress is monitored. It also has plans to further improve performance information to provide greater focus on the priorities in "A Smart, Successful Scotland".

I am happy to answer questions, and members of my team are here to support me.

The Convener: I see that Rhona Brankin, Kenny MacAskill and George Lyon have questions.

Rhona Brankin: I was struck by the different level of support to businesses from the LECs. On seeing the results without having been involved in the study, I can only assume that there is absolutely no correlation between the level of support and the number of potential high-growth businesses in those areas. I have looked at the bar graph and tried to get some understanding of the situation from it, but I cannot. Is there any correlation at all?

Mr Black: I shall start off with a general comment and Bob Leishman will be able to give a fuller answer. It is a difficult study to do in value-for-money terms. Academics and experts struggle with the impact of economic development programmes everywhere, essentially because the interaction with an individual enterprise in the business community is enormous and a multitude of factors could impact on how that business is doing. It is quite difficult to isolate the impact of those programmes, so we have looked at the matter from the Scottish Enterprise end of the telescope, so to speak. We have looked at how resources are deployed and what systems are used for evaluating the results, and the report reflects that. We must recognise that it is a limited study and not an economic study of the local economy and how the LEC interacts with it.

Bob Leishman: As Mr Black said, many factors would have to be brought into any correlation exercise—not just the economic circumstances. All the high-growth businesses were picked in a different way, so we cannot easily work out the correlation. Perhaps once there is more consistency about how high-growth companies are identified, Scottish Enterprise will do a bit more at that stage, but at the moment there is too much inconsistency.

Rhona Brankin: It sounds as if your report is setting the scene for how the effectiveness of such programmes will be measured in future.

Bob Leishman: That is certainly what we are recommending that the enterprise companies need to do.

Rhona Brankin: The other thing that was noticeable was the discrepancy in the cost per job figures. Why do you think that that has arisen?

Mr Black: If I may, I would like to respond to your prior remark. Essentially, what we are saying in the report is that we think that there is scope for Scottish Enterprise to look at the matter in the context of business transformation, to try to understand why there are differences, to ensure greater consistency that reflects differing local economic circumstances and to set clear performance targets for business support managers. Scottish Enterprise has signed up to that.

We do not fully know why there is huge variation in the cost per job. One reason is that some enterprise companies are providing financial assistance as well as business support. That will account for much of the variation. Bob Leishman might like to comment further.

Bob Leishman: Again, that goes back to the fact that, because the LECs have picked their companies in a different way, there is a different group of companies in each LEC, some of which may be more susceptible to changes in the economic climate. Areas such as Renfrewshire, which is heavily dependent on electronics, felt the downturn after 11 September more than did some other areas.

Rhona Brankin: The report found that, rather than just putting in money, the provision of advice was important.

Mr MacAskill: I always remember meeting Enterprise Ireland, although I appreciate the caveat that we are not making a comparison with Enterprise Ireland on the local level as opposed to the national level. It made two points. The first was that it was necessary to be prepared to back businesses substantially. Is there a perception that there is any restriction on that? Are we prepared to put in sufficient resources if it is felt that that is necessary, rather than continually to spread the load and, perhaps, the risk?

The corollary to that is ironic and difficult, both for Audit Scotland and for the Audit Committee. Enterprise Ireland's second point was that it had to be prepared to take risks and to accept that some ventures would fail. How can we factor in an allowance for a LEC to allow a failure—albeit a failure that happens in spite of the best intentions? We would usually call LECs to account for businesses that go under, but unless we allow some businesses to go under, we will not allow the successful ones to get through. What is your take on that?

Mr Black: I will give a two-part answer, if I may. On the issue of backing success and sustaining a commitment to success, I remind the committee that the programme that we are considering is relatively small—it spent only about £40 million over three years, which represents a very small proportion of Scottish Enterprise's annual budget. In appendix 6 of the report, we list the range of products and programmes that are delivered by LECs to the businesses that we examined. The number of items on that list is one short of 100.

As I said in my earlier remarks, it is important to emphasise that we are considering a very limited programme. It is one of the few programmes that have been designed to provide some assistance to establish businesses that local managers feel have growth potential. I do not for a moment want to detract from the range and depth of larger-scale support that is provided to the big employers and the big wealth generators in Scotland, which we did not examine at all.

