

South of Scotland Enterprise Bill

Financial Memorandum

Introduction

1. As required under Rule 9.3.2 of the Parliament's Standing Orders, this Financial Memorandum is published to accompany the South of Scotland Enterprise Bill, introduced in the Scottish Parliament on 24 October 2018.

2. The following other accompanying documents are published separately:

- Explanatory Notes (SP Bill 41–EN);
- a Policy Memorandum (SP Bill 41–PM);
- statements on legislative competence by the Presiding Officer and the Scottish Government (SP Bill 41–LC).

3. This Financial Memorandum has been prepared by the Scottish Government to set out the costs associated with the measures introduced by the Bill. It does not form part of the Bill and has not been endorsed by the Parliament.

4. The Bill establishes South of Scotland Enterprise as a non-departmental public body (NDPB), operating in the local authority areas of Dumfries and Galloway and the Scottish Borders. The Bill sets out the aims of the new body to further the economic and social development, and improve the amenity and environment, of the south of Scotland. With parliamentary approval, it is anticipated that the new body will be established on 1 April 2020.

5. The decision to establish a new body was a key recommendation of the Scottish Government's review of Scotland's enterprise and skills support.¹ Recognising the unique circumstances of the south of Scotland,

¹ <https://beta.gov.scot/policies/economic-growth/enterprise-and-skills-review/>

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the Scottish Government committed to establishing a new public body to meet the area's enterprise and skills needs.²

6. The Bill sets out the high level aims and powers of the new body. The Scottish Government is taking forward work to develop and agree the detail of the body's structure, operations and activities based on the overarching aims and powers set out in the legislation.

7. The Financial Memorandum gives a best estimate of set-up costs and operating costs. It does not represent a final budgetary position for the new body.

8. The Financial Memorandum defines the costs on the Scottish Administration in three parts. The first part identifies one-off set up costs. The second part identifies potential recurring costs. The third part sets out the approach the Scottish Ministers propose to take to decide the overall budget allocation for the body. These parts are based on assumptions about a potential operating model taking into account staffing, locations, services and activities.

9. It will be for the Scottish Ministers to decide the overall budgetary allocation for the new body in future, as part of the relevant future Scottish Government budget cycle, and for the chair and members to make operational decisions about the detail of how the body best uses its budget to deliver its aims. In approaching those budgetary discussions, the Scottish Ministers' intention is to ensure the new body receives a per capita equivalent to the allocation made to Highlands and Islands Enterprise (HIE) as a body with a similar remit delivering services in a predominantly rural area. This is discussed in more detail in Part Three of the Financial Memorandum.

Methodology of Financial Memorandum

10. This Financial Memorandum provides estimated costs and savings resulting directly from the provisions of the Bill and those indirect costs arising as a result of the Bill as the new body is established. Estimated figures in this Financial Memorandum are presented on the basis of total expected estimates for one-off costs both pre- and post-commencement of

² [Enterprise and Skills Review Report on Phase 2: South of Scotland Enterprise Agency, 22 June 2017](#)

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the new body, alongside estimates of recurring costs of the body once it is established.

11. It is acknowledged that there will be a level of uncertainty in some of the costs estimated in this Financial Memorandum. While the Bill provides for the high level aims and powers of the body, precise costs will depend on the specific detail of its operational form. This detail will continue to be refined as part of the ongoing programme of work to establish the body and into its formative years.

12. Estimated costs are based on the costs that have been incurred in setting up other new bodies, and the costs incurred by existing bodies carrying out similar activities. Where there is a significant margin of uncertainty in the estimates, the Financial Memorandum provides ranges for potential costs.

13. Figures are also adjusted to take into account optimism bias, in line with HM Treasury Green Book recommendations. Adjusting for optimism bias is the recommended method of mitigating the risk that the costs of major projects are underestimated, particularly in the early stages of development. Optimism bias in this Memorandum is typically calculated at 41% in line with Green Book guidance for outsourcing projects, including ICT services. With careful project management techniques, factors that contribute to optimism bias will be reduced over time.

