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South of Scotland Enterprise Bill

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The Scottish Government introduced the South of Scotland Enterprise Bill on 24 October 2018. This will create a new enterprise agency as a non-departmental public body with the goal of supporting the economic and social development of the South of Scotland, defined in the Bill as the Scottish Borders and Dumfries and Galloway council areas. With parliamentary approval, it is anticipated that the new body will be established on 1 April 2020.

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Executive Summary

The launch of the new South of Scotland Enterprise (SoSE) agency will see the biggest change to the economic development landscape of Scotland since the reforms of 2007 and 2008.

If the Scottish Government's proposed timings are achieved, SoSE will become operational in April 2020. Before then, the South of Scotland Economic Partnership is expected to prepare the way for the new agency, bringing a different approach to economic development.

The idea of a new enterprise agency for the South was first announced by the Scottish Government in 2016, during Phase 1 of its Enterprise and Skills Review. The Government believes this development, alongside a range of other measures, is necessary for Scotland to achieve a "transformational step change" in its economic performance.

The South of Scotland - defined by the Government as the combined Scottish Borders and Dumfries and Galloway local authorities area - underperforms across a range of economic indicators (as do some other areas south of the central belt not covered by SoSE).

The Enterprise and Skills Review and subsequent consultation found a number of specific challenges the South needs to overcome. These include demographic challenges, transport and digital connectivity issues and various fragile communities spread across the area.

The South has a strong asset base which is also discussed in this paper, including a beautiful natural environment, good strategic locations, a high number of SMEs and a strong sense of community.

Over the past year, the Scottish Government has engaged in a lengthy and thorough consultation process with the people, organisations and businesses of the South. This Bill is an important step towards meeting the expectations of these people, most of whom appear to welcome the creation of the agency.

The Bill establishes SoSE as a non-departmental public body with a range of powers. It sets out the aims of the new agency and the requirement for a board, staff and an action plan.

It also sets out provision for a number of operational matters and accountability processes, as well as defining the relationship between SoSE and the Scottish Government.

This briefing looks at the various provisions of the Bill and finishes with an analysis of the Financial Memorandum, which is largely modelled on the costs and staffing levels of Highlands and Islands Enterprise.

Background

The last major reform of enterprise support took place in 2007 and 2008. Changes introduced by the newly elected SNP government were aimed at making Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE) more focussed on the goal of "delivering sustainable economic growth" across the Scottish economy as a whole [1] .

In terms of organisational changes, the 2007 reforms resulted in the transfer of Careers Scotland and skills activities from SE/HIE to Skills Development Scotland (SDS), and the transfer of Business Gateway and local regeneration activities to local authorities.

Previous to these reforms the two enterprise agencies had mainly operated through a decentralised structure of Local Enterprise Companies (LECs). There were 10 LECs in the HIE area and 13 in the SE area. It was announced that LECs were to be replaced in the Scottish Enterprise area by five regional operations, each with their own business-led regional advisory board. These were

- Grampian (Aberdeen City and Shire)
- Tayside (Dundee, Perth & Kinross, Angus)
- East and Central Scotland (Edinburgh, the Lothians, Fife, Clackmannanshire, Falkirk, Stirling)
- South of Scotland (Borders, Dumfries and Galloway)
- West Central Scotland (Glasgow, Renfrewshire, Inverclyde, Dunbartonshire, Ayrshire and Lanarkshire).

The advisory boards were intended to play a key role in identifying and shaping potential new projects and programmes within their regions. However, these boards ceased to exist in 2015/16.

None of these reforms required legislation and most were implemented by 1 April 2008.

