

OFFICIAL SENSITIVE
MINISTERIAL ENGAGEMENT BRIEFING: HIGHLANDS AND ISLANDS
ENTERPRISE MEETING 2 MARCH 2017

Copied to: Cabinet Secretary for the Rural Economy and Connectivity
Liz Ditchburn
Mary McAllan
Oonagh Gil
Marion McCormack
Gavin Gray
Sam Anson
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| <i>Engagement Title</i> | Meeting with Highlands and Islands Enterprise (HIE) Chair, Chief Executive and Board. |
| <i>Timing</i> | Routine. |
| <i>Organisation/Venue (and full address including postcode)</i> | HIE, Q1.04 Parliament |
| <i>Date and Time of Engagement</i> | Date(s): Thursday 2 March 2017 Time(s): 09:30 – 10:15 |
| <i>Background/Purpose</i> | At his strategic guidance meeting with HIE on 2 December Mr Ewing suggested that a similar meeting be held with you and the Deputy First Minister to explain HIE's thoughts and discuss the Enterprise and Skills Review. MACCS Case 2017/0000282 refers. |
| <i>Relevance to Core Script</i> | Wealthier & Fairer. |
| <i>Greeting Party and specific meeting point on arrival</i> | The Chair, Chief Executive and Board will intimate their presence on arrival at Parliament. |
| <i>Special Dress Requirement</i> | None. |
| <i>Event Programme</i> | 09:30 – 10:15 – Reflections/ progress on the Enterprise and Skills Review, following publication of the phase one report. |
| <i>Summary Page and Events Programme</i> | Annex: A |
| <i>Biographies</i> | Annex: B |
| <i>Enterprise and Skills Review Governance Workstream</i> | Annex: C |

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| <i>Enterprise and Skills Review</i> | Annex: D |
| <i>Board Appointments and Composition</i> | Annex: E |
| <i>HIE Business Planning Process and Strategic Priorities</i> | Annex: F |

**MINISTERIAL ENGAGEMENT BRIEFING: HIGHLANDS AND ISLANDS
ENTERPRISE MEETING 2 MARCH 2017****SUMMARY PAGE AND EVENTS PROGRAMME****Purpose**

The meeting has been arranged at the request of HIE to provide the Cabinet Secretary an opportunity to meet the Chair and Board members of HIE. HIE has intimated that it presumes the main agenda item will be the current Enterprise and Skills with the Cabinet Secretary providing an update on the Enterprise and Skills Review from his perspective.

Participants

The meeting will take place with HIE Chair, Professor Lone Crerar and Interim Chief Executive, Charlotte Wright and Board members. The following will attend the meeting:

HIE Board

Lorne Crerar (Chairman)
Charlotte Wright (Interim Chief Executive)
Alistair Dodds
Donald MacRae
Amanda Bryan
Belinda Oldfield
Paddy Crerar

Timing & Location

The meeting will take place in the Cabinet Secretary's Room (Q1.04) at Parliament between 09:30 and 10:15.

Official Support

Official support will be provided by **Redacted** and Gavin Gray (**Redacted**).

Agenda

No set agenda has been provided for the meeting however, it is expected that HIE will take the opportunity to explain its thoughts and discuss the Review at first hand, with a particular focus on how HIE can continue to maximise the contribution the Highlands and Islands makes to economic growth, both regionally and nationally. HIE has also intimated that it would be helpful if the Cabinet Secretary could provide an update on the Enterprise and Skills Review from his perspective.

Scottish Government Issues

No pressing issues have been identified for discussion at this meeting.

Redacted, Enterprise and Cities Division, Ext: **Redacted**

February 2017

BIOGRAPHIES

BOARD

Professor Lorne Crerar, Chair



Lorne joined the Board of HIE in April 2008 and was appointed Chairman in March 2012.

Lorne is a founding partner and Chairman of leading Scottish commercial law firm Harper Macleod LLP, which has offices in Glasgow, Edinburgh, Inverness, Lerwick and Thurso. From its very small beginnings Lorne has built a practice which is one of the largest in Scotland and comprises 72 Partners with a total compliment of 402. HM

became a Living Wage employer in 2015 and recently won the CSR award at the Scottish Business Awards.

Charlotte Wright, Interim Chief Executive



She has been with HIE since 1997 and held a number of roles in Lochaber before being appointed as the agency's regional director for Highland in 2008. Since 2010, she has held the position of Director of Business and Sector Development, based in Fort William and Inverness. Prior to joining HIE, Charlotte ran her own small business. She also has past experience as a manager with the NHS.