14. The profiling of figures in the Financial Memorandum assumes that the new body will be established on 1 April 2020. Should the Parliament approve the general principles of the Bill at Stage 1, the Scottish Government will take forward the appointment process of the chair and recruitment of the chief executive and some staff, so that they are in place in advance of the body assuming its responsibilities. The profiled figures reflect this. The appointment process for the remaining members will take place following the appointment of the chair and the chief executive so that the members of the new body are in place when the body is established on 1 April 2020.

15. Estimates for operational and staffing costs are based on HIE, as a comparable body with a similar remit serving a predominantly rural area. As HIE serves a larger population, estimates have been adjusted accordingly.

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16. Calculations for staffing give estimates for a body with a range of between 125 and 175 staff, and assume two-thirds of staff in place in the first year of operation, building up to full complement in year two. Again, the detail on this will continue to be refined as the Bill makes its passage through the Parliament and as further work is undertaken with key stakeholders on the functions and services that the new body will deliver.

17. Projected estimates for future spend include an assumption of a 2.5% annual inflation rate.

Summary of Financial Implications

18. The summary in Table 1 below sets out net costs of the Bill to the Scottish Administration, assessing also the impact of any optimism bias, for setting up the new body and for its operational running costs. Where there is a margin of uncertainty, potential costs are set out as a range representing likely cost floors and cost ceilings. Details of how the Scottish Ministers intend to approach the overall budget allocation for the new body are set out in Part Three.

Table 1

Costs (£000)		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
One-off programme costs	Low	83	312	2,032	180	0	0
	High	83	362	4,506	365	0	0
Recurring costs – operational running costs	Low	0	0	740	6,295	8,965	9,215
	High	0	0	1,067	8,290	12,010	12,345
Total	Low	83	312	2,772	6,475	8,965	9,215
	High	83	362	5,573	8,655	12,010	12,345

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19. The further detail presented below provides a breakdown of the costs and savings resulting from the Bill.

Costs on the Scottish Administration

20. The costs to the Scottish Administration have been set out below in three parts. The first presents the one-off programme costs of establishing the new body, the second the recurring costs of the body’s operation and the third the overall allocation taking into account recurring costs and a budget to deliver activities designed to meet its aims and powers.

Part One – One-off Programme Costs

21. There are a number of one-off costs associated with the creation of the new body, occurring between 2017/18 and 2020/21 to ensure that it can operate effectively from 1 April 2020. These costs are summarised below in Table 2.

Table 2

One-off programme costs (£000)	Paragraph		2017/18	2018/19	2019/20	2020/21	Total
Recruitment and staffing	22 - 24		83	312	767	18	
Branding and website	25		0	0	275	0	
ICT and digital	26 - 27	Low	0	0	150	75	
		High	0	0	410	210	
Estates	28 - 31	Low	0	0	542	0	
		High	0	0	2,656	0	
Corporate services	32		0	0	298	87	

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One-off programme costs (£000)	Paragraph		2017/18	2018/19	2019/20	2020/21	Total
Miscellaneous	33	Low	0	0	0	0	
		High	0	50	100	50	
Total one-off costs		Low	83	312	2,032	180	2,607
		High	83	362	4,506	365	5,316

Recruitment and Staffing Costs

22. These costs cover the one-off costs incurred as part of establishing the new body. They include costs of Scottish Government staff working on the programme to establish the new body based on Scottish Government pay scales. They do not include staffing costs of the new body itself which are shown as recurring costs or remuneration costs.

23. As stated above, with the approval of the Parliament to the general principles of the Bill at Stage 1, the Scottish Government intends to start appointment process for the chair and recruitment of the chief executive so that the chair and chief executive can be in place in advance of the body assuming its responsibilities. Appointments will be made after fair and open competition and regulated by the Commissioner for Ethical Standards in Public Life in Scotland. Appointments of members are expected to then begin once the chair and chief executive are in place.

