PREM 19/3158

PART TWO 948 MT

Confidential filing

Regional Policy Towards Scotland

Industrial Policy

SCOTLAND

Part 1: June 1979

Part 2: December 1988

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~7.12.88~~							
~~6.12.88~~							
~~10/4/89~~							
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PREM 19/3158

PART 2 ends:-

SCOT. OFF TO BP. 14.11.90

PART 3 begins:-

BP TO PM. 12.2.91

n. b. P.M
unless P.V. intervene.
BHP 22/11

FROM THE MINISTER OF STATE

SCOTTISH OFFICE

WHITEHALL, LONDON SW1A 2AU

Barry Potter Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON
SW1A 2AA

14 November 1990

Dear Barry — at flap.

Thank you for your letter of 5 November.

The Scotsman article on Scottish Enterprise, presumably inspired by publicity from the SDA to mark the launch of the new Scottish Enterprise logo, is not accurate or well-informed. It contrasts with the more general press coverage of the issue in recent months, which has predicted the demise of the SDA's role under the new arrangements.

You mention the Prime Minister's particular interest in structure and senior appointments.

The organisational structure is not the product of successful manoeuvring by the SDA to preserve its shape. The structure was drawn up by independent consultants, Coopers and Lybrand, under a joint commission from the Scottish Office, the Training Agency and the SDA. Coopers and Lybrand were left in no doubt that the new structure needed to be consistent with the devolution of the majority of executive decisions to the local enterprise companies. In accepting the proposals Mr Lang has left Sir David Nickson and Scottish Enterprise in no doubt that that is what is to happen.

Turning to appointments, it is inevitable that many senior staff come across into senior positions. Scottish Enterprise is subject to a statutory provision requiring offers of employment to be made to all employees of the two predecessor bodies, which is standard in relation to mergers of public bodies. The Training Agency is represented among senior appointments in the person of its present Director for Scotland, Lex Gold, as MD Finance and Operations, an appointment which was of course made entirely on merit.

Of greater significance is the success in achieving a first rate appointment from the private sector for the Chief Executive post. Crawford Beveridge has had a highly successful career in the USA electronics industry and is taking a significant reduction in his salary to

return to Scotland for this challenging post. It has also been possible to secure the early departure of a number of the most senior SDA staff. This has created room for manoeuvre to bring in new blood from the private sector. For example, the Director of Finance and Planning of the new body has been recruited from United Wire.

Neither the board-designate of Scottish Enterprise, nor the boards of the new local enterprise companies, whose business plans are now being appraised, are in any doubt of the change from the attitudes of the SDA that is needed. Jim Gallagher's letter of 7 September set out the process of decentralisation that has already been achieved and is to be further developed. A further report on progress here will follow, as arranged, next Autumn.

I hope these comments are helpful.

Yours ever

Ken Thomson

KENNETH THOMSON
Private Secretary

SCOTLAND:

Regional Policy

towards Scotland

Pt 2.

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Douglas Hurd CBE MP
Secretary of State
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

7 November 1990

Dear Douglas

1993 CONFERENCE OF COMMONWEALTH MINISTERS OF EDUCATION

Thank you for your letter of 31 October in which you welcome the prospect of a Commonwealth Education Conference being held in Scotland in 1993 but convey that the Foreign and Commonwealth Office would not be able to contribute towards its cost. As you note, John MacGregor has similarly not been able to offer any financial support for this purpose.

In these circumstances I have had to conclude reluctantly that it is not possible for me to sustain an invitation to the Commonwealth Ministers to come to Scotland in 1993. I have let John MacGregor know of this decision.

I will certainly consider carefully your suggestion that we might be able to invite the Conference to Scotland for 1996.

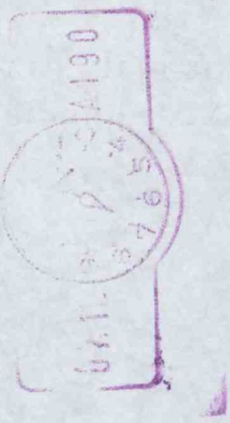
I am copying this letter to the Prime Minister, John Major, John MacGregor, David Hunt, Peter Brooke and Linda Chalker.

Yours ever,
Malcolm

MALCOLM RIFKIND

SMA00302.110

SCOTLAND: Regional Pol pt 2,



FILE EAM

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

5 November 1990

Dear Kenneth,

SCOTTISH ENTERPRISE

A recent article, copy attached, on the proposed structure of Scottish Enterprise was drawn to the Prime Minister's attention.

The Prime Minister has noted that the basic message from the article would appear to be that Scottish Enterprise represents a takeover, of the Training Agency in Scotland, by the Scottish Development Agency. In particular, she has noted that the management structure and some of the personnel in the new organisation appear to bear a strong resemblance to the senior structure of the old SDA.

The Prime Minister would be grateful for your Minister's views on the line taken in 'The Scotsman' article.

Yours,
Barry

BARRY H POTTER

Kenneth Thomson Esq
Scottish Office

HK

Barry

10 DOWNING STREET

I think in this instance it would be worth the Prime Minister speaking to Ian Lang as she apparently would like to do.

It may be that it is too late to do anything. But if that is the case the Scottish office should have an opportunity to explain their case. It might also help to concentrate their minds on how things evolve from here.

A. 2/11

FCS/90/195

SECRETARY OF STATE FOR SCOTLAND

1993 Conference of Commonwealth Ministers of Education

1. Thank you for your letter of ~~25~~ 26 October in which you suggested that Scotland might host the Commonwealth Education Ministers' meeting in 1993. I welcome this initiative. However, I do not think that there is any precedent for the FCO to share the cost of a Commonwealth Ministerial meeting with the lead Whitehall department, and pressure on resources is now such that we could not offer to do so.

2. I understand that the announcement would normally have been made during the Commonwealth Education Ministers' meeting which has already opened in Barbados. Clearly this will not now be possible given that John McGregor's letter of 26 October records that he, too, is unable to offer financial support.

3. On the assumption that it proves impossible, therefore, to hold the 1993 Conference in Scotland, you may want to consider the possibility of hosting the 1996 event.

/4.

SCOTLAND: Police PTZ

4. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer, Secretaries of State for Education and Science, Wales and Northern Ireland and Minister for Overseas Development.

DH.

(DOUGLAS HURD)

Foreign and Commonwealth Office

31 October 1990

Prime Minister
BtP
30/10

(2)

PRIME MINISTER

30 October 1990

SCOTTISH ENTERPRISE

You have expressed concern in the past about the way in which the Scottish Enterprise initiative was developing. Attached is an interesting article from today's Scotsman which bears out those concerns.

The basic message from the article is that Scottish Enterprise represents a takeover of the Training Agency in Scotland by the SDA. Both the management structure and the personnel of the new organisation look remarkably like the old SDA.

AD.

ANDREW DUNLOP

I must have a word with whoever is responsible at the Scottish Office I can keep?

089.AD

THE SCOTSMAN 30 OCT 1990

SEE OVER

Factors warping the Scottisl

Enterprise flight plan

*As the new enterprise agency finally lifts off, **Keith Aitken** warns, that it may not be on the course that was plotted originally*

THOSE who get excited by logos can add a new one to their collection tomorrow, when the talisman of the starship Scottish Enterprise is unveiled in Glasgow. Gone forever will be the familiar sealed saltire of the Scottish Development Agency and in its place will come, well, something else.

More substantial fare is also promised, however. Tomorrow's gathering will hear an account of the "principles and strategies" that will govern the new structure and, in particular, its core body housed at the SDA's old fastness in Bothwell Street, Glasgow.

Meeting the ghost in the machine will no doubt enhance understanding of how the machine will operate. But it is unlikely to quell unease about the design of the machine. The consensus claimed for Scottish Enterprise has rarely extended much beyond its vaguest outline, and debate is intensifying as the shape pulls into focus.

Enough is already known to be clear that a bigger, more robust core has survived than might have been anticipated from the original blueprint. Whether this is a good thing or a bad one depends entirely on where you stand.

Many with professional experience of the SDA, including its rivals, have seen Scottish Enterprise in terms of an admired agency facing a destructive, doctrinal attempt to crush its interventionist origins beneath the weight of a self-appointed coterie of businessmen. That side of the argument generally holds that the closer the new body resembles the old, the better.

Others, including some within the SDA, saw the creation of local enterprise companies (LECs) as an inspired parallel to a process which has proved dynamic enough for many businesses: breaking down a centralised operation into largely autonomous components bound by the loosest possible ties of strategy and accountability.

In the early days, it was the former group which exhibited most angst. Latterly, though, it is the enthusiasts, particularly in some of the LECs, who are waxing aggrieved. Smarting still at the Treasury's insistence on confining LEC discretion to projects worth less than £250,000, they now fear that political nerve has been lost in the structural reform.

At first glance, these fears appear to have scant substance. After all, the LECs are expected to

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THE SCOTSMAN

SEE OVER

have 75-80 per cent of the 1,400 staff; to spend 80 per cent of the £420 million central budget; to have within their delegated authority up to 80 per cent of economic development projects or, when training is added into the equation, up to 65 per cent of the total spending.

But closer examination reveals another side to these figures. The bulk of staff, roughly 800 out of the 1,400, come from the Training Agency, not the SDA, and most of these are already out in the field. The split of existing SDA staff between core and LECs is expected to be about 50-50; not too different from the current ratio between Bothwell Street and the SDA regional offices.

That suggests two things: first, that the impact of the reforms on Bothwell Street staffing may be significantly less than originally expected; and, second, that it will be the rump of the SDA which calls the shots in the new core, despite the Training Agency's bigger payroll and budget.

Certainly, the new management structure looks very like the SDA and not at all like the Training Agency. All but one of the ten divisional directors so far named come from the SDA. True, the Training Agency's Scottish director, Lex Gold, has one of the two managing directorships. But his bailiwick is (despite the peculiar inclusion of marketing) very much confined to administration; the divisions at the cutting edge of activity — training included — report to John Condliffe, currently SDA finance director.

Beneath the directors lies a complex structure of departmental heads and managers. There are a lot of chiefs; one senior LEC source estimates that his project managers will have to go through up to ten levels of authority to gain sanction for some projects. Moreover, several LEC chief executives were previously fairly senior SDA figures, and may take it ill to defer to line managers who were previously their juniors.

Then there is the money. LEC discretion over 65 per cent of spend sounds generous, but the bulk of that is training provision, where most of the budget — 90 per cent on some estimates — will be spoken for by Government commitments to volume schemes, like Youth Training and Employment Training.

IT SEEMS unlikely that the 80 per cent of development projects falling within discretionary LEC spending will exceed 20 per cent of all development spending by very much; £20 million, or thereabouts. It is not a lot of money and the level of private sector leverage available to underpin projects is expected to fall sharply next year.

Now, there are plenty on the Scottish industrial scene who will tell you with relief that the SDA has survived the maelstrom; that its vital, strategic, catalytic role in the Scottish economy will continue largely unchanged.

But it is that same perception which fuels the fears building in some of the LECs as they prepare to negotiate with Bothwell Street over their business plans. Those negotiations were never going to be easy. The question of what the emperor's new logo really amounts to may well further enliven them.

THE SCOTSMAN

30 OCT 1990

SCOTTISH ENTERPRISE

CHIEF EXECUTIVE
Crawford Beveridge

M D
OPERATIONS
John Condliffe

M D FINANCE &
ADMINISTRATION
Lex Gold

STRATEGY | LOCATE IN SCOTLAND | SCOTTISH DEVELOPMENT FINANCE | DIRECTOR INDUSTRY | DIRECTOR ENVIRONMENT | DIRECTOR TRAINING | DIRECTOR LEC OPERATIONS | DIRECTOR PERSONNEL | DIRECTOR MARKETING | DIRECTOR FINANCE & PLANNING | COMPANY SECRETARY | DIRECTOR LEGAL SERVICES

SDA

CHIEF EXECUTIVE
James Scott

POLICY UNIT | LOCATE IN SCOTLAND | SCOTTISH DEVELOPMENT FINANCE | DIRECTOR INDUSTRY & ENTERPRISE DEVELOPMENT | DIRECTOR PROPERTY SERVICES & URBAN REVIVAL | DIRECTOR EMPLOYMENT & SPECIAL INITIATIVES | GROUP DIRECTOR REGIONS | DIRECTOR PERSONNEL | DIRECTOR MARKETING | DIRECTOR FINANCE & INFORMATION | AGENCY SECRETARY | DIRECTOR INVESTMENT DIVISION

New look? The top men may have changed, but the structure of Scottish Enterprise bears a striking resemblance to that of its predecessor and many former SDA personnel will hold key posts

FROM OVER

n. 5. P. M
BHP 30/10

FROM THE MINISTER OF STATE, SCOTTISH OFFICE

ST. ANDREW'S HOUSE
EDINBURGH EH1 3DG

Barry H Potter Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

26 October 1990

Dear Barry

SCOTTISH ENTERPRISE

I am writing to follow up Donald Henderson's letter of 30 March to Paul Gray with a 6 month progress report on disposal by the Scottish Development Agency of parts of its property portfolio and its investment holdings. I note that your letter of 12 September to Jim Gallacher expressed the Prime Minister's particular interest in progress in relation to investments.

The disposal exercise covering most of the Agency's property holding has been completed. It has been an outstanding success, realising £137.5 million in receipts from the sale of the 4 portfolios, which is greatly in excess of expectations, as well as stimulating a very healthy stream of individual property disposals. In addition to the financial benefits, it has assisted Mr Lang in underpinning the substantial transition which he is effecting in the property role of the Agency, and of Scottish Enterprise as its successor.

Mr Lang also instructed a review of the Agency's investment activity more than a year ago. However, the detailed arrangements for disposal of part of their holdings have taken second place to the disposal of the property portfolio because the value of the assets is very much smaller. This has had the added benefit of allowing useful lessons to be drawn from the property disposal exercise.

One key lesson was that in a number of cases individual sales represent the best option. In advance of the preparation for sale of some investments in a package the Agency increased disposals of individual investments to £14.5 million in 1989-90, more than four times the average of £3.3 million for the previous 3 years.

Another important lesson was the value of independent advice on disposal strategy. Quayle Munro were appointed as financial advisers by the SDA, at Mr Lang's prompting, in the course of the summer. They have been preparing a report on the selection and packaging of investments for

disposal and on the timing of disposal, in the light of market conditions. Their work is well advanced and they are expected to report on some aspects of their brief in early November.

It appears likely that as with the property disposal exercise the advice will be that the best return will be obtained by a combination of continued individual sales and the construction of a balanced package of other investments, to meet the problem that some of the Agency's investments would not be attractive if sold separately.

Mr Lang intends to ensure that the Agency continues to press ahead vigorously with individual sales, although it would be realistic to expect a lower level of return than last year since many of the most attractive investments have already been sold. The construction of the package for disposal is likely to take a little longer, partly because the selection of investments for the package is inter-related with the exploration of further individual sales. In many cases the companies in which the investment is held have pre-emption rights, which they must be offered the option of exercising before investments can be considered for inclusion in the package. Despite these considerations Mr Lang has made it clear that he wishes the package disposal to take place before the transition from the SDA to Scottish Enterprise next April.

In discussion with Sir David Nickson, as Chairman of both the SDA and Scottish Enterprise, Mr Lang has stressed that this radical review of investment holdings is intended to reinforce changes in the way in which the investment role is now to be exercised. A more focused investment policy will bring about a more selective approach to the choice of individual investments and a more rapid turnover of investments once acquired. It emphasises the Agency's role as an investor of last resort, in circumstances where there is a clear market failure. It also stresses the importance of a clear exit route from the investments. The major disposal now in hand will be followed by a continuing active disposal policy.

Taken together, the disposal of property and shareholdings and the review of property and investment activity represent an important shift which will assist in launching Scottish Enterprise as a body to foster the role of the private sector rather than to displace it. Mr Lang has asked me to report further to you on the disposal of investments at an appropriate point, probably in about 3 months.

Yours sincerely

Graeme Robertson

for KENNETH THOMSON
Private Secretary

JNI00225.100

SCOTLAND

Key Pol

Pt 3

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 071-934 9000

The Rt Hon JOHN MacGREGOR OBE MP

The Rt Hon Douglas Hurd MP
Secretary of State for Foreign &
Commonwealth Affairs
Downing Street
LONDON
SW1A 2AL

26 October 1990

Dear Douglas,

1993 CONFERENCE OF COMMONWEALTH MINISTERS OF EDUCATION

I have seen a copy of Malcolm Rifkind's letter to you of 25 October.

The proposal that Scotland should host the next Commonwealth Education Ministers' Conference in 1993 has been entirely a Scottish initiative. I should have been prepared to support it in principle on the basis of our understanding that the Scottish Education Department would be responsible for the administration of the conference and for securing the bulk of the funding. But my Department has no resources earmarked for international meetings on this scale and could not accept a major financial or administrative responsibility for the conference.

Tim Eggar leaves for Barbados tomorrow. On the basis of our previous understanding of the nature of the Scottish proposal it had been envisaged that he would issue the invitation to Scotland at the end of the conference on 2 November. But on the basis of Malcolm's letter that will not be possible and the UK delegation will have to inform the Commonwealth Secretariat accordingly on arrival in Barbados, to give them the opportunity to sound other possible candidates.