Amanda Bryan



Amanda is currently Forestry Commissioner for Scotland and Chair of the FC's National Committee for Scotland, Chair of the Isle of Eigg Heritage Trust and a member of Ofcom's Advisory Committee for Scotland. She also lectures part time at the Scottish School of Forestry and is an active member of Changing the Chemistry, an organisation that seeks to increase diversity of thought on boards.

Paddy Crerar



Paddy joined the Board of HIE in April 2014. His primary role is Chief Executive of the Crerar Hotel Group. He has board level experience of community enterprise and co-operative companies in the Hebrides and is an independent strategy consultant. He also owns and operates two agricultural enterprises. He is passionate about developing opportunities and ambitions within Scotland, particularly the Highlands and Islands.

Alistair Dodds CBE



Alistair joined the Board of HIE in April 2014. Alistair held senior management positions in the Highland Council over a period of 18 years in HR and Corporate Governance and was Chief Executive for over 6 years until August 2013. He has a good understanding of remote and rural areas, been directly involved in significant public sector reform and delivered the benefits from strong and effective partnership working with the public, private and third/voluntary sectors.

Donald MacRae OBE



Donald joined the Board of HIE in April 2014. Donald was a member of the committee of inquiry on crofting, a member of the Rural Development Council and the Land Reform Review Group and is currently an independent member of the Skills Committee between the Scottish Funding Council and Skills Development Scotland. He is a fellow of the Royal Society of Edinburgh; a Member of Court at the University of the Highlands and Islands; and a Member of the David Hume Institute. He was awarded an OBE in 2011 for services to Business and Rural Development.

Belinda Oldfield



Belinda joined the Board of HIE in April 2016. Belinda was a shadow Board member of Highlands and Islands Enterprise for a year in 2014/15, and has served as a member of the Water Industry Innovation Panel for Scotland. She is a Fellow of the Institution of Civil Engineers, a member of the Institute of Water and current Scottish Area President, and an affiliate member of the Institute of Risk Management. Belinda is a keen supporter of Women in Science and Engineering.

ENTERPRISE AND SKILLS REVIEW GOVERNANCE WORKSTREAM

Highlands and Islands Enterprise Statement, 27 February 2017

HIE Board welcomes positive endorsement of its role

The Board of Highlands and Islands Enterprise (HIE) has welcomed Professor Lorne Crerar's report on proposed governance arrangements to support the outcomes of the Scottish Government's Enterprise and Skills Review.

These recommendations would ensure that a HIE Board effectively remains in place. HIE's budget would continue to be set by Scottish Government ministers, with the agency exercising the same level of autonomy it has at present, including implementing its own Operating Plan to reflect the unique opportunities and challenges of the Highlands and Islands.

As well as retaining its present decision making powers at local and regional levels, under Professor Crerar's model, HIE will also have a key role on the new national 'Strategic Board', enabling the region's voice to be heard at the highest level, and contributing to better economic outcomes for Scotland as well as the Highlands and Islands.

In this model, the Strategic Board's key purpose is to support the optimum collaboration of all Government enterprise and skills agencies to achieve improved economic outcomes for Scotland.

At the same time, the model would enable HIE to preserve its local decision-making powers, and to influence and collaborate with others in the public, private and third sectors to improve economic performance of our region.

The HIE Board confirmed that HIE will continue to be actively engaged with the Scottish Government throughout the Review process.

To create a single board for Scotland's enterprise and skills agencies to drive hard alignment in support of Scotland's Economic Strategy, businesses and users of the skills system.

Phase 2 Progress

- Prof Lorne Crerar carried out a review, working with all four enterprise and skills agencies, their existing boards and other experts to develop proposals for the potential structures and functions for the new board.
- Paper was submitted on the 8th February.
- This was discussed at the meeting of the Ministerial Review Group which took place on 23 February 2017.
- Prof Crerar's report was published on SG website on 23 February 2017 - <https://beta.gov.scot/publications/enterprise-and-skills-review-crerar/>.
- The Cabinet Secretary will make a statement to parliament in the coming weeks

Speaking Note

- Thank you again to Professor Crerar for his work on the proposed governance arrangements, which has generated a great deal of good discussion and has been heralded by the vast majority as an excellent piece of work
- I also welcome HIE media statement supporting the proposals.
- Over the last month I have had many interesting discussions, including the Ministerial Review Group and the Convention of the Highland and Islands last week.
- I will now swiftly reflect on the detail of the proposals, the views of the Ministerial Review Group and those expressed by wider interests in taking forward the development of the Strategic Board – and will be making a statement to parliament in the coming weeks.
- I am keen to keep at the forefront of all discussion our ultimate aim, namely to drive progress towards economic and productivity growth, and a more competitive and inclusive economy.