24. While some staff from existing organisations could transfer to the new body under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) or the Cabinet Office Statement of Practice (COSOP), new staff will also be recruited and there will be costs associated with recruiting staff of the new body. Recruitment of staff for the new body is likely to begin in 2019/2020 so that it will have an appropriate complement of staff in place on 1 April 2020. Recruitment costs are estimated in line with Scottish Government recruitment costs. Recruitment costs also cover potential costs of appointing the chair and members and recruiting the chief executive.

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Branding and Website

25. One-off costs of £275,000 are included for the costs of developing branding for the new body and establishing its website. These costs are based on comparable work undertaken by other new public bodies.

Ict and Digital

26. Work is underway to determine the requirements for ICT and options which will achieve best value for money. Estimates here are based on the equivalent cost of the new body using Scottish Government's SCOTS network, although the ICT provision may be sourced from other providers. The new body will require various ICT systems, such as a customer relationship management system, and the new body will look at integrating with existing systems in other public bodies.

27. ICT setup costs will vary depending on the number of staff and the number and location of the new body's geographic location(s). Setup costs may rise if a building is not already networked, if the building is in a remote location, or if additional network security measures are needed to co-locate with a body using a different network. Costs here are therefore estimated as a range.

Estates

28. The Bill provides that the body will have a headquarters in the South of Scotland. The pre-legislative consultation was clear that stakeholders across the South of Scotland wanted to ensure that the new body was accessible across the whole of the area. Analysis is being taken forward to determine the most appropriate locations for the body to ensure that accessibility. The analysis will explore options such as a 'hub and spoke' model with a larger headquarters complemented by smaller offices in locations across the area, and co-location with other organisations across the South of Scotland to ensure joined up service delivery, effective collaboration and cost effectiveness.

29. The estimates in this Memorandum assume a single headquarters for the body (as provided for in section 8 of the Bill) plus a number of other, smaller office premises across the region. The cost range here represents the highest and lowest of several potential scenarios, reflecting different staff levels, property types, and locations.

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30. Figures setting out potential one-off estates costs cover the cost of fitting out office buildings for the new body to its specifications if necessary (excluding ICT, which is accounted for separately). This would include furniture, design and move costs, fit-out works, building warrants and landlords' consent. This is calculated on a per head of staff basis.

31. Estimates also allow for potential one-off costs associated with preparing a new building should that option be taken forward. Those costs could vary considerably based on the building's existing condition and usage. Final costs will depend on decisions about the size, number and location of offices the body will occupy.

Corporate Services

32. The Scottish Ministers expect the new body to explore potential agreements with existing shared service providers for some of its corporate services. Some agreements would require a one-off set up cost which is recorded here. Further detail on the provision of corporate services is provided in the section on recurring costs.

Miscellaneous Costs

33. Some staff from existing organisations may be transferred to the new body under TUPE or COSOP (see paragraph 24). Further work will be carried out as part of the workstream to determine the new body's staffing needs, in order to determine accurately how many staff will be in scope of transfer, or what specific provisions will apply to their individual circumstances. An additional contingency fund has therefore been included as an estimate of costs that could be incurred during this process.

Part Two – Recurring Costs

34. Table 3 estimates the annual running costs for the new enterprise body, up to and including 2022/23. This covers the first three years of the body's operation and the year preceding its establishment.

Table 3

Annual running costs (£000)	Paragraph		2019/20	2020/21	2021/22	2022/23

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Staffing	36 - 42	Low	655	4,580	7,145	7,360
		High	980	6,410	10,000	10,300
Remuneration	43		25	200	200	200
Corporate services	44 - 45		0	440	445	450
ICT and digital	46	Low	10	240	320	325
		High	12	280	380	385
Estates	47	Low	0	285	290	300
		High	0	410	420	430
Miscellaneous costs	48		50	550	565	580
Total costs		Low	740	6,295	8,965	9,215
		High	1,067	8,290	12,010	12,345

35. Cost breakdown by year is based on the assumption that the new body will not be at its full complement of staff or range of activities at the start of Year 1, but will gradually build up operations by the end of its second year.