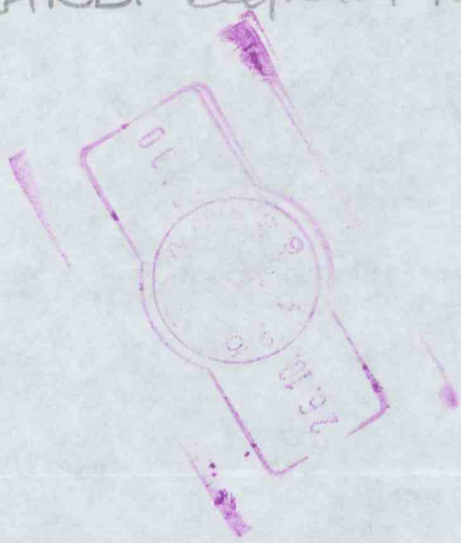
I am copying this letter to the Prime Minister, John Major, Malcolm Rifkind, Lynda Chalker, David Hunt and Peter Brooke.

Yours ever,

JOHN MacGREGOR

DES

SCOTLAND: Legislative Policy Pt 2



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Douglas Hurd CBE MP
Secretary of State
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

CM 27/x

25 October 1990

Dear Douglas,

1993 CONFERENCE OF COMMONWEALTH MINISTERS OF EDUCATION

In informal discussions with the Commonwealth Secretariat and in approaches made to me here, it has been suggested that the Conference of Commonwealth Education Ministers to be held in 1993 should take place in Scotland.

You will recall my letter of 28 April 1989 to the Prime Minister in which I drew attention to the advantages of Scotland as a place to hold major high-level inter-governmental conferences, and in which I adduced a number of reasons for this being so. Education is an area in which we have been taking significant initiatives and in which we should be able to make an important contribution to a Commonwealth debate. For these reasons I am attracted to the possibility of the UK making a bid to host this Conference and for it to be located in Scotland.

I understand that if we want to put forward a bid, it should be made in the course of the next conference, which is to be in Barbados on 29 October-2 November. Tim Edgar will be leading the delegation in Barbados, and it might be appropriate if he were to make any announcement.

I would be grateful to have your views on this proposition. I am conscious of course that a conference of this kind would involve substantial costs for the host Government, allowing for any contribution which might properly be expected from the Commonwealth Secretariat. I assume that funding of the Government's commitment would have to be found on a United Kingdom basis and that the FCO might be expected to provide part of the amount needed. DES holds the resources for meeting expenditure on international services and conferences, and I assume that it will fall mainly to John MacGregor to make financial provision for this event. I accept that my Department would need to help with the administrative load of organising the conference.

I am copying this letter to the Prime Minister, John Major, John MacGregor, Lynda Chalker, David Hunt and Peter Brooke.

Yours ever,

MALCOLM RIFKIND

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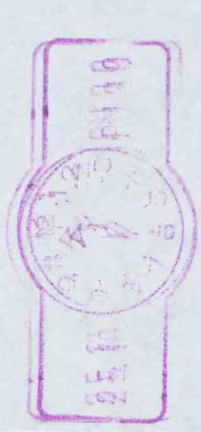


SCOT Off
Reg Pol
RT2

CCPS

ST. ANDREW'S HOUSE
EDINBURGH EH1 3DG

Spoken to PS 2.10.90

~~B.F. Wood~~
Policy Unit
advised.
BHP
1/10

Barry H Potter Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

1 October 1990

Dear Barry

SCOTTISH ENTERPRISE

Thank you for your letter of 12 September. You mentioned the Prime Minister's wish to have a progress report on the sale of SDA investments. The SDA is preparing a package of its mature investments to sell on the open market before the end of 1990. The exact number of investments has not yet been determined, but should be in excess of 25% of its portfolio. It will have a mixture of investments, in terms of size and type of company so that it offers a relatively balanced package.

A major objective of the sale is to secure a significant and lasting reduction in the number of investments held by the Agency, through the disposal of investments held for 5 years or more. The period of 5 years is generally regarded as that within which an investment is likely to mature, and the increase in value, and therefore the return on the investment, increases appreciably towards the end of that period. Henceforth the Agency, and in due course Scottish Enterprise, will be expected to manage its investments so that none are held beyond 5 years other than in the most exceptional circumstances, with a continuing programme of disposals to complement other sales through flotations and trade sales.

Yours

John

J D GALLAGHER
Private Secretary

SMC00528.090

SCOTLAND: Polly Pt 2

File

DSG

bc: Policy Unit

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

12 September 1990

Dear Jim,

SCOTTISH ENTERPRISE

Thank you for your letter of 7 September about the extent of decentralisation to local enterprise companies (LECs) vis-a-vis headquarters responsibilities within Scottish Enterprise. I submitted your letter to the Prime Minister yesterday evening.

The Prime Minister is grateful to your Secretary of State for clarifying the position. She has also noted that your Secretary of State is clear that the target of 80 per cent by value of SDA work to be carried out by the LECs will be reached. Accordingly, the Prime Minister would be grateful for annual progress reports on meeting that target.

Finally, the Prime Minister also understands that Scottish Enterprise expects to be in a position soon to sell the SDA investment portfolio. She would be grateful for an indication of progress on the sale.

I am sending copies of this letter to the Private Secretaries of members of E(A)and to Sir Robin Butler.

Yours,
Barry

Barry H. Potter

J. D. Gallagher, Esq.,
Scottish Office.

DSG

(1)

PRIME MINISTER

SCOTTISH ENTERPRISE

On your behalf Caroline wrote to the Scottish Office on 9 August. The letter expressed your concern that the extent of decentralisation to local enterprise companies (LECs) vis-a-vis headquarters responsibilites within Scottish Enterprise had not been as great as you had hoped.

The Scottish Office reply is attached at Flag A. Also attached is a useful note from the Policy Unit at Flag B.

The Scottish Office letter clarifies the position. Around 70 per cent of Scottish Enterprise by value has been devolved to the local enterprise companies this year. The Scottish Secretary does propose to move towards 80 per cent, in later years - the target figure agreed with you.

Underlying this difference about numbers is the suspicion that the old Scottish Development Agency (SDA) may be seeking to retain central interventionist functions within Scottish Enterprise. (At 'X' on the letter there is a clear reference to a continuing strategic function for the SDA.) These functions at present encompass the investment portfolio; inward investment functions; and property and environmental issues. Policy is to encourage Scottish Enterprise to divest itself of certain functions such as the investment portfolio as soon as practicable.

That said, you need to judge whether to press Mr Rifkind further at this stage. Policy Unit proposes that you ask for annual progress reports on streamlining the central organisation and delegation to local enterprise companies. You might also ask how soon Scottish Enterprise expect to be in a position to sell the SDA's investment portfolio. This seems a sensible proposal.

Content for me to minute out as Policy Unit propose?

BHP

Barry H Potter

11 September 1990

c: Scottish (MJ)

Yes

BARRY POTTER

10 September 1990

SCOTTISH ENTERPRISE

We spoke earlier. I have reflected further on the Scottish Office letter.

The clarification of the position for achieving the target for the degree of financial delegation is helpful. It corrects the misleading impression, created by the earlier letter, that the 80 per cent target had been more than met.

The position on the size of the Scottish Enterprise central organisation remains unsatisfactory. Little justification is offered as to why such large executive departments are required. This reflects a basic difference of view: the Scottish Office wants the Scottish Enterprise to have a much larger strategic role than was envisaged originally by the Prime Minister. There is much greater scope for streamlining. The Treasury share this view.

Where do we go from here?

You are probably right that it would be counterproductive to press these issues head-on. But a means of ensuring that the Scottish Office meets its commitments on staffing and the degree of decentralisation is required:

1. **The Prime Minister should ask for annual progress reports on (a) streamlining the central organisation (b) financial delegation to LECs**.

2. The existing functions of Scottish Enterprise must not be allowed to become "written in stone". The rationale for each function needs to be justified on a case by case basis. Two obvious examples are:

(a) **Property**: the SDA has disposed of its existing property portfolios. But the Scottish Office would like Scottish Enterprise to retain its role as a provider of new factory space.

The role of this activity needs to be looked at closely;

(b) **Industrial Investments**: the Scottish Office has agreed in principle to dispose of much of the SDA's investment portfolio. Ian Lang promised early progress in a letter to the Prime Minister last March. Nothing has happened yet. The Scottish Office needs to be galvanised into action. Thereafter the extent to which Scottish Enterprise needs to retain a role in this area should be considered.

As a starter the Prime Minister should ask the Scottish Office how soon they expect to be in a position to sell the SDA's investment portfolio.

Louise Ashton
for/

ANDREW DUNLOP

ST. ANDREW'S HOUSE
EDINBURGH EH1 3DG

Barry Potter Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON
SW1A 2AA

7 September 1990

Dear Barry

Caroline Slocock's letter of 9 August, in response to mine of 30 July giving a snapshot of current progress on Scottish Enterprise, asked for a further report on our plans for ensuring that the balance of both staff employed and activity undertaken within Scottish Enterprise and the local enterprise companies is moved progressively towards the enterprise companies.

My Secretary of State and his colleagues are of course firmly committed to securing the maximum devolution to of the local enterprise companies of economic development, training and environmental projects and programmes in Scotland. Sir David Nickson shares this objective. The numbers to be employed at the core must however reflect a continuing strategic role for Scottish Enterprise, in major property, environmental and investment projects, inward investment, and the new role of supervising the local enterprise companies.

Caroline's letter took no account of Training Agency staff numbers in Scotland so the planned initial complement of 440 should therefore be compared not with the 410 staff in post at the Scottish Development Agency's headquarters (and quoted in Caroline's letter), or indeed the current headquarters' complement of 441, but with the 561 posts at present in the Training Agency "Office for Scotland" and the centre of the SDA taken together. In addition there will be about 1000 staff in the field with the LECs.

Thereafter we aim for further reductions over the next 3 years if not sooner, so that 75% of staff will be in the local enterprise companies. We know that Sir David Nickson will ensure that this target is hit. In England and Wales we understand that the comparable figures for TECs/area offices and the rest of the Training Agency are 5,184 and 3,382 respectively: ie just over 60% of the total are or will be within TECs. There is no equivalent there to the continuing strategic core functions of the SDA on such matters as property, environmental, investment or inward investment functions.

CER00703.090

On budgets, we expect that, on the 1990/91 basis, local enterprise companies would be responsible for total spending of £382 million, of which £119 million would be attributable to former SDA activities. The Scottish Enterprise core budget of £78 million would include £54 million relating to major SDA programmes and projects. Thus very nearly 70% by value of what was SDA activity would fall to local enterprise companies on the basis of current year patterns. In excess of 80% by volume of projects would be the responsibility of the enterprise companies. My Secretary of State therefore considers that, in the light of his agreement last summer to start with 80% by volume and to move progressively to a target of 80% by value of SDA work being carried out by the enterprise companies, a satisfactory position is already likely to be achieved. He is clear that the 80% by value target will be reached, and once the enterprise companies start to come onstream around the end of this year, the Department will be monitoring progress in that direction very closely.

I am copying this letter to the Private Secretaries of members of E(A) and to Sonia Phippard (Cabinet Office).

J D GALLAGHER
Private Secretary

CER00703.090

KLC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

9 August 1990

Dear Jim,

SCOTTISH ENTERPRISE

The Prime Minister has seen your letter of 30 July to Barry Potter; and was grateful for this progress report on Scottish Enterprise.

However, she did express concern that the extent of decentralisation has not been as great as she had hoped. She understands that the current plans are for a central core of 440 staff to remain, which compares with the SDA's current central organisation of 410. She wonders why an organisation which is meant to be a regulator and an enabler should need large executive departments. Furthermore, the Prime Minister had asked that local enterprise companies should have responsibility for 80 per cent of the value of projects hitherto implemented by the SDA. Although your letter says that over 80 per cent of total expenditure would be part of their budgets, this includes expenditure on ET and youth training. The Prime Minister would therefore be grateful for a report on the progress being made on the target she originally set. I would be grateful for advice on these points urgently.

I am copying this letter to the Private Secretaries to Members of E(A) and to Sonia Phippard (Cabinet Office).

Yours sincerely,

Caroline

(CAROLINE SLOCOCK)

Jim Gallagher, Esq.,
Scottish Office.

PRIME MINISTER

2 August 1990

SCOTTISH ENTERPRISE

The original vision for Scottish Enterprise was of an entirely new organisation, not simply a takeover by the SDA of the Training Agency in Scotland. It was to be locally-based, market-driven and private-sector led. A key objective was to minimise bureacuracy.

The concern all along was that the SDA (and perhaps some in the Scottish Office) had its own agenda: to protect its position and to use Bill Hughes' initiative as a means of acquiring control of training in Scotland.

You have argued consistently that (a) the size of the central organisation should be kept to a minimum and (b) there should be as much devolution of responsibility as possible to the local level.

Malcolm Rifkind's letter reports progress in general and responds to your two particular concerns. However, it does not give the full picture. I have looked closely at some of the details and it is clear that the Scottish Office and SDA are keeping the size and scope of the centre as large as possible.

The size of the Central Organisation

Coopers and Lybrand were asked to devise an optimum structure for Scottish Enterprise. But their answer was always going to be only as good as the question they were asked. It is clear from their report that the organisation they were asked to create was more than a regulator and an enabler: it is meant to be a "doer" as well.

CONFIDENTIAL

In April you flagged up your concern that "the new arrangements should be as de-centralised as possible and, in consequence, involve a substantial reduction in the size of the central organisation".

This is not the outcome being planned

Current plans are for a central core of 440 staff. This is by any standards a substantial organisation. That compares with an existing SDA central organisation of 410 staff.

It is true that the new Scottish Enterprise organisation will also be integrating existing Training Agency staff. Its Scottish headquarters has a staff of around 120. But only 40 posts in the new Scottish Enterprise organisation are in the Training and Human Resources field. Most of existing Training Agency staff will be deployed in local enterprise companies (LECs).

Attached is a breakdown of the existing SDA central organisation and the planned organisation for Scottish Enterprise. It is difficult to see what has changed. For example:

- the SDA has disposed of its industrial property portfolio. Why does Scottish Enterprise need a Property and Environment Department of 50?

- the intention is that LECs should handle 80 per cent by value of projects which would otherwise have been handled by the SDA. Why does Scottish Enterprise need an Industrial and Economic Development staff of 80?

This seems an odd way of fulfilling your objective of minimising bureaucracy.

CONFIDENTIAL

Moreover, the target for reducing the proportion of staff at the centre from 31 per cent to 25 per cent over the next three years is not reassuring. This could be achieved simply by increasing the number of staff overall.

The Degree of Delegation

In its response to the Scottish Enterprise White paper, the SDA proposed that LECs should have responsibility for spending on projects up to £250,000. This, it was argued, would give them control of 80 per cent by volume of the projects hitherto implemented by the SDA.

You argued that, if the centre was not to retain too much control, a target of 80 per cent by value should be set. Malcolm Rifkind was asked to provide, by this summer, his latest assessment for moving to this target.

His letter fails to do this

It provides the answer to a different question, namely that over 80 per cent of total expenditure would be part of LEC budgets. But most of this money is for ET and YT. This is not the same thing as saying 80 per cent by value of former SDA expenditure will be under the control of LECs. On this measure the outturn is bound to be considerably less.

Conclusion

The objective to produce a new organisation with a slimmed down centre and maximum responsibility devolved to LECs has not been achieved. It seems as if the Scottish Office is not doing what you asked.

CONFIDENTIAL

Recommendations

- express concern at the size of the Scottish Enterprise central organisation compared with the present SDA;

- ask why it is necessary for an organisation, which is meant to be a regulator and an enabler, to have such large executive departments dealing with, for example, Industrial and Economic Development and Property and the Environment;

- point out that the target of 80 per cent by value referred originally to projects hitherto implemented by the SDA not total expenditure;

- indicate that the remit to provide the latest assessment of the timetable for moving to this target has not been fulfilled;

- ask for this assessment to be provided urgently.

ANDREW DUNLOP

039.AD

CONFIDENTIAL

CONFIDENTIAL

ANNEX

SCOTTISH ENTERPRISE CORE: STAFFING ESTIMATES

(A) Current SDA

Chief Executive's Office	2
Finance and Information	74
Marketing	29
Secretariat	46
Personnel	11
Education etc	15
Industrial & Econ. Development	104
Property Services & Urban Renewal	77
Oil and gas	6
Policy Unit	7
Locate in Scotland	24
Small Development Finance	16
TOTAL	410

(B) Scottish Enterprise (planned)

Chief Executive's Office	3
Man. Dir. Finance and Admi	2
Finance and Planning	60
Marketing and PR	31
Admin. and Legal	50
Personnel	24
Man. Dir. Local Enterprise & Operations	2
Training and Human Resourcse Devel	40
Industrial and Econ. Devel	80
Property and Environment	50
Local Enterprise Company relations	40
Strategy	15
Locate in Scotland	26
Small Development Finance	17
TOTAL	440

CONFIDENTIAL

CCAG

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister
When Scottish Enterprise was set up, you sought assurance that there would be substantial delegation to local enterprise companies and that HQ would be kept small. The Scottish Office note [illegible] claims to demonstrate that decentralisation is well advanced. Andrew Dunlop's note, flag A, queries some of the claims.

Agree we minute back questioning the extent of decentralisation?

Yes

AT
6/8

Barry Potter Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON
SW1A 2AA

30 July 1990

Dear Barry

SCOTTISH ENTERPRISE

In your letter of 24 July 1989 to my predecessor, David Crawley, which conveyed the Prime Minister's approval of my Secretary of State's policy on Scottish Enterprise, as set out in the statement he made in the House on 26 July 1989, you asked for a report on progress after 12 months had elapsed, together with an up-to-date timetable for achieving at least 80% by value for delegation to local enterprise companies. This letter fulfils that commitment.