Press Coverage of the report produced by Professor Lorne Crerar

- Tavish Scott and Liam McArthur issued a joint [statement](#) on the report [23 February 2017], which they ‘condemned a report which recommends the end of the real governance board of Highlands and Islands Enterprise. They go on to say that *‘this report confirms **everything a centralising government wants. This means absolute control by Ministers of Highlands & Islands Enterprise. This is control from the centre – a delivery board that will do exactly what it is told by ministers**’*. They then refer to discussions at the last meeting of COHI (Monday 20th February) where ‘local councils and many others told the DFM not to abolish the strategic decision making board of HIE. **Now the government will do that, despite a majority of Parliament saying no. If the SNP now use ministerial powers to railroad these bad proposals through they will show utter contempt for Parliament. This is an acid test of the SNP Government. Do they accept the will of Parliament or not?**’
- The Press And Journal ran an [article](#) after the report had been published [24 February 2017] including quotes from the Liberal Democrat MSPs and a quote Edward Mountain, Scottish Conservative MSP for the Highlands and islands “To me it is just another layer of bureaucracy, and the minister can feed into it at two levels. On the basis of that, we **do not believe it is helpful and we do not support it as a party.**”
- The Press and Journal also quoted Highlands and Islands MSP Rhoda Grant [24 February 2017] who said that ‘*serious questions remain about the SNP’s shambolic bid to centralise the board, which has led to a great deal of worry*’.
- John Finnie, Scottish Green MSP for the Highlands, said ‘*whilst it is early days, this report can pave the way for the retention of the board of HIE and, importantly, HIE’s cultural and social responsibilities*’. [24 February 2017]
- The Press and Journal also contained a positive piece from [Kate Forbes](#) MSP (Skye, Lochaber and Badenoch). [23 February 2017]
- Margaret Davidson, leader of The Highland Council was quoted in the Press and Journal [25 February 2017]: ‘*It’s OK as far as it goes...The devil will be in*

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the detail about the board. We need the ability to make decisions in the Highlands and islands that are in the best interests of the Highlands and islands... What we need to look at is the structure of the HIE board. Whoever chairs that board has got to be a real, visible champion for the Highlands and islands.'

- Fraser Grieve, SCDI Highlands and Islands director, Press and Journal [25 February 2017] *'This report is a positive step forward in seeking to address concerns raised, whilst meeting the Scottish Government's objective of creating an overarching strategic board. Clarity will be needed on the powers of a strategic board and its exact makeup, but this report is a welcome move in safeguarding HIE's autonomy.'*
- HIE issued a media [statement](#) on their website 27 February 2017, welcoming the fact that the proposed change *'would enable HIE to preserve its local decision-making powers, and to influence and collaborate with others in the public, private and third sectors to improve economic performance of the (Highlands and Islands) region'*

Governance Workstream

Top lines

- In our report on phase one of the Enterprise and Skills Review we have committed to work and listen to the agencies and other partners to strengthen our enterprise and skills system by consulting on the strategic board, including the best distribution of functions between the agencies underneath it and the associated legislative requirements.
- The core purpose of the Strategic Board must be to align our Enterprise and Skills system to better our collective impact and effectiveness in transforming productivity, driving a step change in the performance of our economy, and delivering strong, vibrant and inclusive growth at scale.
- The Strategic Board will drive hard alignment of services and strategic goals to tackle Scotland's long-term economic challenges and deliver on all 4 pillars of Scotland's Economic Strategy.
- The Board will utilise a strong industry and wider stakeholder voice to support its aims to deliver collectively more effective support for businesses and users of the skills system.
- We want to ensure that all our enterprise agencies and all our agencies that work in the area of economic development and skills provision work together in a co-ordinated way to deliver the maximum impact on our economy.
- I thank Prof Crerar for taking the time to speak to each of the four agencies, their chairs and a number of experts, with these discussions forming the basis of his recommendations, we will now consider the detail and make a statement to Parliament on our next steps in the next few weeks.
- We remain committed to this review and will continue to listen to the views of those with an interest. It is essential that we do not lose sight of our aim of giving our businesses and individuals the right access and support to national services which will help to boost Scotland's economy and deliver our ambition of Scotland ranking among the top quartile of OECD countries in terms of productivity, equality, wellbeing and sustainability

HIE

- **We are considering Prof Crerar's proposals but there should be no doubt – under this government HIE will remain firmly in place at the heart of the Highlands and Islands economy.**
- Highlands and Islands Enterprise do great work in the highlands and this Government is determined to support it to continue to do that work.
- That is why we have decided to **maintain the dedicated support which is locally based, managed and directed by HIE.**
- The new arrangements will both protect the unique service that HIE delivers for our Highland and Island economies and enhance support available to businesses, employers and employees across the region.