Staffing

36. Estimates for operational and staffing costs are based on HIE as a comparable body with a similar remit serving a predominantly rural area. Staffing costs assume an equivalence with HIE, and are inclusive of social security costs and of pensions based on HIE's current pension scheme.

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37. The new body will not however be expected to duplicate HIE in its staffing arrangements or structure and will want to consider the range of specific staff skills needed and the breakdown of senior, administrative and operational staff. As such, figures represent an estimate of pay costs that may be required. (See paragraph 15 for further detail on staffing estimates).

38. Staffing costs are calculated with annual increases based on current Scottish Government public sector pay policy, calculated as an average across a likely range of pay bands.

39. The new body will also require a senior management team. For planning purposes, a senior management team of seven has been assumed. This is broadly in line with HIE which has a management team of a chief executive, four directors and heads of HR and business improvement and internal audit.

40. Cost estimates assume that the new body will not reach its full complement of staff from the start of the first year, but rather will gradually build up to this by the end of the second year of operation. Some staff, including the chief executive, could be recruited in 2019/20 and the estimates reflect this.

41. Some staff from existing public bodies may transfer to the new body under TUPE and COSOP (see paragraph 24). It is not possible at this stage to determine how many staff will be in scope of transfer, or what specific provisions will apply to their circumstances. The Scottish Government is taking forward work with the potential organisations impacted to establish what staff transfers (if any) will be required.

42. It is possible that this transfer process may involve costs specifically related to pension schemes. However, as all pension schemes potentially involved are in the public sector, there would be no additional cost to the Scottish Administration as a result.

Remuneration

43. The Bill provides for a maximum of 10 members of South of Scotland Enterprise plus one member to chair it. The new body is expected to meet the criteria of a Band 2 NDPB for remuneration purposes, and the figures here are therefore based on current remuneration levels for Band 2 public

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body members, uplifted by 1% per year. This is in line with the Scottish Government's public sector pay policy for senior appointments which covers the remuneration paid to chairs and members appointed by the Scottish Ministers to public bodies.³

Corporate Services

44. Corporate services include finance, Human Resources (HR) (including recruitment), payroll, procurement and internal and external audit.

45. As part of the programme to establish the new body work will be taken forward to identify the value for money of using existing shared service providers for its corporate services as far as is appropriate. Estimates for these figures are calculated based on the cost of using the Scottish Government's own shared services provision.

ICT and Digital

46. Figures for ongoing provision and maintenance of hardware are estimated based on the cost of the new body using the Scottish Government's own SCOTS IT service. The decision on which ICT provider will provide best value for money for the new body has not yet been taken. The estimates include the costs of computers, printers, mobile devices and IT programmes and ongoing website costs.

Estates

47. Estates costs cover continued costs related to the body's geographic location(s), related to maintenance, leasing and co-location. As with the one-off programme costs of establishing the body, to reflect future decisions about the geographic location(s) of the body estimates cover a number of possible scenarios. Figures given represent the potential range as at August 2018.

Miscellaneous Costs

48. Miscellaneous costs encompasses all other general costs incurred in the running of the organisation. These costs would include stationery, training, travel and subsistence, hospitality, and marketing costs. Estimates are based on those incurred by comparable NDPBs.

³ www.gov.scot/publicsectorpay.

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Part Three – Total Budget Allocation

49. The Bill gives the new body overarching aims to further the economic and social development of the South of Scotland and improve the amenity and environment of the area, and so the new body will need a budget to deliver that remit. The detail of activities to be carried out are being developed and the final shape will be an operational decision for the new body to make. It will be expected to include activities to support business, to support communities and to harness the potential of people and assets, including investing in business infrastructure projects, to achieve its aims.