With such reports, there is always a danger that accountable officers, chief executives and civil servants will think that auditors are encouraging them to be risk averse. I take every opportunity to emphasise that that is a misapprehension. My aim is to ensure that, before public money is spent, explicit consideration is given to the potential benefits and the potential risks. Provided that that explicit assessment has been carried out, I would not criticise people when enterprises occasionally fail to measure up. That applies to the programme that we are considering.

Our concern is that, in quite a number of LECs, records did not seem to be kept that explained why assistance was offered to particular companies, what assistance was being offered, or why, in quite a number of cases, that assistance seemed to continue to be provided to the same companies year after year, even though an evaluation had not always been made of the benefit that was being delivered.

George Lyon: Rather than the cost per job and so on, what I took from the report was the fact that almost two thirds of the businesses have been supported by their LEC for at least five years. There seemed to be no review process that demonstrated why the decision to continue to provide that support had been taken. Did you find any such criteria? Are any LECs evaluating why they are continuing to support businesses? I would have thought that LECs would have made a decision after two to three years about whether the continued provision of support was worth while. Have we ended up with a dependency culture, in which the firms cannot survive without the LEC business manager coming in every month? I take it that such support is provided monthly. Will you give us an idea of what the on-going support consists of?

11:15

Bob Leishman: The LECs are required to do a business plan with a company when they first engage with it and to review the plan annually. In our report, we say that that process is not quite up to date. Beyond that, the LECs are expected to contact the company by telephone roughly once every three months to assess whether the company has any plans for development or whether Scottish Enterprise has any thoughts on how the company could develop. The company and Scottish Enterprise work together. It is expected that proposals for new assistance would emerge from that on-going dialogue between the company and Scottish Enterprise.

From our point of view, the difficulty was that, although we had no doubt that such dialogue was going on, the results of it were not always recorded, so we could not say what justified the continued support. There was certainly no requirement to have an exit strategy for working with a high-growth company, whereby, if it reached point X, the LEC might want to move on and develop another company's potential. Such exit strategies were not there.

George Lyon: My understanding is that quite a number of the account managers are self-employed and are contracted to the LECs. Is that what you found when you examined the situation?

Bob Leishman: There is a mixture. Some LECs employ contractors.

George Lyon: Given that there is no review process, I assume that the account managers take the decision on whether the support should continue. What is the relationship between the account managers and the LEC as regards their remuneration? Is there a driver whereby it is easy for an account manager to keep going with the same company, provided that they can provide the assurance that it still needs on-going support? Is that a fundamental question that needs to be asked?

Bob Leishman: The contractors are paid on a daily basis. They are employed for 100 days. Any decision that they made or any proposal for assisting a company that they came up with would go through a rigorous process within the LEC; it would go right up to the LEC board.

George Lyon: That is what happens in the initial phase, but there is no such process for continued support. Is that right?

Bob Leishman: Once a decision has been made to engage with a company, if financial assistance for that company is sought at any time, specific approval has to be obtained for each tranche of such assistance.

George Lyon: I understand that, but I am asking about on-going management assistance. I am trying to get at how the decision on whether that should continue is made. Who makes that decision? Does the account manager, who is on a 100-day contract, make it?

Bob Leishman: Across the LECs, there is inconsistency in how companies that are thought to continue to have high-growth potential are identified.

George Lyon: That is likely to be the case if the account manager makes the decision.

That takes me on to another question. Across LECs, there is huge variation in the number of high-growth businesses per account manager. Can you explain that?

Bob Leishman: That goes back to how the businesses were identified in the first place, how many high-growth companies a LEC has and how many account managers the LEC is prepared to employ.

George Lyon: So the number of businesses per account manager is not related to the amount of work that the account manager has to do to provide assistance.

Bob Leishman: Scottish Enterprise probably needs to examine that issue.

George Lyon: So the answer is no.

Bob Leishman *indicated agreement*.

George Lyon: Okay. I think that we get the picture.

Robin Harper (Lothians) (Green): I wonder whether the two reports that we have been considering this morning have anything to learn from each other. I am looking at the graph of costs per job in the report on Scottish Enterprise. Scottish Enterprise Edinburgh and Lothian does best on that, but the cost per job in Scottish Enterprise Lanarkshire is huge—it is more than £25,000. Of course, Edinburgh and Lothian are one of the better-off regions in Scotland economically.