Strategic Board

- The Chairs of all the agencies are **fully** engaged in the review as we take forward our Phase 2 work.
- **It is not true** to say that there is no evidence to support a new board.

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- **a need for much better co-ordination and improved strategic alignment.**
- The agencies directly affected by the Enterprise and Skills Review will **each retain their separate legal status.**
- The Strategic Board will ensure that all agencies continue to deliver local and national priorities to deliver better economic and social outcomes for all Scotland.

All of the agencies featured in the Review make a significant contribution to Scotland's business, education and skills landscapes, and have done so for some time.

- It is right that we review the work they do to ensure that this continues to offer the best possible support.
- **Current boards will continue to perform their current roles** as the process to set up the new statutory body gets underway.
- There will be a transition process to the new arrangements, ensuring any interim measures necessary to facilitate the smooth transition and **ensure no negative impact on service delivery.**

In phase 2 we are engaging with the agencies, their existing boards and drawing on advice from other experts in developing the detailed scope and functions for the new board.

- **The new board will focus on fully aligning and coordinating activity across the agencies to maximise their collective impact.**
- Consideration of how functions will be distributed, and what supporting infrastructure will be required to support both the operation of the new board and of the existing agencies, will be taken forward during phase 2. **Existing boards will be fully involved in this work.**
- The **agencies involved in the Enterprise and Skills Review will each retain their separate legal status.**
- [regarding Chairmanship of overarching board:] I am considering the proposals made in Prof Crerar's paper on the composition and role of the board, its chair and membership.

Sensitivities

HIE and other stakeholders

- Decision to establish overarching board to replace existing agency boards has led to significant media and political interest, particularly in relation to the Press and Journal campaign to save HIE and HIE Board. This has been backed by Greens, Conservatives and, most vocally, the Lib Dems.
- Ministers have repeatedly made clear that HIE will be retained as a separate legal entity whilst sharing a single overarching board with the other enterprise and skills agencies.
- Following the debate on HIE on 18 January 2017, minister have made it clear they will listen to what parliament has said, and that Mr Brown will also be happy to meet representatives from all parties to discuss the way forward, as we consider how best to shape HIE for the future.

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Professor Lorne Crerar's paper on the structure of the Strategic Board

The key principles which Prof Crerar has identified for the Strategic Board are:-

- **Improve the overall performance** of the economy by ensuring that the whole Enterprise and Skills System delivers Scotland's Economic Strategy and supporting strategies, in all parts of Scotland.
- Through **collective responsibility** ensure hard alignment between Agencies to drive improvement in Scottish productivity and better support business and users of the skills system.
- Hold Agencies to account for **performance** against agreed measures, both collectively and individually through new, formal lines of accountability.
- To **actively engage** with other agencies and bodies who support the economy with a view to increasing alignment and challenging others where collaboration is not happening.

Prof Crerar suggests that the Strategic Board could deliver these aims by :-

- Developing collective priorities through the creation of a **single Strategic Plan** which will set out how the Agencies will work collaboratively to deliver the economic strategy and establish a common performance and measurement framework. (Agencies would still develop annual Operating Plans which would set out how they contribute to the delivery of the aims in the Strategic Plan).
- Advising and informing Ministers each year on how **budgets** align with proposed strategic direction.
- Delivering a "Team Scotland" approach which influences **operational cultures** to embed collaboration as a core objective of all Agencies.
- **Engaging with stakeholders** to understand the challenges facing them and the markets they serve.

Supportive Quotes from Members of MRG / Expert Evidence Group.

Frances Ruane (Council of Economic Advisers; ESRI)

'I agree with sentiments expressed and approach adopted. I believe that what is proposed gives Scotland the opportunity to align relevant policies and the work of major delivery agencies to achieve national and regional goals more effectively'.