Journey to legislation

For more than a decade, enterprise support has been delivered through the structures put in place by the 2007/08 reforms. Over that period, the enterprise agencies have consistently met or exceeded most of their own targets. Nevertheless, by 2016 it was clear that the country *as a whole* was underperforming against a range of targets set by the Scottish Government in 2007 (see its National Performance Framework [2]). Audit Scotland concluded that it had not been possible to assess the enterprise bodies' contributions to the Scottish Government's economic targets [3] , despite the fact that between them they had spent around £4 billion of public money since 2008 (in 2017/18 prices). Scotland's productivity had hardly changed relative to other similar economies over that period, regional disparities in labour market performance within Scotland had actually widened, as had income inequalities.

Enterprise and Skills Review

Opening Session 5 of the Scottish Parliament, the First Minister announced an end-to-end review of Scotland's enterprise and skills bodies in her Taking Scotland Forward speech of May 2016. [4] . The review's terms of reference acknowledged that for the Scottish Government to achieve its economic aspirations , Scotland needs to see a "transformational step change in our performance across a range of outcomes" [5] .

Phase 1 of the Enterprise and Skills Review reported in October 2016. One of its headline recommendations was the creation of a "new vehicle to meet the enterprise and skills needs of the South of Scotland".

The review process had brought to the fore a number of challenges facing the economy of the Scottish Borders and Dumfries and Galloway areas, namely:

- an ageing population with an out-migration of young people;
- relatively low levels of productivity and GDP growth;
- transport and digital connectivity challenges;
- higher concentrations of low-paying, lower-skilled sectors;
- a number of "fragile" communities across the region;
- relatively low levels of private sector investment and research and development [6] .

Addressing these issues has become a priority for the Scottish Government, especially as the Highlands and Islands region experiences very similar challenges and has the long-established Highlands and Islands Enterprise (HIE) to help address them. An agency like HIE specifically for the South of Scotland will, according to the Scottish Government, address this "inconsistency" [7] .

Phase 2 of the Enterprise and Skills Review provided more clarity on what the role of the new agency should be, how it would be structured and defined the geographic area within which it should operate [6] . According to the Government's report, the new organisation "will operate with a clear understanding of the assets, challenges and opportunities of the economy of the South of Scotland". These are explored in some detail later in this chapter.

Consultation on a new agency

The Scottish Government ran a consultation on the planned enterprise agency for the South of Scotland between March and June 2018. The consultation document reiterated the three broad and interrelated areas the new organisation should aim towards:

- Maximising the area's contribution to Scotland's inclusive growth.
- Sustaining and growing communities.
- Capitalising on people and resources, for example skills [8] .

Almost 270 responses were submitted to the online consultation, and these were supplemented by 26 engagement events held across the South of Scotland area, organised and publicised by the Southern Uplands Partnership. The Government then commissioned independent analysis of the consultation responses with the aim of informing the content of the current legislation and shaping the structure of the new body [9]

Almost 90% of respondents supported the Scottish Government's ambitions for the South of Scotland, as set out above. Furthermore, a number of respondents identified the following as being important areas where the new agency could make a difference:

- increasing productivity;
- improving employment opportunities and wages;
- sustainable approaches to the economy;
- the need to diversify the economy;
- economic regeneration;
- a focus on young people;
- infrastructure developments, specifically the need for improved East-West transport links [9] .

The geographic coverage of the new agency and the Government's definition of "the South" were questioned by some respondents. The consultation document accepts the previously agreed position that the agency will be restricted to the combined areas of the Scottish Borders and Dumfries and Galloway local authorities. Nevertheless, some respondents - for example South Lanarkshire Council, Foundation Scotland and Galloway and Southern Ayrshire Biosphere - argue that other areas of Scotland out-with the Central Belt and the HIE area share many of the characteristics and economic challenges faced by the proposed South of Scotland Enterprise area. This issue will be explored in more detail in a later section.

The consultation also asked interested parties about activities the proposed agency should prioritise, specifically what the agency could do to help grow businesses and support communities. Respondents suggested a number of priorities, including:

- Attracting new sectors to the South of Scotland.
- Branding and marketing the South of Scotland.
- Investing in infrastructure.
- Developing tourism and investing in town centres.
- Supporting and working together with local businesses, including social enterprises.
- Building community capacity, for example funding community groups.
- Promoting social and cultural activities.
- Capitalising on older and local people.