Legislation

The legislation to establish Scottish Enterprise and Highlands and Islands Enterprise has had a relatively smooth passage through Parliament: it received its Third Reading in the House of Lords on Wednesday 25 July and received Royal Assent yesterday. The Bill re-enacts with appropriate adjustments the provisions of the Scottish Development Agency Acts 1975 and 1987, the Highlands and Islands Development (Scotland) Act 1965, and the Employment and Training Act 1973 as amended by the Employment Act 1988. During its progress through Parliament, Government brought forward amendments to simplify and make more flexible the financial arrangements for Scottish Enterprise; to empower Scottish Enterprise and Highlands and Islands Enterprise specifically to increase opportunities for training for racial minorities; to give Scottish Enterprise and Highlands and Islands Enterprise a duty to encourage employers to promote opportunities for men, women, ethnic minorities and the disabled in sectors of employment or training in which they are currently underrepresented; to give Highlands and Islands Enterprise a strengthened remit to have regard to the desirability of preserving the characteristic flora, fauna and physical features of the Highlands and Islands; to increase the period of notice to occupiers of land before entry by Scottish Enterprise or Highlands and Islands Enterprise; to give Scottish Enterprise a specific function of assisting the establishment of community and co-operative enterprises; to give Scottish Enterprise and Highlands and Islands Enterprise a specific duty to monitor training quality; and to delete powers for Scottish Enterprise and

Highlands and Islands Enterprise to bypass normal planning procedures. It is intended that Scottish Enterprise and Highlands and Islands Enterprise will formally come into being on 1 April 1991.

Establishment of Scottish Enterprise and Highlands and Islands Enterprise

The designate boards of Scottish Enterprise and Highlands and Islands Enterprise have now been appointed (with the Prime Minister's agreement). Details of the members of each board are attached. In each case, the chief executive will also be an ex-officio board member. The announcement of the HIE Chief Executive was made yesterday. As regards Scottish Enterprise the selection process is well in hand and we hope to make an announcement shortly.

The basic organisation structures for the two new bodies have been developed, and the process of making designate appointments at senior levels is well under way. The next stage, of arranging for the integration of staff at more junior levels, is at an advanced planning stage.

Establishment of local enterprise companies

The full network of local enterprise companies is now in place: 12 in the Scottish Enterprise area, 9 in the Highlands and Islands, and one, Moray, Badenoch and Strathspey Enterprise, straddling the boundary. That differs slightly from our original proposed network of 20 local enterprise companies, in response to representations from local business communities. I attach a map showing the areas covered by each local enterprise company. All the various consortia are now in their development phase, conducting local economic audits of the needs and opportunities of their areas, and working up their detailed operational plans. We can therefore now be reasonably confident that most if not all the local enterprise companies will be ready to go (or indeed, already in operation) by 1 April 1991.

Initial balance between Scottish Enterprise/Highlands and Islands Enterprise and local enterprise companies

Present expectations are that Scottish Enterprise will initially have about 440 staff, and its contracting local enterprise companies 985 (ie 69% in the local enterprise companies). The aim is to achieve at least 75% of staff in the local enterprise companies in the next 3 years or so and to continue this trend thereafter. In the Highlands and Islands, the ratio will initially be around 2:1 in favour of Highlands and Islands Enterprise, due to the different circumstances of that area.

So far as funding is concerned, no estimates can be made for 1991-92 onwards until the outcome of this summer's Public Expenditure Survey is known. However an exercise has been carried out on the basis of 1990-91 expenditure levels to estimate what Scottish Enterprise expenditure would have been in 1990-91, if it was in existence, and indicative budgets for individual local enterprise companies. On this basis, out of a total expenditure of £460 million, £382 million (83%) would have gone to local enterprise companies, with £78 million (17%) being spent directly by Scottish Enterprise. Details are shown in the attached table. Actual local enterprise company budgets for 1991-92 onwards will be based on the same principles, once overall expenditure levels are known. As yet, the likely position in the Highlands and Islands is less clear: given the smaller size of the local enterprise companies in that area their position of overall expenditure will be smaller. Initially we expect

almost one-third of expenditure disbursed by Highlands and Islands Enterprise to be channelled through local enterprise companies: it is as yet too early to forecast how fast this proportion can rise.

Our Minister of State, Mr Ian Lang, has had separate meetings both with the Board-designate of Scottish Enterprise and with the Chairmen of the local enterprise companies in the Scottish Enterprise area, at which he has emphasised the importance the Government attaches to a sustained effort to achieve the continuing decentralisation of functions and resources from Scottish Enterprise to the local enterprise companies. He intends to continue to monitor progress here and to press for further decentralisation.

I am copying this letter to the Private Secretaries to members of E(A) and Sonia Phippard (Cabinet Office).

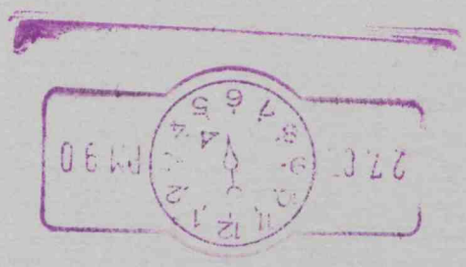
Yours

Jim

J D GALLAGHER
Private Secretary

EML210S2

SCOTLAND:
Reg Pol A 2



SCOTTISH ENTERPRISE: BOARD-designate

Chairman: Sir David Nickson (60)	Chairman of SDA
Tom Farmer (49)	Chairman and Chief Executive Kwik-Fit
Ron Garrick (49):	Chief Executive of the Weir Group
Ann Gloag (46):	Managing Director of Stagecoach
Charles Gray (61):	Leader of the administration of Strathclyde Regional Council
Sir Graham Hills (63):	Principal of the University of Strathclyde. Existing member of SDA board.
Glenda Hogarth-Coull (44):	Managing Director of Hogarth Safetywear, Aberdeen
Barbara Kelly (49):	Chairman of the Scottish Consumer Council and of Rural Forum
Gavin Laird (57):	General Secretary of the Amalgamated Engineering Union. Existing member of SDA board.
Cameron McLatchie (42):	Managing Director of Scott and Robertson
Jack Shaw (57):	Former Director of Scottish Financial Enterprise and member of the Scottish Industrial Development Advisory Board
Chief Executive:	**yet to be appointed**

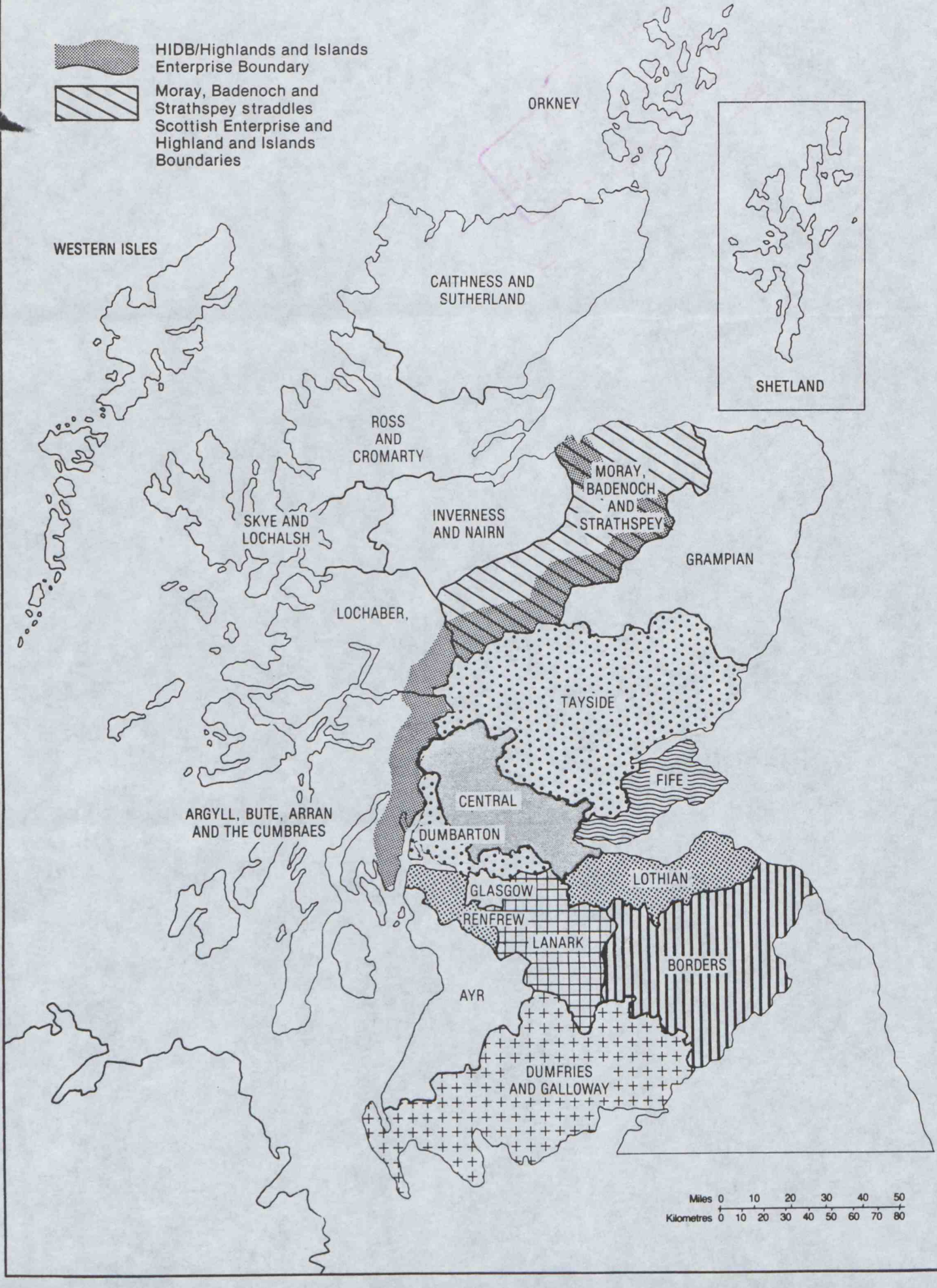
ASN01451

HIGHLANDS AND ISLANDS ENTERPRISE: BOARD-designate

Chairman: Sir Robert Cowan (58)	Chairman of HIDB
Patricia Grant (44):	Marketing and Joint Managing Director of Norfrost, Caithness
Philip Hamilton-Grierson (57):	Deputy Chairman and full-time member of Highlands and Islands Development Board
John Harrison (58):	Chairman, Johnstons of Elgin
James Hunter (41):	Journalist: Adviser to the Crofters Union
Robin Lingard (48):	Full-time member of Highlands and Islands Development Board
Angus MacDonald (54):	Part-time member of Highlands and Islands Development Board
Valerie MacIver (45):	Chairman of Highland Regional Council's Education Committee
Fraser Morrison (42):	Chairman and Managing Director, Morrison Construction Group
John Robertson (60):	Chairman of the Robertson Group of Companies
Peter Timms (46):	Managing Director of Flexible Technology, Bute
Chief Executive:	**yet to be appointed**

ASN01451

ENTERPRISE COMPANY AREAS



SCOTTISH ENTERPRISE - ESTIMATED BUDGETS ON A 1990-91 BASIS

		£m	%
SCOTTISH ENTERPRISE	**TOTAL**	**460.0**	**100**
SCOTTISH ENTERPRISE	**CORE**	**78.0**	**17**

LOCAL ENTERPRISE COMPANIES

Glasgow	94.2	
Lothian	45.3	
Lanarkshire	38.4	
Renfrew	36.1	
Ayrshire	29.1	
Tayside	27.6	
Fife	24.4	
Grampian	22.0	
Central	21.2	
Dumbarton	18.8	
Dumfries and Galloway	11.9	
Borders	8.4	
Moray (Scottish Enterprise contract only)	4.7	
Sub-Total	**382.0**	**83**

fric Sec
(A: Economic Scottish)
bc: PU

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

5 April 1990

Dear Donald,

SCOTTISH DEVELOPMENT AGENCY AND SCOTTISH ENTERPRISE

Thank you for your letter of 30 March which the Prime Minister has seen. She was grateful for the account of the programme of asset proposals in hand and warmly welcomes it. She feels, however, that the progress being achieved creates the opportunity to rationalise the central organisation of the SDA. Moreover, looking ahead to the development of Scottish Enterprise she wishes to reiterate her concern that the new arrangements are as de-centralised as possible and, in consequence, involve a substantial reduction in the size of the central organisation. She looks forward to the progress report due in July providing the latest assessment of the timetable for moving to a target of 80 per cent by value for delegations to local enterprise companies.

I am sending a copy of this letter to Jim Gallagher (Malcolm Rifkind's office).

Yours,

Paul Gray

(PAUL GRAY)

Donald Henderson, Esq.,
Minister of State's Office,
Scottish Office.

B B

PAUL GRAY 4 April 1990

SDA DISPOSALS

In itself the programme of disposals outlined in the note from Ian Lang's office is very welcome. It represents a significant measure of privatisation.

But I remain very concerned that - in developing the Scottish Enterprise proposals - the overriding tendency in the Scottish Office and the SDA is still to keep the size and scope of the centre as large as possible, despite the Prime Minister's repeated injunctions to the contrary (viz your letter to David Crawley of 24 July 1989).

In welcoming the disposals, it would be very timely for the Prime Minister to reiterate her concern on this issue.

The Emerging Structure

Coopers and Lybrand were asked by the Scottish Office to report on the optimum structure for Scottish Enterprise. They were set an impossible task: for example, the structure of local enterprise companies (LECs) was excluded from the scope of the report!

Our object is that the new structure (centre and local) should involve no additional cost. The report, which I have seen and discussed with its author, offers no guarantee that the changes can be implemented at no extra cost.

It is not difficult to see why:

- a new tier of LECs is being created. Costs will be contained only if the size of the centre is reduced correspondingly;

- the report offers no view on what is the correct division of functions between Scottish Enterprise at the centre and the local bodies;

- my fear is that we will end up with more bureaucracy than we started with.

The Right Answer to the Wrong Question

The original concept of Scottish Enterprise was of a lean centre, with the bulk of resources concentrated at the point of delivery. The centre was to act as a regulator and an enabler, not as a "doer". (The attraction of inward investment being the exception). Innovatory ideas were to be allowed to flourish at the grass-roots. The centre would ensure quality control.

The picture that emerges from the Coopers and Lybrand report is quite different:

1. **It envisages much more central direction.** For example, the Report says that "The Head of Strategy ... will develop a macro level picture of Scotland's economy as essential background to determining those areas of market imperfections and failure where Scottish Enterprise and/or LECs can usefully intervene".

2. **The centre will continue to design, develop and implement a whole range of programmes and projects.** (See extract from the report attached at Annex I).

3. **A top-heavy organisation will be required to fulfil these functions** (see organisation chart attached at Annex II). Looking at all the senior posts proposed in the report it is difficult to see what difference there is with the existing SDA structure. For more junior appointments

Coopers favour a "cascade" approach, with each Departmental Head working out the requirements to fulfil their allotted task. The scope for growth is, therefore, huge.

The end result is a report which can easily be used to reinforce, rather than reform, the status quo.

Recipe for Inertia

It is possible that the organisation could evolve over time, with the centre giving up functions as the LECs become fully operational. But I am not optimistic on this point. The report offers a recipe for inertia. It states:

> "Pressures for activities to remain with Scottish Enterprise will come not only from the organisation itself but could come from the Scottish Office or elsewhere. LECs will have to demonstrate their maturity and capability, particularly in the early days of undertaking functions, rather than Scottish Enterprise having to demonstrate its capability to retain these."

This gives entirely the wrong bias. The presumption should be that most activities will be devolved to LECs. The burden should be on Scottish Enterprise to demonstrate that LECs are not capable to handling extra activities.

Business concern

Some important business leaders, on whom we are relying to make a success of Scottish Enterprise, are concerned at the way things are developing. Bill Hughes, Sir Norman McFarlane (who is heading the Glasgow Consortium) and Sir Charles Fraser (who leads the Edinburgh group) are all worried about too much direction from the centre. They understand the need for proper accountability. But they feel that Scottish Enterprise should

concentrate on this, rather than delivering programmes and projects.

Conclusion

Two key objectives of the Scottish Enterprise intiative were greater decentralisation and a reduction of bureaucracy. On the evidence of the Coopers and Lybrand report, there is a danger that we will not achieve either of these objectives. There is a strong case for the Prime Minister to remind the Scottish Office - without referring directly to the report - of these objectives. This should concentrate minds when decisions are taken on how to implement the report.

Recommendations

I recommend that the Prime Minister:

- warmly welcomes the programme of disposals outlined in Ian Lang's letter;

- emphasises that this clearly offers the opportunity to rationalise the SDA's central organisation;

- takes the opportunity to reiterate her concern that in developing the Scottish Enterprise proposals there is as much decentralisation as possible;

- and as a consequence of this, that there is a substantial reduction in the size of the central organisation;

- recalls that the Scottish Office are due to produce a progress report in July giving the latest assessment of the timetable for moving to a target of 80 per cent by value for delegations to local enterprise companies.

ANDREW DUNLOP

Principle 2

220 The structure of Scottish Enterprise will be determined by the tasks it has to perform rather than by existing resources and skills. The structure must take account of the specific tasks to be undertaken by Scottish Enterprise. They are:

- to consider and to develop a strategic response to enterprise, economic regeneration and training needs and opportunity;
- to develop underpinning policies;
- to design, develop and secure the implementation of national level programmes or projects;
- to undertake research and development and innovation and prototype;
- to plan resource allocation;
- to implement major specialist projects;
- to ensure, through contracts and performance monitoring, that LECs deliver effectively;
- to provide advice and support to local enterprise companies;
- to carry out impact evaluation and audit.