Lynne Cadenhead (Chairman, Women's Enterprise Scotland)

'It is excellent to see such a strong focus on collaboration across the agencies, with cross agency collaboration being central. This has been thoughtfully considered and the overall approach to board make-up and focus is appropriate'

Redacted, Promoting Fair Work, Ext: **Redacted**

February 2017

ENTERPRISE AND SKILLS REVIEW

ISSUE 1: FUTURE OF HIE

- Decision to establish overarching board to replace existing agency boards has led to significant media and political interest, particularly in relation to the Press and Journal campaign to save HIE and HIE Board. This has been backed by Greens, Conservatives and, most vocally, the Lib Dems.
- Ministers have repeatedly made clear that HIE will be retained as a separate legal entity and will maintain local decision making and service delivery.
- Professor Lorne Crerar's paper on the structure of the Strategic Board was published last Thursday afternoon, and was discussed at last week's meetings of the Ministerial Review Group and CoHI. The key principles are: **Improving the overall performance** of Scotland's economy by ensuring the system delivers Scotland's Economy Strategy; ensuring hard alignment between agencies through **collective responsibility**; holding agencies to account for **performance** against agreed measures; and **actively engaging** other agencies and bodies who support the economy.
- The Press and Journal and BBC picked up the publication of the report. Both of these articles contained quotes from Tavish Scott and Liam McArthur being critical of the proposed structures saying that "control from the centre" was still being proposed'. Edward Mountain, Scottish Conservative MSP for the Highlands and islands, said his party did not support the proposals.

PRESS AND JOURNAL STORY

- The Press and Journal ran a story on 1 February claiming Mr Brown had "little awareness" of HIE's role. The story was a result of a Freedom of Information (FOI) request on 29 November 2016 from Liam McArthur's office, MSP for Orkney.
- HIE issued their response to Mr McArthur's office on 27 January 2017. Included within the response was an internal email to HIE leaders updating them on the Enterprise and Skills Review.
- The email stated that a meeting between Chair's and CEO's from all four agencies involved in the Enterprise and Skills Review and Mr Brown on 20 July was a "useful opportunity" to explain HIE's role to Mr Brown as he had "little awareness".
- **Redacted**
- The decisions to come out of Phase 1 of the Enterprise and Skills Review were the result of a Call for Evidence which received over 300 responses. The work of the Ministerial Group also ensures a holistic view across the enterprise and skills review.
- Mr Brown has made a clear commitment to HIE and to retaining their key role in the future and has been clear in his willingness to listen to constructive ideas from relevant parties on how we can support enterprise in the Highlands and Islands.

PARLIAMENTARY DEBATE

- Conservative Debate on 18 January for the Scottish Government not to disband the HIE Board. The Scottish Government amendment to the motion was narrowly defeated 64 votes to 63.

ISSUE 2: HIE DRAFT BUDGET SETTLEMENT 2017-2018

- Accusations from local media in December that HIE's Budget has been cut.
- HIE's draft budget for 2017/18 (£67m) is just £0.5m lower than the equivalent figure for 2016/17 (£67.5m).

ISSUE 3: OTHER GOVERNANCE ISSUES

- 7/12 - Accusations from Tavish Scott MSP, following meeting of Education and Skills Committee at which Keith Brown gave evidence, that SG is refusing to provide details of organisations that support its plans re the Enterprise and Skills Review. Also concerns about tight timeframe.
- 9/11 - Concerns by Universities Scotland and NUS about removal of Scottish Funding Council Board.
- SPICe enquiries and a series of PQs have been asked about governance.

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Top Lines

- **These suggestions from opposition leaders are wrong.**
- Highlands and Islands Enterprise will continue to be locally-based, managed and directed providing dedicated support to the local economy. Highlands and Islands Enterprise will not be abolished.
- The Scottish Government has made clear it will listen to what parliament has said, and Mr Brown has also said he will also be happy to meet representatives from all parties to discuss the way forward, as we consider how best to shape HIE for the future.
- We welcome the report from Professor Lorne Crerar and we will now consider the detail and make a statement to parliament on our next steps in the next few weeks.
- The Cabinet Secretary for Economy, Jobs and Fair Work and I have **repeatedly given assurances** that HIE will be in a position to continue to carry out its functions and provide its excellent services to the Highlands of Scotland.
- The transformation of the Highlands and Islands over the last 51 years is testament to the excellent work that HIE and its predecessors have put in since they were founded.

There should be no doubt – under this government HIE will remain firmly in place at the heart of the Highlands and Islands economy.