- Creating a value-added economy and fostering innovation.
- Supporting individuals to train or upskill.
- Providing opportunities for young people.
- Advoccating for the South of Scotland at a national level. [8]

South of Scotland Economic Partnership

The Scottish Government established the South of Scotland Economic Partnership (SoSEP) in January 2018. Chaired by Professor Russel Griggs OBE with its day to day activity co-ordinated by Rob Dickson, SoSEP brings together individuals from the private, third and education sector with the seven public sector agencies supporting economic development in the South. The Scottish Government expects the Partnership to bring a fresh approach to economic development, to take forward stakeholder engagement and pave the way for the new agency:

In its 2018/19 budget the Scottish Government made available £10m to support work in the South of Scotland, including SoSEP activity. To date (November 2018), seven projects have been announced:

- investment in a Centre of Excellence in Textiles in the Borders,
- a South of Scotland Skills & Learning Network (with Borders College and Dumfries and Galloway College),
- a Strengthening Communities Programme (building on the approach taken in HIE),
- funding for progression of the Annan Regeneration project,
- investment in a social enterprise programme to build community capacity across the south of Scotland;
- a feasibility study to establish the viability of a new bunk house in Newcastleton; and
- a research project to collect and analyse data on the current barriers to business growth in the South of Scotland.

What is "the South"?

The Scottish Government clearly sees the South of Scotland as a distinct area requiring a “tailored approach” to economic development. It is certainly obvious from the following section that the Scottish Borders and Dumfries and Galloway areas have a number of challenges to overcome.

However, it is not the only part of Scotland experiencing economic, social and demographic problems. In terms of GVA per head, for example, neither area is even in the bottom 5 of Scottish local authority areas. It has long been the case that East Ayrshire and

North Ayrshire perform less well across a number of key economic indicators, for example output per head, unemployment and economic inactivity.

In the Scottish Government's analysis of consultation responses, it was noted that some respondents questioned the geographical boundaries of the “South of Scotland” as defined in the Review and subsequent Bill. They suggested that rural communities in other local authority areas – for example some in South Ayrshire, East Ayrshire and South Lanarkshire - could be included within the scope of the Agency. It was felt that these areas face similar problems to Dumfries and Galloway and the Scottish Borders and could therefore also benefit from the agency's activities and its combined focus on inclusive growth, community and skills development [9] .

Nevertheless, the Government insists a consensus has emerged that the new organisation should operate in the local authority areas of the Scottish Borders and Dumfries and Galloway. This reflects "the economic context and the similarity of challenges faced in those two areas ensuring clarity for those using services and ensuring a focus on tackling the specific challenges of the area." [6]

With regards the geographical boundaries, the Scottish Government were keen to highlight the following developments relevant to neighbouring areas:

- The Scottish Government is committed to new Regional Economic Partnerships, as set out in the Enterprise and Skills Review, representing every community in Scotland.
- These partnerships will build on the lessons learned from City Region and Growth Deals, bringing together a range of partners: local authorities, enterprise and skills agencies, education and skills providers and – crucially - the private sector to align priorities and resources to drive inclusive economic growth.
- There are existing regional economic partnerships in Aberdeen City and Shire, and in Glasgow City Region - which includes South Lanarkshire – and Regional Economic Partnerships in development in many other areas of Scotland.
- The three Ayrshire Local Authorities have agreed to create a Regional Economic Partnership, and are developing a shared regional economic strategy to support this. The region is also in the latter stages of developing a growth deal, which would see significant investment into the regional economy from the Scottish and UK Governments, as well as unlocking private sector investment. The Regional Economic Partnership structure will help maximise the impact of investment decisions taken in the long term, over and above growth deal spending, to drive inclusive economic growth in the region. [10]