In relation to LECs, the key tasks for Scottish Enterprise will be:

- to provide a strategic vision to the network of LECs contracting with Scottish Enterprise;
- to provide a strategic planning framework;
- to ensure through contracts and performance monitoring that LECs deliver effectively;
- to undertake activities and projects of sufficient scale or importance to merit being controlled by Scottish Enterprise, or demonstrated and agreed to be beyond the capabilities of one or more LECs. Agreement on which activities and projects should be controlled in this way should be between Scottish Enterprise and the LEC or LECs involved.

SCOTTISH ENTERPRISE - ORGANISATION CHART

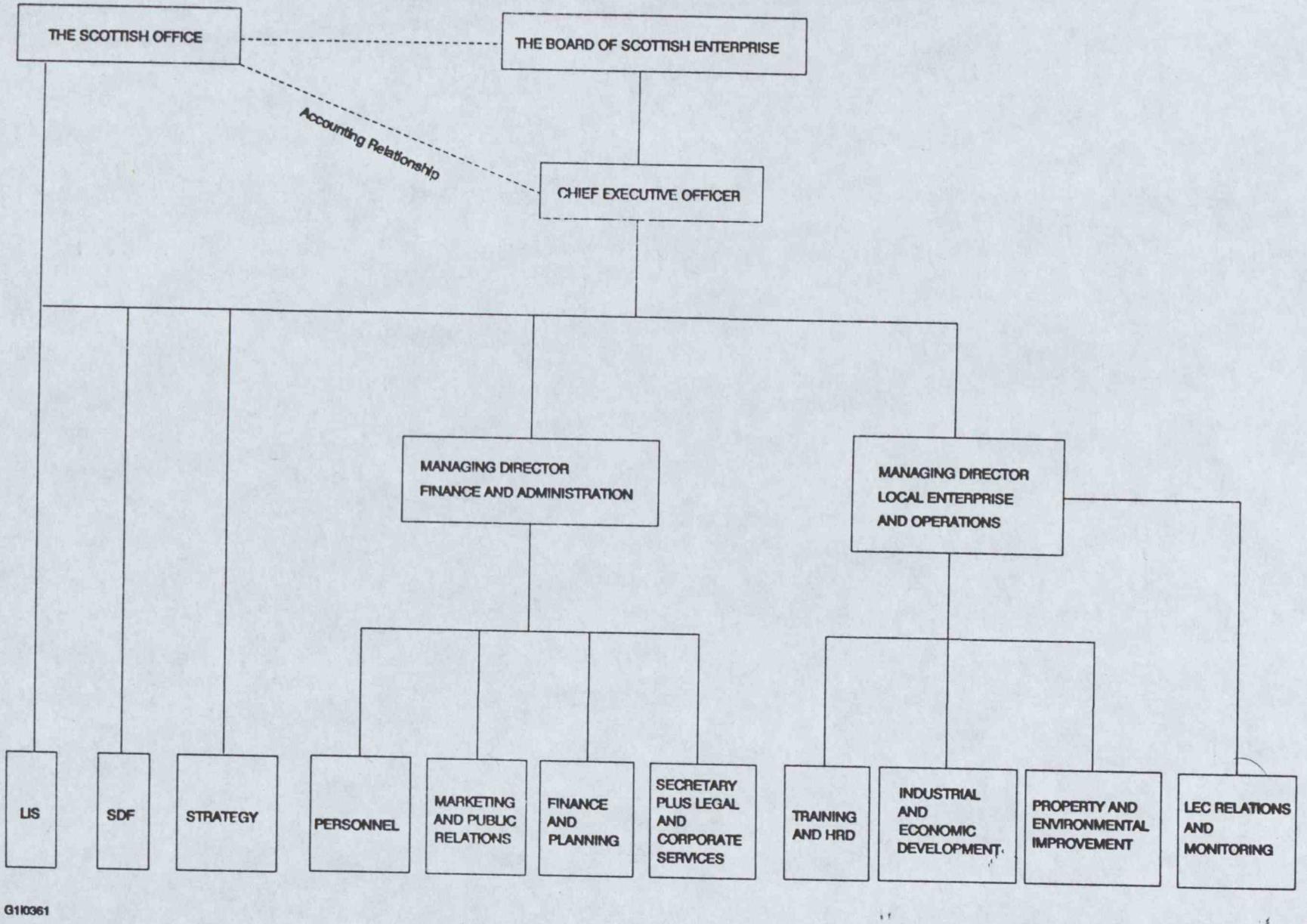


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FIGURE 3

ANNEX 2

APPENDIX B

OUTLINE JOB DESCRIPTIONS

- Head of Strategy
- Managing Director - Finance and Administration
- Head of Personnel
- Head of Marketing and Public Relations
- Head of Finance and Planning
- Secretary
- Managing Director - Local Enterprise and Operations
- Head of Training and Human Resource Development
- Head of Industrial and Economic Development
- Head of Property and Environmental Improvement
- Head of LEC Relations and Monitoring

PRIME MINISTER

SCOTTISH DEVELOPMENT AGENCY AND SCOTTISH ENTERPRISE

Over the last year or so you have expressed your concern that in developing the Scottish Enterprise proposals the size and scope of the centre must be kept to a minimum.

Andrew Dunlop has been keeping in close touch with this exercise. His activities have stimulated the letter from the Scottish Office at Flag A setting out the latest proposals for disposing of its property portfolio and investment assets.

Andrew Dunlop (Flag B) welcomes this report. But on the broader front he suggests there are continuing dangers of Scottish Enterprise being set up with the wrong structure and priorities. He recommends (Page 4) that while welcoming the progress report on disposals, you should take the opportunity to emphasise the importance of maximum decentralisation in Scottish Enterprise and reiterate your request for a progress report in July on the timetable for moving to 80 per cent delegation by value to local enterprise companies.

Content for me to minute out in the terms recommended by Andrew Dunlop?

Paul Gray

4 April 1990

c: Scottish (MJ)/

FROM THE MINISTER OF STATE

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Mr Paul Gray
10 Downing Street
LONDON
SW1A 2AA

30 March 1990

Dear Paul,

In conversation with my Minister, Ian Lang, Andrew Dunlop suggested that the Prime Minister would be interested to see details of the Scottish Development Agency's activities in disposing of much of its property portfolio and investment holdings.

On property, Mr Lang asked the Agency some time ago to consider ways in which it might reduce its substantial property holdings, valued at over £150 million. The Agency already had an active programme of sales to sitting tenants, and had funded much of its activity through receipts throughout the 1980s, but it still retained a substantial portfolio, much of it inherited from its predecessor the Scottish Industrial Estates Corporation when the Agency was formed in 1975. There was no good reason why it should continue to be a property manager in Scotland and Mr Lang considered that it should instead concentrate on its developmental role in assisting economic growth. He was also concerned that, as the biggest landlord in Scotland, it was displacing the private sector instead of encouraging it.

In January last year, the Agency appointed consultants to advise on the property disposal. The consultants reported last summer and Mr Lang accepted their main recommendations. They proposed the division of the Agency's property holdings into 4 portfolios. The largest was to contain around half of the Agency's property holdings by value and most of its main industrial estates. A second was to comprise a smaller range of properties concentrated in Glasgow, Dundee, Clydebank and North Lanark. The Agency's remaining properties were considered to be of 2 sorts: first, a number of properties which would achieve higher prices if sold individually and second, a small number of properties recommended for the Agency's retention as being useful for its economic development needs.

The decision to sell in 2 large portfolios was taken for several reasons. First, the private sector has historically failed to get involved in industrial property development in Scotland. The disposal of a large holding provides an opportunity to establish a major company in Scotland with associated management skills and property expertise either by

building on an existing indigenous company, or by attracting a new company to Scotland. We hope that other companies will follow. Second, we were advised that some of the Agency's properties would not be attractive if sold separately. Grouping these with more attractive properties will offer most chance of a substantial portfolio disposal, with the added possibility of a premium on the sale. Third, the Agency's mix of property across Scotland reflects different markets, even in the same geographical area. It would be difficult to split up the properties into smaller portfolios in any meaningful way.

We have put the two portfolios on the market at the same time in order to avoid the risk that, under a phased sale if initial sales achieved less than expected, market perceptions would be damaged. Such a course also makes absolutely clear our determination that the Agency is seen by the market to be pulling out of its former property role. This should help to attract the right private sector companies at the right price. Finally, in order to preclude the possibility of a monopoly arising bidders have had to opt for one portfolio or another, but have not been permitted to pursue both.

Mr Lang announced the sale last November. A brochure was published in December, and prospective purchasers were invited to register their interest by 26 January. A total of 26 submissions were received, 18 registering interest in the large portfolio and 14 in the smaller (8 registered an interest in both). These were reduced to shortlists of 5 companies for each Portfolio. The Minister considers that a representative cross-section of bidders has been chosen (some Scottish-based, some English-based, some overseas-based), any of which should not only provide for a sound future for the industrial property sector in Scotland but which will also yield a good price for the sale. The candidates are now preparing their bids. These must be submitted by 21 May. A decision on the successful companies will be made by 8 June, and legal completion by 1 August.

My Minister does not rule out a property role for the Agency in the future, as Scottish Enterprise, but it will be more limited and more clearly focused, to help meet market gaps and to help lever in private sector investment. As much as possible of this role will be devolved to Local Enterprise Companies.

He also proposes to make early progress towards the disposal of many of the Agency's investments. The Agency holds between 130 and 140 equity investments in Scottish companies; currently new investments are made at an average cost of £200,000 to £250,000. As with property, Mr Lang felt that, although investments have been sold, the Agency had been losing sight of its essentially developmental role and holding on to investments longer than necessary.

The existence of pre-emption rights has inhibited progress, but the Minister believes that, in line with our consultants' advice, the mature investments, valued at over £15 millions can and should be disposed of soon. Mr Lang's aim is that these sales are completed over the next few months.

My Minister is concerned that the Agency's investment activities in future should be more clearly focused on the sectors of Scottish industry where there is a gap in the availability of private sector investment. Filling such a gap is the only justification for the Agency's investment activity.

And he will be looking to the Agency, and in due course Scottish Enterprise, in making such investments, to draw in the private sector as much as possible and to plan ahead more clearly its subsequent exit route.

Yours ever,

DONALD HENDERSON
Private Secretary

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CC PU.

RESTRICTED

Treasury Chambers. Parliament Street SW1P 3AG

Jim Gallagher Esq
Private Secretary
Scottish Office
Dover House
Whitehall
London
SW1

MBPM
PRCG
16/10

16 October 1989

Dear Jim,

SCOTTISH ENTERPRISE: HANDBOOK

Thank you for sending us a copy of your letter of 5 October to Paul Gray.

2 The Chief Secretary welcomes the extensive work that has gone into the handbook. It should provide a useful reference for those involved in Local Enterprise Companies.

3 You propose rolling contracts between SE and LECs; you will no doubt wish to ensure that this does not mean that the hope of competition between organisations wishing to become LECs in the future is reduced and that there are adequate mechanisms for facilitating competition to develop. No doubt the policy frame work to be set out in the forthcoming strategic policy documents will show how LECs are to develop markets to promote self-sustaining local economies with a view to their withdrawal from direct provision over time.

4 For the handbook, perhaps you would look again at some of the drafting to ensure that it fully reflects your Secretary of State's developing thinking on his strategy of progressive withdrawal of the Scottish Development Agency from direct intervention in factory building, factory letting and equity investment. The Annex contains some suggestions for drafting changes to cover these points.

5. Copies to Paul Gray, Clive Norris (Dem), Neil Thornton (DTI) and Trevor Woolley (Cabinet Office)

Yours,
Peter Wanless.

PETER WANLESS
Assistant Private Secretary

Annex

SCOTTISH ENTERPRISE: HANDBOOK: DRAFTING SUGGESTIONS

Paragraph 2.2 [list of functions]: Add: "The SDA (and in the future Scottish Enterprise) is pursuing a strategy of progressively withdrawing from direct provision of services in favour of facilitating provision by the private sector."

Paragraph 6.19 [Initiative Fund]: Perhaps you could consider adding that there will be a presumption that there will be a significant element of private sector funds for projects to qualify for Initiative Funds

Annex A, Section 2 [Accommodating Enterprise]: Add your officials' phrase that Scottish Enterprise is to become a direct provider only in the last resort and in special cases.

Annex A, Section 5 [Financing Enterprise]: Add that the scope for equity financing is expected to narrow significantly over time in favour of normal market mechanisms.

SCOTLAND: Policy
Pt 2

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 October 1989

SCOTTISH EARNINGS STATISTICS

Thank you for your letter to Dominic Morris drawing attention to a change in Scotland's position in the latest figures on regional earnings estimates. The Prime Minister has seen this material and noted that Scotland now ranks fourth in the order of men's average earnings.

PAUL GRAY

Jim Gallagher, Esq.,
Scottish Office.

RESTRICTED

cite PM

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 October 1989

Dear Jim,

SCOTTISH ENTERPRISE HANDBOOK

Thank you for your letter of 5 October enclosing the draft handbook which is to be issued on request to prospective consortia. The Prime Minister is content for early publication of this handbook.

I am copying this letter to Carys Evans (Chief Secretary's Office), Clive Norris (Department of Employment), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours,
Paul Gray

PAUL GRAY

Jim Gallagher, Esq.,
Scottish Office.

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PAUL GRAY

9 October 1989

SCOTTISH ENTERPRISE HANDBOOK

I read through the draft over the weekend. It seems fine to me.

I recommend that the Prime Minister agrees to the text, subject to the views of other colleagues.

Ann Clark

P.P. ANDREW DUNLOP

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Dominic Morris Esq
Private Secretary
10 Downing Street
LONDON
SW1A 0AA

6 October 1989

Dear Dominic

SCOTTISH EARNINGS STATISTICS

My Secretary of State has asked me to have drawn to the Prime Minister's attention a change in Scotland's position in the latest figures on regional earnings estimates, from April 1989.

Hitherto, it has been possible to say - and I know the Prime Minister has used it - that the average earnings of men in Scotland were second only to those in the South East. This is no longer so. The changes in the figures in the latest set are marginal, but they mean that Scotland now ranks fourth in the order of men's average earnings, down from second. East Anglia and the South West are now very slightly ahead, with average earnings in the South East still significantly ahead of both. The picture is similar for women's earnings too. All of this was published in the New Earnings Survey on 28 September by the Department of Employment. I attach an Annex which sets out the figures for reference.

Yours

Jim Gallagher

J D GALLAGHER
Private Secretary

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Average Gross Weekly Earnings of Full-time Adult Employees in April 1989

	Men		Women	
	Earnings £ Per Week	% Increase Since April 1988	Earnings £ Per Week	% Increase Since April 1988
South East	312.4	10.3	209.1	11.0
East Anglia	254.6	10.6	168.3	11.8
South West	253.3	11.2	169.9	11.5
West Midlands	246.6	9.0	165.1	10.6
East Midlands	242.8	9.0	158.8	9.2
Yorkshire & Humberside	244.5	9.0	164.2	9.0
North West	250.9	8.6	171.0	10.6
North	243.5	8.6	161.9	8.8
Wales	238.6	9.4	168.0	12.2
Scotland	251.2	7.8	169.6	11.5

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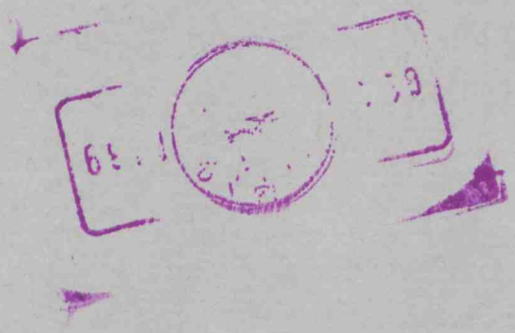

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

RESTRICTED

Paul Gray Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON
SW1A 2AA

5 October 1989

Dear Gray

SCOTTISH ENTERPRISE HANDBOOK

Following the publication at the end of August of the short prospectus inviting the Scottish business community to come together into consortia to bid to become the boards of local enterprise companies, we have now prepared the attached draft handbook which is to be issued upon request to prospective consortia. The material is intended essentially as a reference document rather than a straight read. Further material will be issued later as it becomes available.

The attached text is a revised version of material already circulated at official level to other departments with an interest, and reflects the comments received. We have also sought comments from 9 key Scottish businessmen, whose views have also been taken into account.

My Secretary of State is anxious to respond to widespread pressure for early publication of this handbook. He would be grateful for the agreement of the Prime Minister and other colleagues to this text.

I am copying this letter to the Private Secretaries to the Chief Secretary; the Secretaries of State for Employment and for Trade and Industry; and to Sir Robin Butler.

Yours sincerely
Jim Gallagher

J D GALLAGHER
Private Secretary

ITP270L1

Manpower P22

Special Employment Measures.

DRAFT: SEVENTH REVISE
3-10-89

THE LOCAL ENTERPRISE COMPANY HANDBOOK

ITP270L8

THE LOCAL ENTERPRISE COMPANY HANDBOOK

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Annex H	-	Model Articles of Association **(to follow)**
Annex I	-	Development Contract - Training Agency **(to follow)**
Annex J	-	Development Contract - SDA **(to follow)**
Annex K	-	Operating Contract - Training Agency **(to follow)**
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Annex M	-	Local Enterprise Company Unit

THE LOCAL ENTERPRISE COMPANY HANDBOOK

SECTION 1: INTRODUCTION

1.1 Scottish Enterprise and (at local level) local enterprise companies will provide a clear vision and direction to the design and delivery of enterprise development, training and environmental projects and services in Scotland.