- Highlands and Islands Enterprise do great work in the Highlands and this Government is determined to support it to continue to do that work.
- That is why we have already committed to **maintaining the dedicated support which is locally based, managed and directed by HIE.**
- It is important that we build on the success of HIE. We are asking them, along with all the agencies in the review, to see how we can improve things further to take Scotland from the third to the first quartile in the Organisation for Economic Co-operation and Development's league tables.
- The new arrangements will both protect the unique service that HIE delivers for our Highland and Island economies and enhance support available to businesses, employers and employees across the region.
- The Cabinet Secretary for Economy, Jobs and Fair Work and I have **repeatedly given assurances** that HIE will be in a position to continue to carry out its functions and provide its excellent services to the Highlands of Scotland.
- Following the debate in parliament on 18th January 2017, we have made clear we will listen to what Parliament has said, and Mr Brown will also be happy to meet representatives from all parties to discuss the way forward, as we consider how best to shape HIE for the future.

Even after the introduction of the proposed single overarching board, HIE will continue to:

- **retain a Chief Executive based in Inverness;**
- **retain its Headquarters based in Inverness;**
- **retain control over staffing levels;**
- **staff will continue to operate from the Headquarters in Inverness and HIE's area-based locations from Lerwick to Lochgilphead; and**
- **businesses and communities will continue to access services by contacting locally based staff just as they do now.**

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We received over 300 responses to our consultation, with a range of organisations showing support for a single overarching board

- This includes Skills Development Scotland, Scottish Enterprise, Colleges Scotland and the University of Strathclyde.
- Many others, including the Federation of Small Businesses, SCVO, the Scottish Local Authorities Economic Development Group, Universities Scotland and HIE themselves suggested that **the current system is overly complex and there is a need for much better co-ordination and improved strategic alignment.**
- The agencies directly affected by the Enterprise and Skills Review will **each retain their separate legal status.**
- The Strategic Board will ensure that all agencies continue to deliver local and national priorities to deliver better economic and social outcomes for all Scotland.

Responses to our Call for Evidence show there was significant support for the establishment of an overarching single Scottish board

- **Scottish Enterprise called for the creation of a 'Scottish Strategic Economic Leadership Board** with powers to prioritise the work of agencies and drive new ways of working'.
- **Skills Development Scotland** called for a permanent '**National Sustainable Economic Development Board**'.
- **The University of Strathclyde** called for a '**Strategic Board at a Scotland-wide level** to exercise strong leadership and reinforce collaboration and connectivity across Government and its agencies and with industry and universities at the table.'
- **Colleges Scotland** called for '**an overarching Enterprise and Skills Board for Scotland**'.
- And on 26 October in response to our publication of Phase 1 of the review, **Universities Scotland** said "The agencies considered in the review all have increased productivity and inclusive economic growth as a goal. We believe it should be possible for them to work to a tighter, more coordinated set of objectives and measures. **If a new Scotland-wide board, sitting above all of the agencies, can achieve greater integration we would welcome this.**"

Lorne Crerar's paper is about looking at how we ensure that all our agencies work together in a co-ordinated way to deliver the maximum impact on our economy.

- We will consider Professor Crerar's paper fully in determining how best we can achieve the ambitions set out in the review.
- In our report on phase one of the Enterprise and Skills Review we committed to work and listen to the agencies and other partners to strengthen our enterprise and skills system.
- The core purpose of the Strategic Board must be to align our Enterprise and Skills system to better our collective impact and effectiveness in transforming productivity, driving a step change in the performance of our economy, and delivering strong, vibrant and inclusive growth at scale.
- The Strategic Board will drive hard alignment of services and strategic goals to tackle Scotland's long-term economic challenges and deliver on all 4 pillars of Scotland's Economic Strategy.
- The Board will utilise a strong industry and wider stakeholder voice to support its aims to deliver collectively more effective support for businesses and users of the skills system.

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- We want to ensure that all our enterprise agencies and all our agencies that work in the area of economic development and skills provision work together in a co-ordinated way to deliver the maximum impact on our economy.

All of the agencies featured in the Review make a significant contribution to Scotland's business, education and skills landscapes, and have done so for some time.

- It is right that we review the work they do to ensure that this continues to offer the best possible support.
- **Current boards will continue to perform their current roles** as the process to set up the new statutory body gets underway.
- There will be a transition process to the new arrangements, ensuring any interim measures necessary to facilitate the smooth transition and **ensure no negative impact on service delivery.**

In phase 2 we are engaging with the agencies, their existing boards and drawing on advice from other experts in developing the detailed scope and functions for the new board.