The economy of the South of Scotland

The Enterprise and Skills Review spoke about the area's "distinct economic needs" and its "unique challenges". The Scottish Government produced an evidence paper for discussion with SoSEP (available to view in SPICe) which analyses available data sources to show the various economic, geographic and demographic challenges faced by the South. These include:

- Low population density - 24 people per square kilometre, compared to 70 for Scotland as a whole. There are obviously no cities in the area, and the largest town is Dumfries with a population of 33,000.
- The South of Scotland has a lower proportion of working age population compared to the Scottish average. Population projections forecast further reductions over the next decade.
- GVA per head is 24% below the Scottish average.
- The business start-up rate is considerably lower in Dumfries and Galloway than the Scottish average; 31 business registrations per 10,000 people compared to 50 across Scotland as a whole.
- Median weekly earnings are 10% lower than the Scottish average.

The Scottish Government's recent consultation also found a number of strengths and assets enjoyed by the area, some of which are rather more difficult to find in official statistics. These include:

- Strong community spirit, characterised by a high degree of cohesion, resilience and commitment to the local area.
- A natural environment that provides a high quality of life, a good place to raise a family and plenty of opportunities for healthy living.
- A rich historical and cultural heritage, particularly important in terms of developing the area's tourism industry.
- Good strategic location, being relatively close to Newcastle, the Central Belt of Scotland, and Northern Ireland. [9]

Current Scottish Enterprise provision and spend

Scottish Enterprise currently account manages 107 companies in the South – 42 in Dumfries and Galloway and 65 in the Scottish Borders. Around 25 of these companies are in food and drink sectors, 15 in technology and engineering, 15 in textiles, 12 in chemical sciences and 7 are in tourism sectors.

Over the past two years, SE has spent between £3 million and £5 million each year – in both grants and services – supporting companies headquartered in the area. They also support a number of companies which are headquartered elsewhere but have operations in the area.

In terms of account management, Scottish Enterprise uses a range of criteria to determine eligibility. They consider the following:

- Does the company have Authority/Autonomy in Scotland? (for example, do they have strategic decision-making powers in Scotland, do they set their own priorities and targets, are there separate budgets and accounts)?
- Is the management able and willing to engage at a strategic level?

- Does the company have £1m+ projected turnover growth over the next 3 years?
- Does the company have export activity potential?
- Are there clear barriers to growth (i.e. does this company have challenges that will benefit from public support)?

According to Scottish Enterprise: "while there is no specific regional variation to those considerations, SE has responded to the Enterprise & Skills review by allowing a level of flexibility to be built in to this service, reflecting the needs of each region."

Bill content

Appearing almost two years to the day after the publication of the Enterprise and Skills Review's Phase 1 report, the South of Scotland Enterprise Bill was introduced by the Cabinet Secretary for the Rural Economy, Fergus Ewing MSP, on 24 October 2018 [11] .

The Bill will create a new enterprise agency with the goal of supporting the economic and social development of the South of Scotland, defined in the Bill as the Scottish Borders and Dumfries and Galloway council areas. It consists of 22 sections and is accompanied by explanatory notes, a policy memorandum, a statement on legislative competence, a delegated powers memorandum and a financial memorandum [11] .

The Scottish Government has also published a Business and Regulatory Impact Assessment (BRIA) and an Equality Impact Assessment (EIA) for the Bill. The former analyses the likely costs and benefits of the Bill to businesses and the third sector, and the EIA summarises the potential positive and negative impacts the Bill may have on groups with protected equality characteristics.

Sections 1 to 4 - establishment of South of Scotland Enterprise (SoSE)

These initial sections include provision for the establishment of the new body in law. They also specify the requirement for a chair, a board of between 6 and 11 members (including the chair), and a chief executive. The Bill makes it clear that the agency is not a Government department and its staff are not to be regarded as civil servants.