1.2 Local enterprise companies will operate within a policy framework set by Scottish Enterprise. To secure greatest added value, certain strategic functions and projects with Scotland-wide significance will be discharged by Scottish Enterprise direct or where appropriate in partnership with one or more local enterprise companies. But there will be extensive delegations to, and freedom of action for, local enterprise companies.

1.3 This handbook is intended as a guide for those considering applying to operate the first local enterprise companies in lowland Scotland prior to the establishment of Scottish Enterprise, and for the staff of the Scottish Office, the Training Agency and the Scottish Development Agency dealing with the local enterprise companies. It is likely to be amended and augmented in due course.

1.4 A separate handbook is being prepared for Highlands and Islands Enterprise.

SECTION 2: AIMS AND FUNCTIONS

Main aims

2.1 The central aim for each local enterprise company will be to stimulate the local economy in a way which will add value to it at area level and to the Scottish economy as a whole. Local enterprise companies will be expected to have a clear vision of the future for their area and of how to enhance and stimulate economic growth in the area and improve the quality of life. Specific aims are to:

- stimulate the growth of self-sustaining enterprise;
- assist the creation of viable jobs and the reduction of unemployment;
- improve the skills of the workforce in the area;
- increase overall corporate and personal income in the area;
- realise the potential of disadvantaged groups and communities; and
- improve the environment of the area to make it a better place in which to live and work.

Functions

2.2 Each local enterprise company will formulate a strategy for the development of its local area in the context of the relevant policy frameworks. This strategy will provide the context for the following specific functions:

- ensuring suitable arrangements for the effective delivery of national training programmes and the Enterprise Allowance Scheme;

- ensuring the provision of training arrangements for specific local needs;

- ensuring the provision of business advisory services including the Enterprise Initiative Consultancy Schemes;

- designing and securing the implementation of enterprise development projects and programmes to realise development opportunities;

- encouraging and where necessary undertaking business investment;

- designing and ensuring the implementation of urban renewal projects and programmes;

- securing property development;

- securing land renewal and environmental improvement projects;

- managing industrial property;

- marketing; and

- monitoring subcontractor performance.

Contract authority of local enterprise companies

2.3 The first local enterprise companies will operate under 2 contracts, one from the SDA and one from the Training Agency. This section sets out the authority they will have under each contract.

SDA

2.4 The operational contracts for local enterprise companies will involve extensive delegation of SDA functions to the local enterprise companies. Before this can be done, amending legislation will be required. It is hoped that this will be enacted by Parliament by mid-1990.

2.5 Local enterprise companies can expect to have the following levels of authority under contract with SDA and within guidelines set out in the contract:-

	Project Planning	Project Expenditure
Business Advisory Services	-	£ 10,000
Business Investment	£10,000	£ 50,000
Other Projects and Programmes*	£50,000	£250,000

* includes land and property development funding and development grants.

Contract authorities with SDA exclude expenses and VAT incurred in project planning and include professional fees in project expenditure.

2.6 These levels of authority are the starting point. They will cover around 80% by volume of projects at present being approved by the SDA. The Government's intention is that the extent of delegation to local enterprise companies should be increased progressively. It is anticipated that when Scottish Enterprise is established these levels will be regularly reviewed by the Board. Further details of the range of SDA delegated functions and activities are set out in Annex A and Annex B.

Training Agency

2.7 Local enterprise companies will also have responsibility for a wide range of programmes and activities previously run by the Training Agency and the Employment Department. They include:

- youth training which offers all 16 and 17 year old school leavers, employed and unemployed, up to 2 years' planned training;

- Employment Training: a programme to give unemployed people, particularly long term unemployed people, the training and skills they need to get and keep jobs;

- Business Growth Training: a programme to help firms improve their training to meet business priorities; and

- Enterprise Allowance Scheme: helping unemployed people to start their own businesses.

Further details of these and other programmes are set out in Annexes C and D.

2.8 Some national training programmes (for example youth training and Employment Training) have at present fairly detailed rules governing their operation. But arrangements are being made to maximise flexibility to enable local enterprise companies to tailor these programmes to local needs to get better value for money. For example, within an approved framework, a local enterprise company will be able to:

- shape the balance of the skills training on offer and the geographic distribution of opportunities;

- determine which contractors to use;

- decide the level of payments to subcontractors;

- change the design and content of programmes to meet local needs. There will be scope, for example, for making variations to the standard youth training package; the content and duration of Employment Training; and for designing new training approaches for new and expanding businesses.

Further details of these arrangements will be published in due course.

SECTION 3: ORGANISATION OF A LOCAL ENTERPRISE COMPANY

Legal status

3.1 Before a full operating contract can be signed by a consortium, it will need to form itself into a local enterprise company under the Companies Act, probably incorporated as a company limited by guarantee.

Membership

3.2 All directors of the company (once incorporated) will be members. It is for the consortium to decide for itself whether to widen its membership (for example to include a wider range of interests from the locality than can be included on the board of directors) or not.

3.3 Where a wider membership is decided upon, such membership:

- can include corporate as well as individual members;
- must have a majority of private sector members;
- if individuals, must all live or work locally (or in the case of members who are not individuals, have a place of business in the locality).

The board of directors

3.4 Local enterprise company boards will be expected to have at least 9 and no more than 12 directors.

3.5 At least two-thirds of directors, including the Chairman, must be senior figures from the private sector. They should be:

- chairmen, chief executives or the top level managers of key companies and firms in the locality;

- well known in the local business community and able to reflect its interests; and

- drawn from a range of industry and commerce broadly based on the mix of business in the area.

If possible the directors should include individuals with experience of running small businesses.

3.6 Each local enterprise company will have to demonstrate that it has obtained the commitment of a broad range of interested parties in the area it is to cover. For example, where a local enterprise company covers significant rural as well as urban areas, it will be important for it to have the support of rural business. Directors of local enterprise companies should be appointed by virtue of their individual contribution and standing, not as representatives of existing organisations.

3.7 Up to one-third of directors may be drawn from senior figures in the local community who support the aims of the local enterprise companies. Such figures might come from the local and public authorities; from the voluntary sector; from local organisations such as enterprise trusts, chambers of commerce or (where appropriate) new town development corporations or urban partnerships; from the education and training sector; or from trades unions. Again these directors should reflect the make up of the area and be chosen for the personal contribution which they can make rather than as representatives of existing organisations.

3.8 Directors will be reimbursed for reasonable out of pocket expenses. In general terms it is not envisaged that salaries should be paid to board directors but there may be particular circumstances where some flexibility on this might be appropriate.

Constitution

3.9 It is for the members of the local enterprise company to decide the name of the organisation. They will also decide the makeup of the Board

(which will have to be acceptable to the Secretary of State if an operating contract is to be awarded); the appointment of officers of the company; the arrangements for and the frequency of meetings; and the other elements of a company's constitution. As an aid to local enterprise companies, a draft model Memorandum and Articles of Association for a company limited by guarantee will be made available. Each local enterprise company should seek independent legal advice during the development stage to establish its incorporated status and to draft its constitution. Such constitution will need to be approved by the Training Agency and the SDA.

3.10 While a local enterprise company will have considerable freedom in determining how it works, constraints will be included in the contract and in the Memorandum and Articles. For example, there will be no substitution of directors at board meetings or the appointment of alternate directors and there will be limitations on the extent to which the membership may change the board. In addition, each director will have equal voting powers and there will be no provision for block votes. Also, no board should meet less than once a quarter. At least one-third of the directors of whom at least half should be directors from the private sector, should be present if the meeting is to be quorate.

Conflict of interest

3.11 Given the private sector background of most of the directors, it will clearly be vital for the local enterprise company to be able to demonstrate to the local business community that it has effective machinery for avoiding situations where directors could have access to commercially confidential information relevant to their own business interests or those of competitors, and the ability to protect confidential and commercial in confidence information. It is for a company to decide for itself precisely how to do this, but the following is suggested as a minimum:

(a) a register of interests of directors should be compiled and maintained;

(b) the Chief Executive should have a duty to vet all case papers etcetera before issue to directors to check for potential conflict of interest; and, where these arise, to discuss handling with the Chairman and the director concerned; and

(c) a director must declare a conflict of interest or a potential conflict as soon as he becomes aware of it and the normal expectation will be that he should absent himself from any discussion of or vote on the item.

Rigorous and effective action to avoid conflict of interest situations will be essential if the local enterprise company is to win and keep the confidence of the local business community that the company operates in a fair and evenhanded way, and that commercially sensitive information will be adequately safeguarded.

Liability

3.12 Local enterprise companies will of course be subject to company law. Individual directors will owe the usual duties and have the usual liabilities associated with any company.

Corporation Tax, VAT and Insurance

3.13 The local enterprise company board should ensure the necessary registrations with the Inland Revenue and Customs and Excise. The board should be aware also of the requirements of the Financial Services Act 1986 and the Consumer Credit Act 1974. The local enterprise company should take out and maintain insurance in amounts reasonably believed by the Secretary of State for Employment and the SDA to be adequate against all losses and damages which are the result of its fault or negligence in the performance of its contracts including employers' liability, public liability, property damage and professional indemnity. The prospective board should seek independent advice on these matters during the development stage.

SECTION 4 PLANNING

The Business Plan

4.1 The base for a local enterprise company's activities will be its 3 year Business Plan which sets out its goals for a 3 year period to meet local needs and its strategy for achieving them. This Plan will be agreed between the Training Agency/SDA and each local enterprise company and will be the basis on which contracts are agreed. The first year of the Plan will include detailed budgets, activities and targets. The second and third years will be covered in broader outline. The 3 year Plan will be rolled forward annually.

4.2 The Plan will be expected to cover the following areas:

(a) a local economic audit of the area to be covered by the local enterprise company involving identification of key skill needs, the needs of businesses of all sizes, opportunities and labour market mismatches, and wider economic problems and opportunities, threats and weaknesses to be addressed;

(b) a review of local resources and provision;

(c) a 3 year strategic plan taking into account the economic and skills audit and local provision and resources;

(d) a detailed operating plan for the local enterprise company's first year incorporating proposals for each of its activities together with appropriate performance targets and funding;

(e) the proposed structure of the local enterprise company including geographical area, incorporated form and names of Chairman and Directors;

(f) the local enterprise company's proposed management and organisation including financial and performance monitoring systems and arrangements for quality and evaluation;

(g) arrangements for administration including management and development of staff; and

(h) range of funding sources.

4.3 A suggested format for the production of plans is at Annex E and further guidance on the Business Plan and its sections is available from the Local Enterprise Company Unit upon request.

The planning cycle

4.4 The period to be covered by a local enterprise company's first plan will be agreed during the application process. The normal financial year will be from 1 April to 31 March. Plans will be prepared within the framework of the public expenditure planning process (see Annex F). Local enterprise companies' plans should link into Scottish Enterprise's corporate planning.

SECTION 5: OPERATING A LOCAL ENTERPRISE COMPANY

Understanding the local economic context

5.1 To be effective local enterprise companies must have a clear strategic vision of where they are going and how they are going to get there. This will derive from the local economic audit and analysis and be translated into strategic objectives.

5.2 The development of the local strategy will be an ongoing process based on a sound appreciation of:

- gaps, opportunities, strengths and weaknesses in the local economy;
- the national (and indeed international) context;
- current and future training needs of the area;
- the development needs of businesses;
- the local industrial and commercial property market;
- the role of environmental improvement;
- local labour supply and demand;
- trends in local employers' requirements;
- needs of the local population and changing travel to work patterns;
- reliable information on skill shortages and over supply and the factors influencing them; and
- the needs of special groups.

Priorities must be regularly reviewed and assessed by the local enterprise company to reflect market changes and ensure the most cost effective allocation of resources.

5.3 Local enterprise companies will need to commission (or to undertake in-house) a comprehensive local economic audit to serve as the starting point for the companies' own plans; and to update it regularly.

5.4 Some of the necessary information will already be available from a wide range of sources, including the SDA the Training Agency, the Scottish Office, local authorities and the Employment Department. But the local enterprise companies will need to supplement this by organising and commissioning the gathering and analysis of additional local data.

Quality and value for money

5.5 Most of the service delivery will normally be subcontracted to other organisations, and local enterprise companies will therefore have the opportunity to compare the value for money offered by providers and to seek constant improvement. Local enterprise companies will be expected to contract on a competitive basis with potential suppliers. In future years, companies will be encouraged to introduce competitive tendering.

5.6 For each contracted programme, project or service, a detailed operating framework will be embodied in the local enterprise company's own contracts with the SDA and the Training Agency and in any contracts it has with its providers. This will normally embrace:

- operating standards relating to outputs;

- operating standards relating to quality assurance and appraisal of contractors' performance;

- management information that a local enterprise company will need to provide to the Training Agency/SDA;

- ensuring publicly provided funds are properly safeguarded;

- meeting the required standards for health and safety and equal opportunities.

Promoting partnership

5.7 Local enterprise companies will have a key role to play in promoting and supporting effective partnerships to tackle problems and spread information and good practice. There is real scope, for example, for improving links between employers, training providers and schools. Local enterprise companies will be expected to work in partnership with local and other public authorities, local representatives of employer associations, local enterprise trusts, industry training organisations and others.

5.8 Local enterprise companies will also have a key role in developing employer commitment to training. This involves encouraging increased and effective investment by employers in training their own employees and in bearing an increasing share of the costs of the training programmes.

Expanding opportunities for individuals

5.9 Local enterprise companies should ensure that enterprise and training provision is responsive to varying needs. In particular the needs of women, ethnic minorities, long term unemployed people, the disabled and those with special training needs (involving for instance literacy and numeracy problems) must be met. Local enterprise companies should ensure that the potential sources of skills and enterprise which these groups represent are fully developed.

SECTION 6: FINANCIAL ARRANGEMENTS

Contracting

6.1 Until Scottish Enterprise is established it will be necessary for local enterprise companies to contract separately with the Training Agency, on behalf of the Secretary of State for Employment, and the Scottish Development Agency.

6.2 Each local enterprise company will be offered a 3 year rolling contract based upon the agreed Business Plan. This will confirm the detailed budget for the first year and will record the intention to offer budgets to the local enterprise company for the 2 succeeding years subject to:

- the local enterprise company continuing to meet its contractual obligations;

- the local enterprise company continuing to satisfy the criteria on organisation set out in Section 3;

- the annual review of the company's activities proving satisfactory; and

- plans for these years satisfying the criteria on financial and quality management.

6.3 The contract will require the local enterprise company to implement the first year's plan and conform with the operating guidelines prescribed. The Business Plan will distinguish between activities and targets that are matters of intention and those that are requirements for the performance of the contract.

Subcontracting

6.4 It will be for the local enterprise company to determine the form of its contracts with subcontractors but certain clauses will be mandatory. These clauses will deal with matters such as:

- minimum standards of financial management;
- health and safety;
- equal opportunities; and
- national rules applying to each individual programme and scheme.

6.5 Increasingly local enterprise companies will be encouraged to use contracts with programme providers that link funding to performance outcomes. Performance measures will include such indicators as the percentage of people leaving youth training and Employment Training who go into work and the number who gain recognised qualifications. The intention is to encourage a local enterprise company to develop arrangements that will complement those between it and the SDA/Training Agency and to enable a local enterprise company to offer programme providers real incentives for good performance.

6.6 Special arrangements may have to be made for contracts with organisations which currently act on a Scotland wide or GB basis as providers for youth training and Employment Training. Further information on this will be provided in the near future.

Assets

6.7 The SDA (and to a much lesser extent the Training Agency) have a wide range of assets (eg property, equipment, investments) acquired in the course of furthering their objectives. The activities of the local enterprise companies will also create publicly funded assets. It will be necessary to devise arrangements which give local enterprise companies

the flexibility to maximise the use of these assets in pursuit of the Business Plan while ensuring that the value of assets created by public money is not lost to the taxpayer. Material on detailed arrangements will be published as soon as possible.

Funding structure

6.8 Under each contract, resources will be allocated to local enterprise companies in separate blocks.

Training Agency

6.9 Under the Training Agency contract there will be 3 separate blocks, as follows:

(a) youth training (including Compacts);

(b) adult training national programmes (mainly Employment Training);

(c) enterprise support (Training Agency programmes such as Business Growth Training and the Enterprise Allowance Scheme).

6.10 It is hoped that there may be scope for a local enterprise company to switch funds, within limits, between programmes within and across blocks (a)-(c) where volume and output targets in the contract and any other Government "guarantees" for that block have been met. More details will be made available in due course.

SDA

6.11 Under the SDA contract, there will be 6 separate blocks, as follows:

(a) developing enterprise;

(b) accommodating enterprise;

(c) renewing the environment;

(d) advising and informing enterprise;

(e) financing enterprise;

(f) urban renewal.

In respect of these blocks the contract budget will relate to delegated authority levels set out in the contract. But local enterprise companies will be able to bid to the SDA for projects outwith their delegated authority. Where such projects are approved and where it would be appropriate for the local enterprise company to carry out the implementation, its budget would be adjusted accordingly. In other cases, particularly where the project is large, specialised or complicated, the implementation will be supervised by the SDA's (and eventually Scottish Enterprise) specialist teams. Scope will exist to switch funds between these blocks (with the exception of (e)) within agreed limits if contract targets have been met.

General

6.12 There will also be separate blocks relating to administrative costs and to the funding of activities of the company's own choice.

6.13 In the period prior to the establishment of Scottish Enterprise it will not be possible to switch funds between Training Agency contract blocks and SDA contract blocks.