- The Chairs of all the agencies are fully engaged in the review as we take forward our Phase 2 work.
- **The new board will focus on fully aligning and coordinating activity across the agencies to maximise their collective impact.**
- Consideration of how functions will be distributed, and what supporting infrastructure will be required to support both the operation of the new board and of the existing agencies, will be taken forward during phase 2. **Agencies will be fully involved in this work.**
- **The agencies involved in the Enterprise and Skills Review will each retain their separate legal status.**
- [Regarding Chairmanship of overarching board]: The composition and role of the board, its chair and members will be considered as part of Phase 2.

The Scottish Government's commitment to the Highlands and Islands is clear. The draft budget contained a good settlement for Highlands and Islands Enterprise.

- It maintains their capital levels and increases their resource budget by £2.7 million when you take into account the savings that HIE contributed on an annual basis to the strategic forum.
- It reinforces the Scottish Government's commitment to ensure that HIE continues to be able to deliver its excellent service across the Highlands and Islands.
- The -11% figure quoted at the debate on 18 January appears to come from a comparison of past years' budgets which include in-year adjustments applied, with the 17/18 draft budget figure which does not include in-year adjustments as these have still to be applied. For example one of the main in-year adjustments that HIE receive is for Wave Energy Scotland (WES).

Our investment in the Highlands and Islands can never be in any doubt

- Liberty House and SIMEC completed a £330m deal with Rio Tinto to buy Britain's last remaining aluminium smelter at Fort William in Lochaber, together with the hydro-power plants at Fort William and Kinlochleven and associated estate lands.
- During a visit by Fergus Ewing on 19 December to celebrate the successful Scottish Government-backed sale, the new owners announced plans for a further

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£120 million investment to upgrade equipment and establish an aluminium wheel manufacturing facility at the site.

- This will generate up to 300 jobs directly and hundreds more in the supply-chain.
- We have committed to dualling the A9 from Perth to Inverness by 2025, with construction now underway, and to dualling the entire length of the A96 from Inverness to Aberdeen by 2030.
- We have invested in the Inverness to Perth and the Inverness to Aberdeen train lines.
- The Highlands and Islands are leading Scotland in terms of broadband upgrades, with Scottish Government investment in the £140m contract to boost connectivity going ahead in the Highlands and Islands first, before the rest of the country.
- HIE is working with 47 communities, most funded through its Community Capacity Building Programme, developing projects to provide new or improved services and income generating assets.

The establishment of the new Board will not affect the autonomy of Scotland's universities or how they are governed.

- We are absolutely committed to ensuring that our world class higher education institutions remain independent and that their academic freedom continues to be protected.
- The establishment of the new Board will not affect the **autonomy of Scotland's universities** or how they are governed.
- This Government recently strengthened the definition of academic freedom in our 2016 Higher Education Governance Act. We will continue to work closely with Universities Scotland and the sector to ensure we secure the best possible vehicle to deliver on our ambitions.
- We **do not envisage any risk to ONS reclassification** through our ambitions to establish a single, strategic board. Should any potential risk emerge, at any stage in the process, **we will take immediate action to mitigate that risk.**
- We have noted concerns articulated by Universities Scotland and will work with them to ensure that the new aligned structure **respects the independence of Scotland's autonomous universities.**
- The Scottish Government values the work of the SFC and, in particular, the expertise and knowledge it brings in relation to matters across the FE and HE sectors.

Review process and timescales

- The Review was announced by the First Minister on 25 May 2016, covering the work of SG and 4 agencies (SE, including SDI; HIE; SFC; SDS).
- Phase 1 has concluded, and our decisions for change across key areas were published on 25 October 2016.
- Phase 2 of the review began on 1 November 2016 and is intended to take 6 months. It focuses on the implementation of the key decisions from phase 1 of the review.
- Senior responsibility for the review will be shared between the Chief Economist and the Directors for Economic Development, Advanced Learning and Science, and Fair Work, Employability and Skills.
- It is likely that some actions will be delivered quickly and prioritised, whilst more complex change will take longer to fully implement. **The final phase 2 decisions are likely to set out a programme of work that will be undertaken over the lifetime of the parliament.**

OFFICIAL SENSITIVE

- The Review has been led by Cabinet Secretary for Economy, Jobs and Fair Work on behalf of the Scottish Government, supported and informed by other Ministers who have an interest, and engaging with the key agencies, stakeholders and users.
- Ministerial Review Group has comprised of experts and individuals with experience across business, business organisations, colleges, universities, student unions and STUC. It met 5 times during Phase 1 and has been joined by the agency Chairs for phase 2
- Linked to the Review, officials have been working with stakeholders and the Scotland CAN DO Innovation Forum on the development of an **Innovation Action Plan** which was published in January.
- The Plan's ambition for innovation is to boost Scotland's innovation performance to match the levels of the best performing countries in the OECD.