The perceptions that exhibit 1 in the report on local economic forums records are interesting. In Lanarkshire, businesses are not so worried about overlap in services, about public sector providers being in competition with one another or about the number of public sector providers of assistance, but in Edinburgh and Lothian nearly 50 per cent of those interviewed agreed that there was too much provision.

I am beginning to get confused, because we are auditing on the basis that we need to get rid of overlap, but from the figures we could conclude that overlap provides a clear benefit. Perhaps we need to consider the figures in a different way. There seems to be a correlation between the areas that are not worried about overlap and those in which the cost per job is much greater.

I have a second question that follows on from an earlier response that Bob Black made, which is—

The Convener: You had better get an answer to the first question first.

Robin Harper: I am not sure whether there is a question.

The Convener: You have raised an interesting point—although you nearly lost us—on the degree of overlap.

Mr Black: The Auditor General's last resort in answer to a question is to say, "Why don't you ask the accountable officer?" Having said that, I will make one point. I do not want to jump to premature or inappropriate conclusions on the basis of a limited study, but the economy of Edinburgh and Lothian is quite different from the economy of Lanarkshire and I expect that the fundamental factor in the differences that Robin Harper mentioned is a difference in economic structure and sub-regional economic performance. That implies that the assistance that is necessary to create employment in Edinburgh and Lothian, with their buoyant sub-regional economy, is much less onerous than the assistance that is necessary in an economy such as Lanarkshire's, which has clearly been under severe pressure because of the prevalence of manufacturing and related industries, for which global economic conditions have been different. I suspect that that is a significant factor in the variation in the cost per job. Nevertheless, that variation is so large that it would be helpful to suggest to Scottish Enterprise that it might want to consider the matter more fully.

I am not sure that I can help with the link to the report on local economic forums, but Arwel Roberts might have something to add on that. I ask him whether such a link can be made.

Arwel Roberts: That may also be a question for the accountable officer of Scottish Enterprise.

The Convener: That is not something with which the committee should be tempted lightly, because we are bound to take up the suggestion.

Arwel Roberts: We have not made that link, but the observation is interesting. Whether one should interpret the link as supporting overlap is another issue. I think that other factors apply, which may be tied to the economies involved.

Robin Harper: That brings me on to my second question, which concerns an earlier response by Robert Black: would it be useful to have a social indicator for assessing the worth of investments? Such an indicator could say that, in Lanarkshire, it is worth investing £25,000 because of certain local economic and social circumstances.

Mr Black: I suggest to the committee that that is essentially a policy matter. It depends on what the Executive intends the expenditure to be for.

Susan Deacon: I have a question about policy. I recognise that the Auditor General and his staff might want to plead the fifth on it, but perhaps he can clarify a couple of points so that we can put in context our thinking about where we go from here with the report on Scottish Enterprise. I am aware that there are on-going public discussions about what business Scottish Enterprise should be in, particularly because there have been recent changes in its leadership. Kites are often flown and reviews of the issue are put in place. Is the area of work that we are considering caught within the ambit of any current review or are there any plans on record for fundamental change to the way in which the Scottish Enterprise network offers support to high-growth businesses in Scotland? I am displaying my ignorance, because that information might be in the public domain, but I ask because the audit process has, by necessity, considered what is done at the moment, whereas, to enable us to consider where we go from here, we need an indication of whether there is likely to be significant change in the way in which such work is done. Will you give us an indication of what the thinking is? Any change would obviously affect our conclusions.

Mr Black: As I understand it, the formal position is that all non-departmental public bodies are subject to a five-yearly review. Scottish Enterprise will not be an exception to that, so there must be a prospect that some of those fundamental questions will be addressed at the next review. However, it would be for ministers to determine the scope of that review.

The business transformation project is a fairly recent commitment but, as committee members know from the evidence that they took from Scottish Enterprise's former accountable officer, a long-term, sustained commitment to the project has been given. On the evidence that is available to me, I think it unlikely that there will be a radical change in that area in the short term, but the matter might come up at some stage in a policy review.

Bob Leishman: "A Smart, Successful Scotland" is itself under review at the moment.

Margaret Jamieson: George Lyon made a point on the use of consultants versus in-house account managers. Is there a correlation between the cost per job created and whether a LEC uses consultants or in-house staff? Did the disproportionate staffing reductions in Scottish Enterprise have an impact on the cost per job?