Performance related funding

6.14 It is intended that local enterprise companies will be given the opportunity to earn additional funding through the operation of a performance bonus arrangement. Payments in respect of a local enterprise company's performance in programme, service and project

delivery will depend on the level of progress or outputs achieved. For 1990-91, only the Training Agency programmes, youth training and Employment Training will operate on a performance bonus basis. In each case, it is envisaged that the targets will relate (a) to trainee numbers obtaining positive outcomes ie getting and keeping employment or related activities such as self employment and further and higher education; (b) to trainee numbers obtaining vocational qualifications; and (c) to the percentage of leavers in (a) or (b) who are from special needs groups. Two targets will be agreed for each programme: a minimum and a higher target level. The levels chosen will reflect local circumstances.

6.15 A local enterprise company which meets or exceeds all minimum targets set for it and which meets or exceeds the higher target level on one or more measure will receive a bonus in the next financial year. Bonuses are additional to normal programme funding and will be added to resources in the block for additional activities of the company's choice. Such resources can be spent on any activity which contributes to the aims agreed in the 3 year Business Plan.

6.16 It is hoped progressively to adapt other Training Agency programmes and SDA programmes and projects to this basis. For SDA project activities where volume and costs cannot be precisely set, performance will be based on qualitative assessments and the extent to which projects are being developed to meet identified needs and opportunities. The aim is to give enterprise companies a tangible incentive to manage programmes effectively and flexibly, and also to generate resources which the company can deploy in activities of its own choosing.

Resources for additional activities of the company's choice

6.17 It is important that local enterprise companies have access to substantial resources to fund their own initiatives, outwith the normal programmes and projects to which the operating contract will primarily refer. Such activities should be consonant with the strategy set out in the company's 3 year Business Plan, and may be aimed either at

strengthening and expanding existing programmes and services or providing new and innovative projects.

6.18 Resources for such activities will be made available in a variety of ways:

(a) local enterprise companies will be encouraged to raise private sector funds to help pursue their wider objectives. This will often be the best source of additional funds;

(b) to provide an additional incentive, an Incentive Fund will be set up, from which enterprise companies will receive resources (up to £100,000 a year per company) if they can demonstrate that the incentive resources will lever at least an equivalent amount of private sector resources;

(c) as indicated above performance bonuses earned through high performance in the previous year can also be deployed on own activities.

6.19 Additionally, local enterprise companies will be able to bid for funding from an Initiative Fund, set up to provide resources for innovative projects which could not be funded in other ways. To be eligible a project should be:

- innovative;

- able to demonstrate benefits to the Scottish economy as a whole, and be of direct and particular benefit to the local economy, whether that benefit is potentially for all who live or work in a locality or for particular sectors or groups;

- consistent with the company's business plan; and

- create a new asset, resource or service that will produce cost effective benefits which are practical and useful, quantifiable and which would not have been provided otherwise.

Total resources available will be announced each year. In 1990-91, at least £1 million will be available. Applications can be for capital and/or revenue support for up to 3 years. The normal cost ceilings per application will be £250,000 capital costs, and £100,000 per annum revenue costs, but applications in excess of these ceilings may be considered if they are of an exceptional quality, scale or nature. A company may submit more than one application each year, but, if it does so, it should rank the applications submitted in preferred order of priority. Prior to the establishment of Scottish Enterprise approval of projects will be given by the SDA and/or Training Agency as appropriate.

Underperformance

6.20 If a local enterprise company underperforms, the first response will normally be to offer advice and support.

6.21 Where a local enterprise company has failed to meet an agreed minimum performance target the previous year, the local enterprise company's power to switch funds between the blocks of expenditure might be limited or suspended to help it concentrate on areas where performance needs to be improved.

6.22 Where the failure was more serious, a local enterprise company which failed to meet an agreed minimum target or to observe defined operating standards would be required to produce an "Action Plan" to improve performance. The remedial action plan would be drawn up by the local enterprise company but would have to be approved by the Training Agency/SDA. Failure to agree or implement the remedial action plan will result in the termination of both SDA and Training Agency contracts. In very serious circumstances (eg detection of fraud) the contracts may be terminated forthwith without any remedial stage.

6.23 Local enterprise companies will be encouraged to link payments to their own contractors to similar performance measures. Guidance on how they might do this will be given at a later date.

Accountability

6.24 In addition to the normal rules on accountability under company law, a local enterprise company will be formally accountable through its contract to the Training Agency, on behalf of the Secretary of State, and to the SDA. Many of the key aspects of accountability have already been described. The remainder of this section covers the rest.

Financial control

6.25 Local enterprise companies will be responsible for ensuring that taxpayers' money is used properly in line with the purposes agreed in the contracts with SDA and Training Agency. In addition to the obligations imposed under company law, local enterprise companies should have financial systems and controls including internal audit which ensure the proper use of public funds. These must provide adequate safeguards against the risk of misappropriation and make sure that public funds are only used for the purposes intended.

6.26 These control systems will operate at 3 levels:

(a) within the local enterprise company there must be acceptable management accounting systems, integrated with the cycle of business planning and contract negotiation (see Section 4 and Annex F). All income and expenditure relating to the separate funding blocks specified in the contract, must be identified in local enterprise company's accounting records. There must also be acceptable arrangements for dealing with invoices and making payments;

(b) for all subcontracts local enterprise companies will be responsible for assessing whether subcontractors represent a risk in terms of:

- the proper handling of public money;

- the delivery of the provision required by the contract.

(c) for all projects invested in or otherwise assisted, companies will have to appraise the economic case for the project, and its financial viability, including the ability of management to carry it through; and to ensure the sound use of public resources committed to such projects.

6.27 Local enterprise companies must therefore have a sound system for financial appraisal and monitoring of subcontracts and assisted projects to meet operating standards laid down in their own contract.

Annual Report

6.28 Each local enterprise company will be required to publish a synopsis of its plans each year as well as an Annual Report including audited accounts.

Monthly reports

6.29 Each month the local enterprise company will send to the Local Enterprise Company Unit summary data indicating progress towards the targets and objectives agreed in the plan. All the data required is likely to be already available to the company for its own internal management information purposes. Such data will focus on numerical indicators of financial and output performance (preferably in a standard format as defined in the contract). Companies are free at their discretion to augment this with a short narrative report commenting on key aspects of performance, including factors which are affecting the achievement of the agreed targets.

Monitoring

6.30 The Local Enterprise Company Unit will keep the performance of the local enterprise company under review, to check contract compliance and to assess financial performance and the effectiveness of the systems and arrangements agreed as part of the Business Plan. Monitoring will also include a sample of subcontractors and of projects which the company has approved under the contract.

6.31 Monitoring will be selective and focus on propriety and whether the management arrangements agreed in the plan are functioning effectively and promoting value for money. The aim is to encourage systematic self-monitoring by local enterprise companies. Their monitoring of subcontractors should follow a similar approach.

6.32 The Training Standards Advisory Service (TSAS) will provide advice and an independent assessment of the quality of training in the local enterprise companies training provision, focusing on youth training and Employment Training.

6.33 The contract will also provide rights of access to a local enterprise company and its contractors by staff and advisers acting on behalf of the SDA and Training Agency, and European Community Auditors in respect of any funds received from the European Community.

6.34 As part of the contract assessment a full-scale review of the performance of a local enterprise company will be undertaken once each year. This will be timed to inform the negotiation of further contracts. Also local enterprise companies should evaluate their impact on the areas they serve.

Evaluation

6.35 The evaluation of the local enterprise company's work and services over a longer period will also be important. A local enterprise company will be expected to evaluate and to learn from its own performance. This will enable it to assure itself and the Local Enterprise Company Unit that it is operating effectively. The information derived should inform future planning and the local enterprise company's evaluation strategy should form part of the Business Plan.

SECTION 7: COMMUNITY LINKS AND ACCESS

7.1 The success of local enterprise companies will depend, in no small measure, on the support of the community in which they operate and the links they achieve with that community.

7.2 Local enterprise companies will wish to consider the development of a communications network to let their community know of their work and to achieve backing for initiatives. Local enterprise companies will normally be required to:

- publish a summary of the annual Business Plan and by publishing the Annual Report to inform the local community about its activities.

Other possible measures for consideration might be to:

- hold at least one public meeting each year;

- establish an extensive membership by inviting employers and others from different interest groups to join. Membership could be by invitation or subscription (see paragraph 3.2);

- consult representatives of the community over the preparation of the Business Plan;

- use promotional material and the local media to reach particular target groups and employers.

SECTION 8: STAFF AND MANAGEMENT RESOURCES

Operating budget

8.1 A local enterprise company will have a budget block (which may be supplemented from private funding) to cover management costs. Its size will vary according to individual circumstances. It will cover premises, office expenses, office equipment, staff salaries and expenses, staff training and administration costs such as the publishing of annual reports and fees for external services such as local economic audits, insurance, bank charges and auditors' fees.

8.2 The non-premises element of the block will be based on the local enterprise companies specific proposals in the light of their assessment of what is needed. In formulating those, regard will need to be paid to, amongst other things, corresponding Training Agency and SDA costs.

8.3 The block will include provision to enable a local enterprise company to rent or lease premises and office equipment at market rates. A local enterprise company will be expected to use existing SDA/Training Agency premises and equipment where possible.

8.4 Once its management budget has been set for the financial year, a local enterprise company will be able to reallocate any efficiency savings it achieves within the budget. Subject to the conditions at paragraphs 6.10 and 8.7 a local enterprise company will be free to decide how to use such savings.

Systems

8.5 To enable financial and management information to be gathered, recorded, and transmitted effectively, suitable arrangements will need to be made for systems and equipment. Further details will be provided in due course.

Chief executive

8.6 The chief executive will play a key role in ensuring the success of the local enterprise company. He or she will be full-time and will be responsible to the board for the development and delivery of the programmes, services and initiatives which are the responsibility of the local enterprise company. A chief executive may be a local enterprise company director.

8.7 It is for each local enterprise company to appoint its own chief executive. In the first instance a local enterprise company will be asked to consider appointing a senior SDA or Training Agency executive. Should a local enterprise company wish to consider a wider range of candidates, the post will be advertised both publicly and within the SDA and the Training Agency in Scotland. The local enterprise company chairman, a local enterprise company director and a senior official of both the SDA and the Training Agency will be involved in the selection process. The management budget will include funds to meet the salary costs of the chief executive based on the appropriate salary paid at that level in the SDA or Training Agency. A local enterprise company may use privately-raised funds and efficiency savings to finance salaries above these rates.

Other staff

8.8 Until Scottish Enterprise is established, staffing arrangements of the local enterprise companies will be decided in negotiations between local enterprise companies, the SDA and the Training Agency. Local enterprise companies will need staff who have knowledge of their activities and of the local labour market. Both the SDA and the Training Agency will offer suitable staff on a secondment basis. Local enterprise companies will not be obliged to accept secondees, but no management fee will be paid where suitable secondees have been offered but refused. Where a suitable secondee is not available, the post will be advertised publicly. The SDA and/or the Training Agency may at their discretion opt to be involved in the selection process. The management budget will include funds equivalent to the appropriate salaries for the grade.

8.9 Additionally a local enterprise company is free to employ other staff using its own privately raised funds and to determine the salary and terms of employment of these employees. Recruitment should be by way of open advertisement of the posts.

8.10 When an SDA official or a civil servant returns to his or her parent body or leaves a local enterprise company for other reasons, the SDA or the Training Agency will normally be responsible for finding a suitable replacement if the post needs to be refilled. But there will be occasions when a local enterprise company will wish to fill a vacancy with someone not from the SDA or the Training Agency and the arrangements outlined in paragraphs 8.8 and 8.9 above will apply.

8.11 Seconded staff working for a local enterprise company will retain their normal pay and terms and conditions of employment. Where a local enterprise company wishes to pay bonuses or supplements over and above these it may meet the additional costs either from its own privately raised funds or from any efficiency savings. Such special arrangements will not be retained if secondees return to their parent organisations. A local enterprise company should offer secondees an overall package which is at least as good as the one to which they would have been entitled but which may contain individual elements which differ from those in the normal pay and conditions package. A secondee will be able to decide whether or not to accept such an offer while remaining on secondment.

Staff development and reporting arrangements

8.12 The Training Agency has an appraisal system covering all its staff. This includes an annual written report which is completed by the immediate line manager and countersigned by a more senior manager, and regular appraisal interviews between managers and staff. These appraisal arrangements will continue for staff who are seconded to work for a local enterprise company. Where a Training Agency secondee's staff report is completed by someone who is not a civil servant, the local enterprise company will be required to allow the person to attend training in reporting arrangements arranged by the Training Agency.

8.13 SDA operate a performance related pay (PRP) system in which targets are set at the beginning of the year and performance is assessed at the year end and against these targets. For staff on secondment who operate under this system local enterprise companies would be expected to complete PRP reports and submit them to the SDA to allow performance and negotiated awards to be determined. In addition, local enterprise companies will be required to allow SDA staff to attend staff development and training courses organised by the SDA where appropriate. In general the SDA will seek to develop such courses in consultation with the local enterprise companies where appropriate.

8.14 Appraisal of a seconded Chief Executive will be the responsibility of the Chairman. The Chairman will also be asked to countersign annual staff reports of the immediate deputies of Chief Executives.

Staff terms and conditions

8.15 As part of its Business Plan a local enterprise company will demonstrate its intent to operate a coherent organisational structure and to treat staff fairly.

8.16 Part of the contract will cover personnel matters, setting out the standard terms and conditions of employment including arrangements for flexible working patterns, staff development, grievance and disciplinary procedures, as well as salary and allowance levels.

8.17 Existing SDA and civil service trade unions will retain their negotiating rights both for the SDA and Training Agency respectively for seconded staff.

ANNEX A

SDA ACTIVITIES TO BE DELIVERED BY LOCAL ENTERPRISE COMPANIES UNDER CONTRACT

1. Developing enterprise

This block will cover 2 main areas:

(a) **Development planning**

i. Local strategy and policy development to identify development opportunities.

ii. The identification, design and development of projects and programmes to help to realise economic development opportunities eg in areas such as:

- business infrastructure;
- market and trade development;
- urban renewal;
- product and process development;
- area based initiatives.

These projects and programmes will generally aim to reduce constraints on development or to fill market gaps not being met by the private sector. They will often involve the packaging of a number of other SDA activities and encouraging co-ordination between public and private sector bodies. A good example of this approach is the Aberdeen Seafood Project, which involved bringing together the Agency's powers to advise business, invest in business, provide property and improve the environment. This project also involved developing a partnership with the fish processors, the District and Regional Councils and the Training Agency.

Specific attention in this activity should be given to identifying and developing projects which will have a positive impact on Scotland as a whole and which complement the broad Scottish strategy developed by Scottish Enterprise.

(b) **Development funding**

Providing funding to individual projects (or a programme of projects) where the returns will not be realised in the short term or where the broader economic benefits are not reflected in pure financial terms and where commercial funding is therefore not available to fully finance the project. These projects and programmes generally emerge from development planning activity although the private sector is often the source of specific projects. In many cases, commercial funding will be available in part and the use of development funding can and should be restricted to the minimum amount necessary to enable the project to proceed.

Projects will often require innovative funding packages involving a range of public and private sector partners. Development funding will usually be undertaken on a participating basis whereby if any financial returns do accrue, a share could go to the local enterprise company/Scottish Enterprise. Where a project or programme is filling a market gap it will be expected to have a demonstration effect so that if possible the private sector will move through time to fill the gap. In all such cases, projects should demonstrate value for money.

An example of a project funded via development funding would be the Driltec Centre in Aberdeen which will provide a R and D facility for companies to help them develop new products and services that will be exportable.

Another major programme funded under this heading is the Training and Employment Grants Scheme (TEGS) which provides training to help local unemployed people in 12 areas throughout Scotland to develop skills which are in demand by companies.

Current guidelines for this type of activity include the provisions that:

- grants should not substitute for private funds or other available public funds;

- they should not give an unfair competitive advantage to a company over a Scottish competitor; and

- the project should generate wide economic benefits.

2. **Accommodating enterprise**

The sale of a significant proportion of the Agency's property portfolio is part of a planned change of direction from or emphasis on the direct provision of property to the facilitation of private provision by means of a variety of support mechanisms, eg rental guarantees. The operation of these support mechanisms will become a major part of the property function.

There is also the direct provision of sites and premises for business where no other means of ensuring development is available and where the lack of premises acts as a constraint on the development of an existing company, start-up, or potential inward investment opportunity. In recent years direct provision of property has moved away from the provision of standard advanced units and now usually involves bespoke premises for specific clients or the provision of specialist or innovative types of development eg West of Scotland Science Park, Motherwell Food Park. Within the SDA this activity is currently carried out under guidelines within which the Agency is required to set rents in line with normal commercial practice to meet an average return on investment. Rent free periods can be given within arrangements set out by the Secretary of State. This function also includes the management of sites and premises directly provided.

3. **Renewing the environment**

Designing, financing and/or direct implementation of projects to reclaim derelict land or to improve the environment of an area. While this type of project will normally be expected to generate economic benefits, they can also be justified on purely environmental grounds.

4. **Advisory and informing enterprise**

Provision of advice and information to companies to enable them to realise development opportunities. An example of a specific scheme in this type of activity would be Better Business Services (BBS) which helps companies to employ specialist consultants to advise on different aspects of company development. This type of activity also includes the Enterprise Initiative Consultancy Scheme (see also Annex B) and activities such as the Business Development Programme undertaken by the SDA's Lanarkshire and Central Region which targeted a programme of advice and business analysis on companies with strong growth potential in the areas. Apart from the provision of these services, they should be designed to encourage future private sector provision.