Annex 1: Professor Lorne Crerar's paper on the structure of the Strategic Board

The key principles which Prof Crerar has identified for the Strategic Board are:-

- **Improve the overall performance** of the economy by ensuring that the whole Enterprise and Skills System delivers Scotland's Economic Strategy and supporting strategies, in all parts of Scotland.
- Through **collective responsibility** ensure hard alignment between Agencies to drive improvement in Scottish productivity and better support business and users of the skills system.
- Hold Agencies to account for **performance** against agreed measures, both collectively and individually through new, formal lines of accountability.
- To **actively engage** with other agencies and bodies who support the economy with a view to increasing alignment and challenging others where collaboration is not happening.

Prof Crerar suggests that the Strategic Board could deliver these aims by:-

- Developing collective priorities through the creation of a **single Strategic Plan** which will set out how the Agencies will work collaboratively to deliver the economic strategy and establish a common performance and measurement framework. (Agencies would still develop annual Operating Plans which would set out how they contribute to the delivery of the aims in the Strategic Plan).
- Advising and informing Ministers each year on how **budgets** align with proposed strategic direction.
- Delivering a "Team Scotland" approach which influences **operational cultures** to embed collaboration as a core objective of all Agencies.
- **Engaging with stakeholders** to understand the challenges facing them and the markets they serve.

Sam Anson, Economic Development Directorate, Ext **Redacted** February 2017

BOARD APPOINTMENTS AND COMPOSITION

TOP LINES

HIE has begun the process of recruiting a permanent CEO and is currently progressing with this.

Confident in the leadership that Charlotte is providing as interim and see no issues with her continuing to do so until a permanent replacement is appointed.

Background

1. HIE has six board members coming to the end of their terms in March 2017. Those members are:

- Paddy Crerar
- Alastair Dodds
- Donald MacDonald
- Donald MacRae
- Iseabail MacTaggart
- William Swann

2. Mr Ewing has agreed re-appointments, with letters issued to board members on Friday 3 February 2017, as follows:

- Paddy Crerar, Alistair Dodds and Professor Donald MacRae being re-appointed for one year only, but with a clause included in their appointment letter confirming this will be reviewed and extended for a further year if required.
- William Swann, Donald MacDonald and Iseabail MacTaggart being re-appointed for one year only.

3. The rationale in this proposal is to maintain stability at Board level, particularly whilst phase 2 of the Enterprise and Skills review is on-going.

50:50 BY 2020

4. Scottish Government is encouraging companies, third sector organisations and public sector bodies across the country to make a commitment that by 2020, 50% of their board members will be women. At the end of the financial year the composition of HIE's consisted of 5 female board members from 12 (including the Chair) and 2 women in the senior management team from a total of 5.

HIE BUSINESS PLANNING PROCESS AND STRATEGIC PRIORITIES

Operating Plan

1. HIE prepares an annual Operating Plan setting out its priorities, planned budget, and proposed performance targets for the year ahead. The plan should reflect the strategic guidance provided by Ministers.
2. A draft of the plan is normally submitted to the Sponsor Division in February for comment and the final version of the Plan is submitted to Ministers for approval, usually in April.
3. HIE is currently in the process of drafting its Operating Plan for 2017-20 and the discussion with Cabinet Secretary for Rural Economy and Connectivity on 2 December provided an opportunity to feed-in to the development of HIE's Operating Plan.

Strategic Guidance

4. The Cabinet Secretary for the Rural Economy and Connectivity would normally write to the Chair of HIE each year providing guidance on the key priorities that the Government will expect to see reflected in HIE's business planning for the coming year. Following the strategic discussion with HIE Board a Strategic Guidance letter is being prepared for the Cabinet Secretary for the Rural Economy and Connectivity to issue.

HIE Business Planning Priorities

5. HIE has not identified any specific business planning issues for discussion at the meeting on 2 March. HIE's priorities are likely to be similar to the priorities highlighted in its 2016-19 Operating Plan which were:
 - Supporting businesses and social enterprises to shape and realise their growth aspirations,
 - Strengthening communities and fragile areas,
 - Developing growth sectors, particularly distinctive regional opportunities,
 - Creating the conditions for a competitive and low-carbon region.