Bob Leishman: We could not find any direct correlation between the cost per job and the mix of full-time staff and contractors and we did not examine the trend in staff overtime in the study.

Margaret Jamieson: Exhibit 2 in the report on Scottish Enterprise is worrying for me. I hope that the convener will forgive me if I focus on my area, Ayrshire. The unemployment level there is significantly higher than the Scottish average, but exhibit 2 tells us that there was no significant increase in employment for Ayrshire. In Lanarkshire, which has had the same level of unemployment over a longer period of time, the costs per job are significant. Did you examine how Scottish Enterprise allocates the LECs' budgets to find out whether it considers the underlying economic problems, the unemployment levels for each area and how to provide greater assistance to areas with higher levels of unemployment?

11:30

Mr Black: It is important to bear it in mind that Ayrshire, Dunbartonshire and Renfrewshire were excluded because there was no significant increase in employment in those areas. That does not mean that the LECs in question are not spending money. They are, but for all sorts of reasons—related principally to local economic structures and pressures, I am sure—there is no evidence of net job creation there. I suspect that a significant reason why the cost per job is comparatively high in Lanarkshire is that Scottish Enterprise Lanarkshire has been unable to create as many jobs as, for example, Scottish Enterprise Edinburgh and Lothian, which is at the other end of the spectrum. We did not explicitly analyse in the round the resources that were invested in the programme, but I am sure that Bob Leishman can provide details of spending in individual areas.

Bob Leishman: We must remember that the report relates to a very small part of the budget. We did not examine the whole budget-setting process, but we can give the committee figures for spending in each LEC area and the number of jobs that were created.

Margaret Jamieson: Bob Black hit the nail on the head. The information that is before us suggests that Ayrshire and Renfrewshire are working hard to stand still, whereas other areas are able to move beyond that and to grow the number of jobs. Perhaps the support that is provided to areas other than those that are attracting employment should be greater. Does Scottish Enterprise recognise that?

Bob Leishman: It certainly recognises the different economic circumstances in each LEC area. The case studies that appear in the report and to which Bob Black referred were designed to show that different factors were at play in different areas. We did not go into the issue of how Scottish Enterprise takes that into account in the budget-setting process. That may be an issue for the accountable officer.

Margaret Jamieson: It is certainly an issue that interests me.

Rhona Brankin: There is a high-growth unit within Scottish Enterprise. Is that something separate?

Bob Leishman: I do not immediately recognise a high-growth unit within Scottish Enterprise. We did not come across or examine any such unit as part of this exercise. It did not seem to feed into the report, even though the report deals with high-growth companies.

Rhona Brankin: I will try to clarify the matter. I was interested in the evidence that you found that advice was more effective than financial support. Can you say more about that?

Bob Leishman: We examined the relative amounts of advice and assistance provided in the different LEC areas. We found that the LECs that provided relatively more advice seemed to get better results than those that provided more financial assistance. That may be related to economic circumstances. In some areas it might be more necessary than in others to provide financial assistance to encourage businesses.

Rhona Brankin: Did you find that that was the case in similar local enterprise areas?

Bob Leishman: We think that Scottish Enterprise should carry out a study of that sort.

Rhona Brankin: It would be interesting if a comparison of two similar areas produced the same finding.

Bob Leishman: The problem is to find two similar areas to compare.

George Lyon: I return to my original question and the qualification that you made. Did you find any evidence of misuse of public funds, given the open-ended nature of the on-going management assistance that has been provided and the fact that there was no review process?

Mr Black: We found that the local enterprise companies had sound monitoring systems to ensure that the money that went out in financial assistance was spent for the purpose. The assurance that the systems were sound was general; I cannot give you an assurance for each and every local enterprise company in this and other programmes that every pound of public money is being properly spent, as the audit did not cover that.

The Convener: We are running approximately 15 minutes over time on this topic, so we will wrap up with my questions, but I am conscious that some members still have points that they want to pursue.

Robin Harper: My question is on exhibit 19 on page 31. Is it correct that the cost of account managers would be classed as advice?

Bob Leishman: By and large, yes.