5. **Financing enterprise**

Providing finance for companies to allow them to develop investment projects. It can also be used to finance working capital and management buy-outs and other types of business development activity. These powers should be used where finance from the private sector is not available to totally finance the project but where commercial returns are available. This usually implies a high risk project or one where the risk is not easily assessed. This type of activity is currently regulated by Scottish Office guidelines which involve seeking maximum private sector finance for specific projects and which require an average financial return on investments. This requirement to make a commercial return in investment on projects which would not otherwise be funded by the private sector makes the target market for this type of investment relatively narrow.

6. **Urban renewal**

The revitalisation of particular local urban areas which for varying reasons have failed to achieve their potential in terms of the level of economic activity. Currently, projects in areas such as Glasgow, Inverclyde and Dundee are designed to identify and promote opportunities for longer term economic development through fostering collaboration between private sector companies, local authorities and a wide variety of local bodies.

A particular example of a programme operated within this heading would be the Local Enterprise Grants for Urban Projects (LEGUP) scheme which provides grant support to bring forward projects in urban areas which would not otherwise go ahead.

ANNEX B

ENTERPRISE INITIATIVE CONSULTANCY SCHEMES

1. The Consultancy Initiatives which form part of the Department of Trade and Industry's Enterprise Initiative are at present delivered in Scotland by the SDA under contract to DTI (and by the HIDB for their area, under subcontract to the SDA) through a network of Enterprise Counsellors, directly managed by the SDA Regional Offices.

2. In future, the EI Consultancies will be part of the package of business assistance which local enterprise companies will have on offer to local businesses, alongside Better Business Services, Business Growth Training and other relevant schemes.

(a) When a firm expresses an interest in an EI Consultancy, the local enterprise company business development adviser will be their point of contact. He can advise the firm on the appropriateness of an EI Consultancy, and can help them fill out their application form which will, in any case, be submitted to the local enterprise company.

(b) The local enterprise company will then arrange for an Enterprise Counsellor to visit and conduct a business review.

(c) The Enterprise Counsellor will then advise the local enterprise company of which consultancy has been recommended, and of any other service which he considers the firm requires (e.g. expert advice or information on international standards).

(d) The Enterprise Counsellor will then send the Business Review to the SDA for checking and for reference to the relevant Scheme Contractor.

(e) The firm and the Scheme Contractor will then discuss terms of reference and agree on a consultant to carry out the work.

(f) Once the consultancy is finished, copies of the report will go to the firm and to the SDA. This will trigger the return of the Enterprise Counsellor to make his post completion visit.

(g) The Enterprise Counsellor will report on the results of the consultancy and on the need for additional help to implement the project. He will copy this to the local enterprise company, who can as necessary follow through with further assistance under the Consultancy Initiative or under some separate scheme.

ANNEX C

TRAINING AGENCY DELEGATED POWERS

INTRODUCTION

This Annex provides basic information on the following Training Agency programmes which local enterprise companies will deliver:

- YTS
- Employment Training
- Business Growth Training
- The Enterprise Allowance Scheme
- Training Access Points
- Open and Flexible Learning Systems

YOUTH TRAINING SCHEME

YTS aims to provide all eligible young people - including those with special training needs - with a foundation of broad based vocational education and training and planned work experience, which gives all trainees the opportunity to obtain a vocational qualification related to competence at work.

Eligibility

YTS was extended in 1986 to provide up to 2 years training for minimum age school leavers, and for the first time to offer the chance of vocational qualifications or credits to all trainees. It is open to all 16 and 17 year old leavers who are not in full time education, irrespective of race, religion, sex or disability. Seventeen year old leavers are entitled to up to one year's training. The Government have given the guarantee that a suitable place on YTS will be available to all non-employed young people who want one, up to the age of 18.

How it works

YTS is delivered through contracts with about 370 Managing Agents in Scotland who draw up training programmes within national guidelines. Managing Agents may provide the training themselves or act as "middlemen", securing off-the-job training (eg at a college of further education) and related work experience on employers' premises.

EMPLOYMENT TRAINING

The aim of Employment Training is to help unemployed people, particularly those who have been unemployed for 6 months or more, to get the skills and experience they need to compete for jobs and to help employers meet their labour force needs.

It offers a package and practical and directed training for up to 12 months, tailored to meet individual needs and the needs of the labour market.

Key features

- up to 12 months training for people unemployed for 6 months or more;
- a range of training from basic to high level skills;
- assessment of individual needs;
- planned programmes of directed and practical training;
- special arrangements for people with disabilities and other special needs;
- weighted training allowances with a lead over benefit.

BUSINESS GROWTH TRAINING

Key objectives

- to encourage employers to plan and undertake training to achieve clear business aims;
- to promote improvements in the efficiency and effectiveness of employers' training.

There are 5 options to help businesses succeed through training. They are:

Option 1. Kits for better business and training plans

Option 2. Better business skills for owner-managers

Option 3. Using consultants to manage change

Option 4. Tackling skill needs jointly with other companies

Option 5. How to implement your own innovative training solution.

ENTERPRISE ALLOWANCE SCHEME

The aim of the Enterprise Allowance Scheme is to help unemployed people who want to work for themselves, by compensating for the loss of unemployment benefit or income support when they start up in business.

The allowance is £40 per week, payable for up to 52 weeks, over and above what is earned by the business.

Criteria

- applicants must be receiving unemployment benefit or income support directly or through another member of the family;
- be at least 18 and under 65;
- have been unemployed or under a personal notice of redundancy for at least 8 weeks;
- have at least £1,000 to investment in the proposed business;
- should work full time in the proposed business; and
- the proposed business should be new and suitable for public funding.

TRAINING ACCESS POINTS

The Training Access Points initiative provides, through local access points, computer information about local and national opportunities for training and vocational education, with supporting advice. The aim is to improve information sources relevant to training and vocational education, and to raise awareness and increase take up. Contracts are currently let with a range of public and private sector organisations to facilitate this information service.

OPEN AND FLEXIBLE LEARNING SYSTEMS

The Training Agency's work is designed to improve the effectiveness of training and vocational education systems in meeting the needs of both employers and individual learners. Work includes:

- disseminating best practice information about flexible learning systems;

- improving the availability of information about open and flexible learning to increase access to training and to help companies and individuals take better decisions about training; and

- establishing and disseminating quality standards for open learning materials and delivery, and establishing a framework of vocational competences for open learning practitioners.

ANNEX D

CENTRALLY DELIVERED TRAINING AGENCY PROGRAMMES

1. This annex provides information on centrally delivered initiatives in education:

- the Technical and Vocational Education Initiative;

- Enterprise in Higher Education

2. It is anticipated that responsibility for TVEI in Scotland will move to the Industry Department for Scotland in or around April 1991.

TECHNICAL AND VOCATIONAL EDUCATION INITIATIVE (TVEI)

TVEI was established to explore and test new ways of managing the education of 14-18 year olds across the whole ability range. It is an educational initiative run in existing schools and colleges, designed to give young people a wider, more relevant and practical curriculum, which will equip them for the future.

Main features

TVEI provides a 4 year curriculum for students aged 14-18 with progression from year to year. There are clear and specific objectives, in particular that:

- more young people will be encouraged to stay at school and achieve qualifications and skills that will be of value to them in their professional/adult lives;

- they will be better equipped to enter the world of employment;

- courses lead to nationally recognised qualifications;

- more emphasis is placed on developing initiative, enterprise and other aspects of personal development;

- there is closer collaboration between education authorities and industry so that the curriculum has industry's confidence;

- programmes should offer equal opportunities to young people of both sexes, and care must be taken to avoid sex stereotyping.

ENTERPRISE IN HIGHER EDUCATION

The initiative is intended to help higher education institutions develop more enterprising graduates who are able to take responsibility, be more responsive to change, can work well with others and who have an

understanding of the work environment. Higher education institutions include universities, central institutions and colleges of education.

The initiative builds on the existing work in higher education institutions to encourage changes in courses of study.

Its main features are:

- the acquisition of enterprising skills should be integrated into courses of study through more active learning methods ("learning by doing");

- learning should be in part through project based activity within a real economic setting including time and resource constraints;

- partnership arrangements should be set up with employers to help design and implement the programme; and

- where appropriate there should be joint assessment by the higher education institutions and its employer partners.

ANNEX E

BUSINESS PLAN: OUTLINE FORMAT

Section 1: Local business and training needs analysis

- economic audit;
- economic/demographic profile and key skill needs;
- small business needs; and
- labour market mismatches and problems to be addressed.

Section 2: Review of local resources and provision

- Government programmes;
- other local provision (eg by private sector);
- business/education partnerships;
- local enterprise agencies and other small business support services;
- key organisations and special initiatives; and
- opportunities for development and better co-ordination.

Section 3: Strategic objectives

- taking into account the economic and skills audit and local provision and resources, a statement of the strategic objectives for the 3 year period covered by the Plan, including how the local enterprise company will work with other key organisations in the area.

Section 4: An operating plan for the first year

a. Programme narratives

For existing business development, youth, adult training, business growth, enterprise and other programmes, information including:

- statement of proposed measurable objectives to be achieved in the first year;
- narrative of activities to be conducted;
- programme development; and
- budgets (including private sector funding).

b. New initiatives.

c. Promotional activities, including promoting training of employed people.

d. Working with others.

Section 5: The structure of the local enterprise company

- geographic boundaries;
- incorporated status;
- names of directors;
- chairperson, company secretary and chief executive;
- arrangements for board meetings;
- subcommittees; and
- subsidiary companies.

Section 6: Management and organisation

- management systems and functions;
- contracting with programme providers;
- finance and accounting;
- quality assurance;
- management information;
- marketing and promotion; and
- evaluation.

Section 7: Administration

- organisational structure and key job descriptions;
- personnel;
- staff development;
- premises and equipment;
- insurance and tax; and
- administration costs.

ANNEX F

PLANNING CYCLE

1. Each year a local enterprise company will produce a rolling 3 year Business Plan which includes its annual operating plan setting out detailed plans for the year ahead. As the first stage in the annual planning process the Secretary of State will publish in July the Government's strategic guidance for training and enterprise activities to be undertaken by local enterprise companies.

2. During the winter months local enterprise companies will be involved in negotiation and discussion with the Training Agency and the SDA to reach provisional agreement on plans. The negotiations will take account of a review of each local enterprise company's performance in the previous and current financial year. Early in the New Year when details of Exchequer funding become known (firm figures for the year one and broad indications for years 2 and 3) plans can be finalised. Contracts for the following financial year can then be agreed.

3. The annual planning and contracting cycle will be:

July	Strategic guidance on priorities, economic developments and resources will be issued to local enterprise companies;
August-November	The local enterprise company prepares a 3 year Business Plan, including a detailed Operating Plan for year one. Proposed Plan is discussed with the Local Enterprise Company Unit the Training Agency and the SDA;
December-January	Plan provisionally agreed and submitted to the Secretary of State for Scotland;
February	Plan approved by the Secretary of State, the budget confirmed and contract signed.
1 April	New financial year starts.

4. Special arrangements may be made for a local enterprise company's first Business Plan where the operating plan begins part way through the normal planning year which starts on 1 April. In these cases the period of the first plan will be agreed with the Training Agency and the SDA.

ANNEX M

LOCAL ENTERPRISE COMPANY UNIT

Remit of the Local Enterprise Company Unit

1. The unit has been set up through existing Training Agency and, SDA powers to manage the operation of the first local enterprise companies until Scottish Enterprise is established. The unit will carry out the following activities:

- provide advice and support to prospective local enterprise companies during the development bid phase;

- support Training Agency and SDA during contract negotiation with prospective local enterprise companies;

- co-ordinate contract administration between local enterprise companies and the Training Agency and SDA; and

- performance monitoring and initial evaluation.

2. Until Scottish Enterprise is established the Training Agency and the SDA remain responsible and accountable for their separate contracts with local enterprise companies during the development and the operational phase. The until will co-ordinate contract administration to avoid unnecessary complication in management relationships and provide a one-door access facility between local enterprise companies and the Training Agency Office for Scotland and SDA Head Office (informal contact at local level between local enterprise companies and the Training Agency's Area Offices and the SDA's Regional Offices should continue).

3. The unit will be involved in the 3 distinct stages of the local enterprise company negotiation and approval process.

(a) **Development bid phase**

The unit will be available to offer help and guidance to prospective local enterprise companies to ensure that development bid proposals fully meet the criteria set out in the Prospectus.

(b) **Development phase**

During this phase a prospective local enterprise company, once notified of the award of development funding, is required to produce a 3 year Business Plan and a first year operating plan. The unit will keep in close touch throughout the development phase with each prospective local enterprise company, to provide guidance as required and to maintain the one-door access with the Training Agency and SDA. The unit will also monitor performance and effectiveness of prospective local enterprise companies through regular reports and meetings. Where remedial action by any prospective local enterprise company is necessary during the development phase, additional support and guidance will be available from the unit.

(c) **Operational phase**

Until the establishment of Scottish Enterprise it will be necessary for the local enterprise company to operate separate contracts with the Training Agency and the SDA. During this period the local enterprise company unit will co-ordinate operational and contract management issues.

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[redacted]se local authorities had not done so, these problems would not have arisen. The hon. Gentleman should reflect on that point.

Scottish Enterprise

4.11 pm

The Secretary of State for Scotland (Mr. Malcolm Rifkind): With permission, Mr. Speaker, I should like to make a statement. Last December, I published the Scottish Enterprise White Paper on my proposals to integrate the functions of the Scottish Development Agency, the Highlands and Islands Development Board and the Training Agency in Scotland. I invited comments by 31 March 1989.

I have been delighted by the volume and constructiveness of the 420 responses and by the extent of support demonstrated. In reaching my decisions, I have sought to build on that support. There was overwhelming agreement for the principle of creating two new bodies, in which the functions of the Scottish Development Agency and the Highlands and Islands Development Board would be integrated with those of the Training Agency in Scotland.

Many welcomed the name "Scottish Enterprise", but some called for the retention of the names "Scottish Development Agency" and "Highlands and Islands Development Board", and there was strong insistence from the north, whatever title was chosen, to retain the word "Islands". We are creating a distinctive new structure which will be more than the sum of its parts and which requires a new identity. I have therefore concluded that the new bodies should be called Scottish Enterprise and Highlands and Islands Enterprise respectively. The SDA and HIDB logos are widely recognised, and I see merit in retaining them to provide an element of continuity, but that will be for the new bodies to decide, as will the way that they market themselves abroad.

There was virtual unanimity for the proposition that the network of local agencies, or enterprise companies, as we now intend to call them, should have a contractual relationship with Scottish Enterprise, in keeping with their private sector focus. The constitution of the companies means that there are important issues of public accountability, propriety, control of public expenditure and value for money to resolve, and I have asked my officials to seek ways of ensuring that public funds are properly safeguarded.

In the light of comments received, I am now proposing a network of 12 companies in the lowlands and eight in the highlands and islands. I have made available a map showing the proposed areas for each company, but where consortia feel that the map that I am proposing does not fit in with their ideas, I should, of course, be willing to consider specific proposals for variation. As regards functions, I can confirm that the full range of statutory powers that the SDA and HIDB now possess will be available for Scottish Enterprise and Highlands and Islands Enterprise, and I accept the recommendations that the latter should discharge the environmental role in the Highlands and Islands currently undertaken by the SDA.

I was impressed by the extent of support for devolving substantial powers relating to enterprise creation to the local enterprise companies from the outset, and against that background, my proposals now involve a major step in the direction of local delivery of economic as well as training functions from the start. We shall, of course, continue the SDA and HIDB policies of withdrawing in favour of private sector provision wherever that is practicable and sensible.

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I found it a great attraction as an initial step in the SDA's approach that the enteprise companies should operate within spending limits that would enable them to take responsibility for the great majority of projects, and that responsibility for major projects outside those limits should be retained at the centre. I intend to apply that principle to both Scottish Enterprise and Highlands and Islands Enterprise. I intend also that the extent of delegation to local enterprise companies should be increased progressively.

The central bodies will have a strong strategic role and will therefore set the policy framework and monitor the local companies; design, develop and secure the implementation of projects and programmes, particularly in industry and enterprise development with an applicability across their areas; approve major projects that fall out with the companies' competence; and handle certain functional activities including major investments, inward investment attracted by Locate in Scotland, marketing and the design and implementation of major physical programmes. They will ensure that the Government's Great Britain-wide training policies and priorities are pursued and Government guarantees fully satisfied. They will also ensure that programmes in support of enterprise delivered on behalf of the Department of Trade and Industry are being satisfactorily discharged and provide central support services.

Local enterprise companies will have the following functions, depending on their capability and the spending limits agreed. In the Scottish Enteprise area, large and strategic projects apart, they will have SDA functions in respect of the development of property, land reclamation and environmental improvement projects, advice and assistance to business, and urban renewal. In the Highlands and Islands area, the same approach will apply to the range of HIDB functions. In both areas they will carry out the range of training functions presently delivered by the Training Agency's area offices and seek to stimulate greater involvement by employers in training. They will also have the scope to devise specific initiatives to meet local needs.

There will be differences in approach between the Scottish Enterprise area and the Highlands and Islands Enterprise area, reflecting their different population, geographical and other characteristics, but there will be an underlying consistency. I have asked officials to work up proposals to ensure that there is a clear framework within which the local enterprise companies are to operate, and that the companies have maximum flexibility, compatible with public accountability, to tailor their activities to local circumstances.

In the light of the comments received on two of the programmes at the interface between industry and education, I have concluded that the Training Agency's technical and vocational education initiative—TVEI—should now move to the Industry Department for Scotland and that PICKUP, the professional, industrial and commercial updating programme administered by the Scottish Education Department, should transfer to Scottish Enterprise and Highlands and Islands Enterprise.