The agency is established as a "body corporate". In other words it has a legal personality separate from that of the people who comprise it; members of the board are not, ordinarily, personally liable for things done by the new agency [12] .

There is a range of existing public bodies legislation that will apply to South of Scotland Enterprise (SOSE). Section 4 points to Schedule 2 in the Bill which specifically lists the various acts that will apply to the new body. These relate to:

- ethical standards in public life;
- the Scottish Public Services Ombudsman;
- freedom of information and data protection;
- public appointments;
- records management;
- community empowerment; and,
- gender representation on public boards.

The Bill's explanatory notes (see paras. 60-70) include more information on how existing legislation in these areas will apply to the new body.

Section 5 - aims of SoSE

Section 5 sets out the aims of the new agency, but clearly does not specify *how* these are to be achieved. That will be up to the new board to decide, and the Scottish Government to agree, once the agency is up and running.

The top level aims of the new agencies are to:

> (a) further the economic and social development of the South of Scotland, and
>
> (b) improve the amenity and environment of the South of Scotland.

More detail of what is meant by furthering economic and social development is also included in the bill:

(a) supporting inclusive economic growth,

(b) providing, maintaining and safeguarding employment,

(c) enhancing skills and capacities relevant to employment,

(d) encouraging business start-ups and entrepreneurship,

(e) promoting commercial and industrial—

> (i) efficiency,
>
> (ii) innovativeness, and
>
> (iii) international competitiveness,

(f) supporting community organisations to help them meet their communities' needs.

This list is relatively detailed; however, it is somewhat shorter than the list of powers included in Section 8 of the Enterprise and New Towns (Scotland) Act 1990, the Act establishing Scottish Enterprise and Highlands and Islands Enterprise as we now know them. For example, the 1990 Act granted SE and HIE some compulsory acquisition powers which aren't included in the current Bill. Asked about this specific point during a Stage 1 evidence session, the Scottish Government bill team confirmed:

> "It is fair to say that a lot of the complexity in the 1990 act surrounds powers that—as a matter of policy—the Government is not proposing to give to south of Scotland enterprise. Those powers include compulsory purchase powers, powers to enter on to land without permission, and powers to require people to give information under penalty of criminal sanction for not providing it. As a matter of policy, those powers are not being pursued for the south of Scotland agency." [13]

Section 5, Subsection 3 states that the Government can modify the list of aims through regulations if they so wish.

Also of interest in the list of aims are those relating to skills enhancement and business start-ups. As mentioned in the Background section of this briefing, skills and small business support have been important functions of Skills Development Scotland and local authorities, respectively, since 2008. The inclusion of these aims within the Bill underlines the fact that a number of other public bodies operating in the south, not just Scottish Enterprise, will be impacted by the creation of SoSE.

The addition of the community development aim confirms the Government's hope that the new agency will have a similar role in the South as HIE has across the Highlands and islands (as confirmed in the Bill's Financial Memorandum). As far back as the Enterprise and Skills Review Phase 2 report, the Government insisted the new body should "sustain and grow communities – building and strengthening communities with joined up economic and community support". This is a key function of HIE - it spends around 7% of its budget on "strengthening communities", providing services such as supporting social enterprises, promoting and supporting community-asset ownership, helping develop community energy opportunities and supporting communities as they commercialise their various cultural and heritage opportunities [14] .

Sections 6 and 7 - action plan and general powers

Section 6 of the Bill requires SoSE to produce a plan setting out how it intends to achieve its list of aims, as discussed in the previous section. The plan, and any modifications made to it at a later date, must be approved by Ministers. The Bill does not specify how often action plans need to be updated nor when the first one should be published; the Bill simply requires SOSE to keep its plan "under review". Currently, both SE and HIE publish revised business/operating plans each year.