50. Parts One and Two above estimate set-up and operational costs for the new body. Decisions about the overall budget allocation for the new body will however, be made as part of the Scottish Government budget process in future years. That process will consider funding for the new body alongside funding for the other enterprise agencies. In those negotiations, the Scottish Government will ensure that each agency gets a fair settlement.

51. Figures included here are a broad estimate based on a current spending profiles. These figures represent a total budget allocation for the new body, and are inclusive of the costs identified in Part Two - Recurring Costs section of this Memorandum.

52. While some resource will transfer from Scottish Enterprise (see paragraphs 58-59 below), it is anticipated that the overall budget will include an additional allocation reflecting the overarching vision and aims for the new body, to bring a fresh, tailored approach with a wider remit to further both the economic and social development of the area. It will, for example, take forward activity to support communities' resilience and growth.

53. It is intended that the allocation given to the new body will be equivalent on a per-capita basis to the allocation for HIE, as a body with a similar economic and social remit delivering services in a predominantly rural area. This will be calculated on HIE's budget, net of any income HIE generates outwith its core budgetary allocation. However, to ensure that the new body is able to use its allocation to maximum impact, transitional arrangements would be put in place so that the new body is able to build capacity to its full budget.

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54. By way of example, an estimate based on the current allocation to HIE would suggest the new body could have an overall funding allocation of £42 million by 2022/23, covering both capital and resource. Table 4 illustrates a potential approach to the transitional steps. In the first years of operation the balance of budget will likely be in favour of resource as the new body builds up to a capital programme. Using HIE as a benchmark, over time it would be realistic to expect a split of 45% - 48% capital, to 55% - 52% on resource.

Table 4

	2020/21 £000	2021/2022 £000	2022/2023 £000
South of Scotland Enterprise potential allocation	32,000	37,000	42,000

55. In addition to its allocation from the Scottish Government, the new body will be able to generate income as do Scottish Enterprise and HIE. This may include resource from, for example, loan interest, and capital receipts from loan repayments, and the sale of assets. Similar to Scottish Enterprise and HIE, the new body may also charge for providing a service, such as for example rent for business space.

Costs on Other Bodies

Local authorities

56. The Bill does not mandate that any specific functions are transferred from the two South of Scotland local authorities (Dumfries and Galloway Council and Scottish Borders Council) to the new body. If any transfer of functions happens in the future, this could incur financial consequences to the local authorities through the local government settlement, and as such would be agreed through usual practice in discussion with local authorities and the Convention of Scottish Local Authorities (COSLA).

57. Should the body in future agree with one or both of the local authorities to have them discharge particular functions on its behalf, the

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financial arrangements of this would be for the body and local authorities to decide.

Scottish Enterprise

58. Scottish Enterprise will remain Scotland's national agency for economic development. It will continue to have a presence in the south delivering national-level programmes, working closely with others and carrying out activities ensuring that the economy of the south benefits from national expertise.

59. The new body will take forward much of the regionally-specific economic development activity currently carried out by Scottish Enterprise across Dumfries and Galloway and the Scottish Borders. This will therefore mean some resources from the Scottish Government's allocation to Scottish Enterprise will be allocated to the new body. This will be considered further as decisions about the overall budget allocation are taken forward. (See also paragraph 52.)

Businesses

60. There will be no compulsory cost burden to businesses as a consequence of the Bill. The Bill does, however, enable the new body to charge for its services should it choose to do so, similar to Scottish Enterprise and HIE.

61. Businesses will benefit from the new body's work to transform the economy and ensure they are able to reach their potential. The body will help businesses across the south of Scotland, supporting sustainability and growth and a diverse and resilient economy.

Individuals

62. There will be no compulsory cost burden to individuals as a consequence of the Bill. As described above relating to businesses, the Bill does, however, enable the new body to charge for its services should it choose to do so.

Communities

63. There will be no costs to communities as a result of the new legislation. Communities are expected to benefit from the community

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support provided by the new body, but it is not possible at this stage to quantify the financial impact of this benefit.

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