Robin Harper: Is there anything to be learned from the summary of the spend? You found that advice is more productive than direct assistance, yet the balance of overall spending on high-growth businesses during the three years that were reviewed was that more than twice as much was spent on direct assistance as was spent on advice.

Bob Leishman: Scottish Enterprise should be considering that in some detail, yes.

The Convener: I have a number of questions about exhibits 20 and 25. Paragraph 3.18 on page 34 explains:

> "Dunbartonshire and Renfrewshire LECs were excluded because employment in their account-managed businesses fell over the period; Ayrshire LEC was excluded because employment in its account-managed businesses had increased by one job."

Margaret Jamieson suggested that Ayrshire is working hard to stand still. Is it possible to determine whether the service is failing or to establish whether, if the service had not been provided, the employment situation would have been worse? Can we tell that given the way in which the survey information is gathered?

Mr Black: The short answer is that we cannot tell. Our study stopped at the point of reporting that, in some areas, there has not been a net increase in jobs, which was one of the basic performance measures that were laid out for the programme. Therefore, there is an issue that Scottish Enterprise should address.

The Convener: The decision not to include those three LECs means that in exhibit 25, Lanarkshire is portrayed as the worst case when the other three LECs' performance was worse, because they had either an increase of only one job or a negative increase. What was the reason for not including those three LECs? Although you have explained it, you can see from today's discussion that the focus has been on Lanarkshire.

Arwel Roberts: Exhibit 16 on page 24 shows the relative position of the LECs, and it also shows the loss of jobs in the two areas that you mention.

I have one point in response to your earlier question. When Scottish Enterprise is providing financial support, it is concerned that that support should be additional. In other words, the support is value added and does not provide financial support for something that would happen automatically without that support. One then gets into the technical area of what additionality represents. Usually it is taken to mean an increase in employment, but it can be taken to mean that it is as economically viable to preserve jobs as it is to create them. That is the point that you were making earlier. Providing support might have meant no loss of jobs rather than the creation of new ones. From an economic point of view, that is positive.

The Convener: I follow that answer and thank you for explaining further.

I finish by referring to exhibit 25, on the cost per job, which has been of interest to members. If one takes that together with exhibit 20, which shows the average support for businesses over three years, one sees that the average support per business in Edinburgh and Lothian was roughly £12,000 and the average cost of a job was £2,000. That suggests that the average spend on a business generated six jobs. However, in Lanarkshire the average spend was £41,000, which produced fewer than two jobs.

Those are the bare facts. We are not able to tell, for instance, that in one area where there was previously heavy industry and manufacturing a large number of employees needed help to find new jobs or that, in an area such as Edinburgh, there are many service industries in the financial, leisure and tourism sectors. Was any information available on what the spend was going on, which might help to explain the differential between the performances?

Mr Black: No, we did not attempt to go into that level of detail in the study. That would have been impractical for us. The nearest that we got to it is on page 26, where we give case studies from Dunbartonshire, Renfrewshire and Grampian. I am sorry that we did not include a case study for Lothian, but the same message applies there.

As the case study indicates, there is a buoyant economy in the Grampian area—we all recognise that. Scottish Enterprise Grampian has been providing support through access to incubation units. I am no expert, but I would say that that kind of intervention would probably be less appropriate in an area such as Dunbartonshire, where the economy is under severe pressure. We need to recognise that the mix of intervention that we see across Scotland will vary because the local economic circumstances vary. There is a limit to how far we can infer conclusions from this limited study of one programme.

Arwel Roberts: It is also worth remembering that the report is about assistance that is provided to companies that have been identified as having potential and that the term "potential" is not finite. The degree to which companies need assistance to achieve their potential and what that potential is will vary from area to area. In some areas, achieving potential will be easier because it just involves an expansion of existing facilities or structures; in others, achieving potential will involve a complete reorganisation and retraining of staff. Although there is a baseline for potential, the definition will vary depending on where it is applied.

The Convener: Thank you for those answers, which have helped to clarify some aspects of the report, especially the issues surrounding the figures for the cost per job. Under agenda item 6, members will have the opportunity to discuss how we will approach the report. The next agenda item is to be taken in private. We will take a comfort break of 10 minutes and then resume in private session.

11:44

Meeting suspended until 11:56 and thereafter continued in private until 12:32.

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Printed in Scotland by The Stationery Office Limited

ISBN 0 338 000003 ISSN 1467-0178