The General Powers section of the Bill (section 7) states:

"South of Scotland Enterprise may do anything which appears to it to be -

a) either -

ii) necessary or expedient for the purposes of, or in connection with, achieving its aims or the performance of any of its other functions, or

(ii) otherwise conducive to the performance of its functions, and

(b) consistent with its action plan."

The limit on SoSE's general powers is contained in subsection (1)(b), i.e. all activity must be consistent with SoSE's action plan; however, specifications on what level of detail should be contained within the plan are not in the Bill. According to the Policy Memorandum, such flexibility is important "to enable a fresh approach, informed by the economic context, and for activities to evolve and change over time to respond to circumstance".

Section 7, subsection (2) provides examples of some the activities SOSE can engage in, for example entering into contracts, acquiring and selling land, providing grants, etc. The Explanatory Notes make it clear that this list is not exhaustive.

As is the case with Scottish Enterprise and HIE, SoSE will be able to charge for some services.

Sections 8 to 12 - operational matters

The Policy Memorandum highlights the Scottish Government's ambition to establish an enterprise agency "operating in the south of Scotland, for the south of Scotland" [15] . Section 8 therefore ensures that SoSE will be headquartered in the south without specifying where the location(s) will be. The location(s) will be announced by the Scottish Government after further consultation, with the Policy Memorandum stating:

> "It is vital that the new organisation is accessible to businesses and communities across the south of Scotland, and this will be taken into consideration when decisions on location, operational structure and approaches to service delivery are being made. Co-location with other organisations will be considered to ensure cost-effective and joined up delivery which is visible and accessible to all stakeholders."

Other operational matters covered in the Bill relate to the setting-up and running of committees. For example, sections 10 and 11 enable the new agency to determine its own procedures regarding committees, including their functions and membership.

Sections 13 to 16 - accountability and ministerial powers

Like most other public bodies in Scotland, the new agency will be required to publish annual accounts and reports, with financial accounts being audited by the Auditor General. According to the Policy Memorandum, "these will be important tools to provide a strategic and transparent approach and in delivering ministerial oversight". The Explanatory Notes remind us that because sections 21 and 22 of the Public Finance and Accountability (Scotland) Act 2000 apply to the new agency, that "the Auditor General for Scotland can look into whether it has been using its resources appropriately".

Sections 15 to 16 establish the relationship between SoSE and the Scottish Government. Fundamentally, the Bill places the agency under a legal duty to comply with ministerial directions in carrying out its functions. It also requires the Scottish Government to publish these directions - an important requirement when it comes to Parliamentary scrutiny.

The 1990 Act - establishing Scottish Enterprise and HIE - also included provision for Scottish Ministers (the Secretary of State for Scotland previous to 1998) to give "directions of a general or specific character as to the exercise of its functions; and it shall be the duty of the body in question to give effect to any such directions". The most obvious and regular embodiments of this provision are the letters of guidance issued to SE and HIE (as well as to SFC and SDS) each year by the Scottish Government. These confirm budget allocations for the year and provide strategic guidance to the agencies which they must follow.

The financial relationship between the Government and SoSE is set out in Section 16. This provides a statutory basis for the Government to give financial support - for example grants, loans, guarantees and indemnities - to South of Scotland Enterprise. It also enables the Scottish Government to attach conditions to such financial assistance. As the overwhelming majority of SoSE expenditure will be in the form of Scottish Government grant-in-aid, this is an important provision.

Section 17 - transfers from Scottish Enterprise

Clearly, the new agency will assume responsibility for much of what Scottish Enterprise currently does in the south (although SE will continue to manage and deliver various nation-wide services such as Regional Selective Assistance and the Scottish Manufacturing Advisory Service). As such, the Bill makes provision for the transfer of properties and liabilities from SE to the new agency. The Bill does not specify what these will be, or indeed when this will be, as these decisions will be made by the Government after consultation with SE and SoSE. What will be transferred, and when, will therefore be determined by regulation, requiring the agreement of Parliament.

Schedule 1, enabled by Section 2 of the Bill, allows for the appointment of SoSE staff, including a provision that the terms and conditions of SoSE staff will require the approval of Scottish Ministers. Although the Bill itself does not mention the transfer of staff from SE and other agencies to SoSE, this will be a major consideration, not least to those individuals directly impacted. The Policy Memorandum sheds some light on the issue:

> "Some staff from existing organisations may transfer to the new body. While it is not possible at this stage to specify how many staff may transfer, the Transfer of Undertakings (Protection of Employment) Regulations or the Cabinet Office Statement of Practice will apply to any transfers that take place. The Scottish Government will engage early with potential organisations impacted to establish what staff transfers (if any) will be required."

Section 18 - interpretation

The "South" as an entity does not currently exist in any recognisable administrative (or indeed historical or cultural) form. There are many communities in South Ayrshire, East Ayrshire and South Lanarkshire, for instance, that are far more southerly than many of the areas covered by this Bill, and most will share similar economic, social and connectivity challenges. Nevertheless, the Bill sets out in section 18 that the definition of the South of Scotland is restricted to the Dumfries and Galloway and Scottish Borders council areas, at least for the purposes of this legislation. The Scottish Government's reasons for doing so has already been discussed (see "What is the South?" section).

Financial Memorandum

According to the Scottish Government, the Bill's Financial Memorandum (FM) gives a best estimate of set-up costs and operating costs for SoSE. The costings included here are largely based on Highlands and Islands Enterprise's budget, the organisation most similar in scope and geographical reach to SoSE.

There are three parts to the FM: 1) one-off costs associated with the creation of the new body; 2) recurring annual running costs; and 3) illustrative total budget allocations in future years.

1) One-off starting costs

This section of the FM highlights likely costs of recruitment, ICT, branding and website, and estates. The latter has the widest range of possible costs, ranging from £542,000 to £2,656,000 in 2019/20 (the year leading up to launch). This specific issue was raised by the Rural Economy and Connectivity Committee with the SG Bill Team on 28th November. The Bill team explained:

> "...we were looking at all sorts of different possibilities for what the estates and the geographic footprint of the new agency might look like. At the higher end, the costs assume that we would need to fit out a building from scratch; at the lower end, it is much more about co-location." [16]

As discussed above, the decision of headquarters has yet to be made and could take the form of one of several possibilities. The total one-off costs, therefore, in the four year period between 2017/18 and 2020/21 are estimated to be between £2.6 million and £5.3 million.

2) Recurring costs

Much of the recurring cost is expected to be for staff, based as it is on the likelihood of the agency employing between 125 and 175 people. The FM expects two-thirds of staff to be in place during the first year of operation (2020/21), building up to full complement in year two when the wage bill is anticipated to be around £10 million. This works out as average staff costs of £57,000 per person (which will include salary, national insurance and pension contributions).

3) Total budget allocations:

The FM stresses that decisions about overall budget allocations are entirely up to future Scottish governments. Nevertheless, it is anticipated that once the organisation is operational in 2020/21 it could have a budget of £32 million, going up to £42 million in 2022/23. These figures include the recurring costs discussed above.

The illustrative budget allocations are based on a per-head equivalent of the current HIE budget: there are 448,000 people living in the HIE area and the SG allocation to HIE is £71.6 million (according to the most recent letter of strategic guidance). This works out at £160 per head, and given that the population of the South is approximately 265,000, an illustrative budget of £42 million is about right.

However, as noted by the Rural Economy and Connectivity Committee on the 28th November, the illustrative allocation is not expected to reach £42 million until 2022/23, during its third year of operation. Asked why, the Scottish Government Bill Team replied:

> "Our assumption is that we will build up to the full allocation. In the first year, the agency will not have its full staff or its full capital programme in place. The members of the agency will want to plot out that capital programme and where those resources can be used most effectively. We took the view that the agency would need two or three years to get to that point..." [16]

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