The resources for the new bodies will initially be broadly those that would have been made available in total to the SDA, HIDB and the Training Agency in Scotland.

Turning now to management, many have suggested that an increase to 12 for the Scottish Enterprise board would offer considerably more scope, while retaining the efficiency advantages of a compact board. I propose a board of not less than nine and not more than 12 members inclusive of the chairman and the chief executive, who will be an ex officio member. I propose a similar approach to Highlands and Islands Enterprise but, in recognition of the fact that the number of those able to serve will be circumscribed by distance and sparsity of population, I propose a 7:12 formulation. There is broad support for our proposals that two thirds of the board should be drawn from the private sector and members of both boards will be chosen on a personal basis, for the contribution that each can make. We need the best people in their own right.

With regard to the boards of the local enterprise companies, we shall wish to see directors chosen for their individual contribution, reflecting the range of local interests. Two thirds will come from the private sector, and there will be a board of not fewer than nine or more than 12 in the Scottish Enterprise area and between seven and 12 in the Highlands and Islands.

However, the bigger the range of local interest that supports the company the better. I have been pleased by the enthusiasm expressed by the local authority sector, by education and training specialists, the voluntary sector and the trade unions for the objectives of Scottish Enterprise and their desire to be involved.

As regards staffing. It is important that staff are given a clear indication about their future. There are three aims to be fulfilled: Scottish Enterprise should have a single ethos and staffing structure, as should Highlands and Islands Enterprise; local enterprise companies should have as much freedom as possible to choose their own staff and the arrangements should meet the best interests of existing staff.

I therefore propose that every member of staff employed by the Scottish Development Agency should be offered, three months before the establishment of Scottish Enterprise, employment on no worse terms with Scottish Enterprise, with scope for voluntary secondment to an enterprise company. I propose a similar approach for HIDB staff, As regards the training agency, every member of staff employed in Scotland should be offered, three months before the establishment of the new bodies, the choice either of employment on no worse terms with Scottish Enterprise or Highlands and Islands Enterprise as appropriate, with scope for voluntary secondment to an enterprise company, or alternatively of secondment to Scottish Enterprise or Highlands and Islands Enterprise, with up to three years to decide whether to transfer on the same basis permanently or to return to Civil Service. I am sure that the local enterprise companies will recognise the value of taking most of their staff on secondment terms from the skilled and experienced pool of existing staff, but they will also have scope to employ their own staff.

Finally, let me say how I now see the way ahead. I shall seek an early opportunity for legislation to bring Scottish Enterprise and Highlands and Islands Enterprise into being as soon as possible. As there is overwhelming enthusiasm for our suggestion that it might be possible to go ahead with some local enterprise companies in advance of legislation, within the next few weeks I shall be launching a prospectus which will invite the business community to form consortia to bid to become local

enterprise companies in lowland Scotland. That will be followed by a prospectus for the highlands and islands. The companies will operate within existing legislative powers and within existing public expenditure provision. The number of consortia to be given the go-ahead at this time will depend upon the quality of bids. Consortia throughout Scotland are already making plans in the hope that the Government will take this approach. Their commitment has been a major factor in confirming to me the fact that our proposals for Scottish Enterprise are soundly based.

It gives me great pleasure to commend to the House these proposals, which have caught the imagination of the people of Scotland.

Mr. Donald Dewar (Glasgow, Garscadden): That statement might be described as hard going; it reminded me of stirring very thick porridge. The rather natty, glossy brochure containing the Secretary of State's statement also contains a photograph of the right hon. and learned Gentleman with the legend "The way ahead is clear". He could have fooled all of us this afternoon.

I accept that the statement contains important issues and deals with a part of our economy in which there is no doubt about the scope for improved performance. But as the Minister knows, Opposition Members have doubts about the structure of Scottish Enterprise and the decision to merge training and the key role of the SDA in one body.

Let me make it clear to the House that those doubts remain, but there is some evidence in the Minister's statement—if one reads it carefully—that he has listened, and it would be churlish not to acknowledge that. We will, however, want to be satisfied that the role of Scottish Enterprise will not blur or blunt the enterprise and investment role pioneered by the SDA in recent years. If the Government press ahead, it will be important to ensure that the enterprise companies are a success and bring about the revolution in training that is so clearly needed. We should certainly want to see that achieved.

It is right that the right hon. and learned Gentleman has agreed that Highlands and Islands Enterprise should be created on the lines outlined and that the environmental role should be transferred to it from the SDA.

I welcome the guarantees given to the staff who, I suspect, will nevertheless face an uncertain period in the months ahead.

I have one or two specific questions. The new boards are to be based on private sector involvement, and I note the Secretary of State's statement that there is "broad support" for that principle. I suspect that that is largely confined to the private sector itself. We now know that two thirds of the board directors are to come from private industry. Does the Secretary of State accept that there is real and understandable concern about the involvement of other interests? Does he accept that there is a genuine role both for local authorities and for trade unions? I note that there were some nods in that direction in his statement, but will he undertake that the participation of those other sectors will be a key factor in deciding on the suitability of a bid?

Will the right hon. and learned Gentleman note in passing the distinction between local authority involvement as such and simply the recruitment of a local authority figure to give colour to a board? Will board members be salaried, as recommended by the SDA in its representations? Will he also say more about the realities of the power structure? We understand that Scottish Enterprise will monitor the activities of the enterprise companies locally. Will they be allowed to take over the assets and investments of the SDA and Scottish Enterprise, as it will become, as the consortium bidding for the Lanarkshire franchise has requested?

I understand that there will be a delegation of projects to the enterprise companies below a certain cut-off point. What will that be? Will it be roughly along the lines presently operated for the regional bodies of the SDA? Will the right hon. and learned Gentleman also comment on the level of independence in policy making that will be given to Scottish Enterprise?

In defining the new body's duties, the right hon. and learned Gentleman said that it will

"ensure that the Government's Great Britain-wide training policies and priorities are pursued and Government guarantees fully satisfied".

Does that mean that the Department of Employment, as the lead body, will lay down all training policy? Will the local enterprise companies—I believe that this is very important—be able to tailor employment training and YTS to local needs? Without that flexibility, many people will think that all the talk about the practical devolution of power is no more than a sham.

Will the right hon. and learned Gentleman explain the remit of the national training task force and how it impacts on Scottish Enterprise, reporting, as it does, to the Department of Employment? Will he accept that the test will be what is delivered? We strongly support a Scottish solution to training policy, but we are not convinced that the independence of action that is required has been wrested from the Department of Employment by those plans. There must also be a willingness to fund innovation and local initiatives. Does the right hon. and learned Gentleman really believe that the present standstill budget, simply amalgamating the existing budgets, can do the job?

Mr. Rifkind: If my statement was a hard slog, the contribution of the hon. Member for Glasgow, Garscadden (Mr. Dewar) was a forced march. Nevertheless, I welcome the generally constructive tone of the hon. Gentleman's comments, and I will respond to his points.

I am happy to confirm that we see a genuine role for local authorities and trade unions; I referred to that specifically in my statement. We hope in the generality that salaries would not be required by the members of the boards in question, but there may be particular circumstances in which some flexibility would be appropriate, and we will consider them on their merits.

The hon. Member for Garscadden asked whether the enterprise companies would own the assets currently owned by the SDA in their localities. We certainly envisage that they will be able to have effective control of those assets. Whether the legal ownership should transfer to them is a more difficult matter, which we are considering at the moment.

The hon. Gentleman asked what would be the cut-off point for delegation to the local enterprise companies. I can confirm that that would be broadly compatible with the existing delegation that the SDA gives its regional offices. He asked whether the Department of Employment would be laying down policy on national training. The Government will lay down the policy and the Department of Employment and the Scottish Office will together determine the national framework of training policy. The

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national task force, to which the hon. Gentleman referred, answers both to the Department of Employment and to the Scottish Office in its advisory role. We certainly envisage that the local enterprise companies should have a significant flexibility and autonomy within their frameworks.

It would appear that the only major difference remaining between the Opposition and the Government is over the fundamental question as to whether the SDA and the Training Agency should be merged into a single body. The hon. Gentleman said that he has doubts about that structure and he said today, as he has said on a previous occasion, that the Labour party would prefer two free-standing bodies in Scotland instead of a single agency. He is in very lonely company in respect of that view.

The House might like to know that 297 respondents to the White Paper favoured a combination of the SDA and the Training Agency into a single agency and only 17, including the Labour party, expressed the view which the hon. Member for Garscadden has professed today. Therefore, the hon. Gentleman will agree that, although he is entitled to his view, it is not shared by Scotland. The overwhelming response from right across the industrial, political and economic spectrum in Scotland supports the Government's proposition and disagrees with the view that was expressed on behalf of the Labour party.

Mr. Allan Stewart (Eastwood): Will my right hon. and learned Friend agree that the hon. Member for Glasgow, Garscadden (Mr. Dewar) found it difficult to criticise his first statement and finds impossible to criticise his second? I warmly congratulate my right hon. and learned Friend on spelling out in detail the Scottish Enterprise proposals which will be warmly welcomed in Scotland. What does he envisage as the role of enterprise trusts? There is considerable scope for enterprise trusts to continue their excellent work under Scottish Enterprise. Will my right hon. and learned Friend say how they will work?

Mr. Rifkind: Yes, I certainly see a continuing role for enterprise trusts. As my hon. Friend will be aware, they essentially deal with much smaller localities, rather than the larger geographical areas that are covered by enterprise companies. I have no doubt that the enterprise trusts, as they have already publicly said, will wish to be involved in encouraging local consortia to come forward, and be involved in other ways in continuing to stimulate the local economy in the constructive way that they have already demonstrated.

Mr. Tom Clarke (Monklands, West): May I ask a constituency question first? As it is not clear what local enterprise companies Strathkelvin district council may be associated with, will the Secretary of State clarify the matter? Secondly, as the Secretary of State referred to the halcyon days when he arrived at St. Andrew's House as a young Minister, pro-devolution and all the rest, he might recall that, at about that time, there was a committee called the Stodart committee, of which I was a member. Based on the evidence that it received, it strongly supported the role of local government in industrial promotion and enterprise.

Has the Secretary of State received any evidence to the contrary? Does he accept that many local authorities in Scotland, including Monklands district council, feel that they have a contribution to make, that the Government are deliberately ostracising that contribution, that that is not in the interests of Scottish Enterprise or Scottish industry, and that the Stodart committee could have told the Government so?

Mr. Rifkind: On the two points that the hon. Gentleman has raised, first, Strathkelvin district council would come under the proposed Dumbarton enterprise company, and that is made clear on the map that is available to hon. Members. On the hon. Gentleman's second point, his comment is not fair. He will recall that, in the allocations that we gave local authorities for the current year, there was a particularly generous increase in the general services allocation for the purposes of industrial workshops in their areas. If that was not a recognition of the contribution that can be made in matters referring to the local economy, it is difficult to know what would be.

Mr. Alick Buchanan-Smith (Kincardine and Deeside): I welcome my right hon. and learned Friend's statement for the very constructive and full way in which he has responded to the representations that he has received. Will he say a little more about training? Does he acknowledge that there is not only a shortage of skills but a need for new skills in Scotland and that, in the midst of all the new business enterprise, the importance of training should be given a high priority? Is my right hon. and learned Friend getting a constructive response from the Convention of Scottish Local Authorities and the Scottish Trades Union Congress for his efforts?

Mr. Rifkind: Clearly, training is important. There are clear signs from the STUC and from the Convention of Scottish Local Authorities that, despite their original proposals to boycott the new training scheme that was introduced by the Government, they will seek to become involved in the enterprise companies, in the knowledge that that will involve co-operation in the delivery of training on the basis of the Government's current training policy. I welcome what appears to be a change of heart in that respect.

Sir Russell Johnston (Inverness, Nairn and Lochaber): Is the right hon. and learned Gentleman aware that both his statements have been incredibly long-winded? It appears that he has a future as a speaking clock, because the enormity of the statements was barely concealed by the rapidity of his delivery.

I ask two questions. First, on the availability of businessmen to serve on the boards that are to be established, is he satisfied that there are enough competent people to go around and to make them work properly? Secondly, on Highlands and Islands Enterprise, is he satisfied that the differential that can now be provided is sufficient to make the area genuinely attractive to industry?

Mr. Rifkind: The speaking clock is universally recognised as both accurate and of great public benefit, so I am happy to be compared with it, if the hon. Gentleman chooses to do so.

In response to the hon. Gentleman's detailed questions, the original concern or scepticism of some people about whether the business community would come forward has been completely overtaken by the evidence now available to us. Even in anticipation of the statement, consortia throughout Scotland were already being formed with a

vi[illegible]o coming forward as soon as the Government invited them to do so. That is extremely encouraging. The new opportunities available in the highlands and islands where, for the first time, training will be controlled locally by the Highlands and Islands Enterprise and local enterprise companies, are a dramatic change in the opportunity for the north of Scotland to control its own destiny.

Sir Nicholas Fairbairn (Perth and Kinross): May I congratulate my right hon. and learned Friend on his excellent statement this afternoon, even if it was a little complicated and long for the hon. Member for Inverness, Nairn and Lochaber (Sir R. Johnston) to understand before he fell asleep? Will he note that the new Perthshire enterprise venture set up with such enthusiasm in a partnership between private and public enterprise is an example of what his policies are achieving? Will he remind the House again this afternoon, and unceasingly, that these excellent advantages can be maintained only if we do not drive away investment—from wherever it comes—by having an Assembly, separation or differential taxation?

Mr. Rifkind: I certainly congratulate the Perthshire venture. It is an excellent example of the local business community and others coming together to help the local economy, and it is to be welcomed. My hon. and learned Friend's remarks are also correct. Clearly, anything that discourages investment is to be deplored and my earlier statement today on business rates will be another way in which the potential disincentive of higher taxation will be removed, to the benefit of our economy.

Mr. Ernie Ross (Dundee, West): Exactly what will happen to the Dundee project, which is the only example in Scotland of a one-door approach to incoming industry within this new framework? It would be an absolute disaster if the project were simply absorbed into Tayside. How many of the 297 responses to the White Paper did not suggest that an emphasis different from the national emphasis on training was needed in Scotland, particularly given the experience of the previous mode B young people who find it extremely difficult to stay in training employment as it is presently structured?

Mr. Rifkind: I, too, am happy to acknowledge the great importance of the Dundee project. I sought to make it clear in my opening remarks that, apart from the matters delegated to individual enterprise companies, certain projects would continue to be dealt with by Scottish Enterprise, either because of their national significance or because of the size of the resources involved or the scale of the project. We shall consider existing projects and decide which should be in that category. Dundee may be one, but I should not like to come to a conclusion on that without studying the scale of the resources involved and other matters.

On the hon. Gentleman's final point the 297 representations on the White Paper were about the basic question whether the Scottish Development Agency and the training agency should combine into a single agency. Two hundred and ninety-seven said that they should, and 17 said that they should not.

Mr. Adam Ingram (East Kilbride): The Secretary of State said that his announcement would catch the imagination of the people of Scotland, but that will not be the case in the new towns in Scotland. Two weeks ago, the Secretary of State announced his intentions about the future of the new towns. It will be a matter of some concern in the new towns that no mention was made today of the relationship or the role of the new towns in these new enterprise agencies. Will the Secretary of State explain how the new towns will interface with the new enterprise agencies? Which body will have responsibility for the on-going development of the new towns prior to the dissolution of the development corporation boards?

Mr. Rifkind: I am sorry, but I am not sure that the hon. Gentleman is entitled to say that the proposals have not caught the imagination of the people in the new towns, because as far as I am aware they have been welcomed there as well. With regard to the precise implications— *[Interruption.]* I am talking about the responses to the White Paper. On the precise implications, the new towns and their successor local development companies may seek to join a local enterprise company as participants in a consortium, or may act as sub-contractors to local enterprise companies to provide specific local economic development services or, at the instance of Locate in Scotland, they may contract with Scottish Enterprise direct to provide sites for inward investment. Therefore, there are equally exciting and important opportunities for the new town as well as for the rest of Scotland.

Mr. Mike Watson (Glasgow, Central): Does it not make a mockery of the so-called consultation process when, as the Secretary of State has said, after several hundred responses, it is clear that many of them have been ignored, and when he confirms that the boards of the local enterprise companies—as we hear they will now be called —are to comprise two thirds private sector nominees? Is it not far more important that the recommendations that were made in many of the responses to the consultation process, calling for local authorities, trade unions and the voluntary sector to be involved, should have been taken on board, and should that not happen before a Bill is brought to the House? I noticed that the Secretary of State referred to the general role of trade unions and local authorities, but will he spell out what that will mean, because I fear that that role will be woefully inadequate?

Mr. Rifkind: I am afraid that the hon. Gentleman is misinformed. There has been a wide welcome for the principle that local enterprise companies should have boards with two thirds of the members drawn from the private sector. That has not been a matter of controversy. The overwhelming number of representations received has supported that view. There has also been the view, which the Government have also accepted, that local authorities have a legitimate role to play in the enterprise companies. My statement acknowledged that point. I expect that, when consortia approach Scottish Enterprise in most of Scotland, they will come primarily from the private sector, but I shall be surprised if they do not also include local authorities, the voluntary sector and possibly trade unions and others.

Mr. William McKelvey (Kilmarnock and Loudoun): Will the Secretary of State take steps to ensure that the mangement boards are not loaded in the same fashion as the health boards in Scotland have been loaded with Conservative or former Conservative supporters? Will he guarantee that a maximum will be set so that only two thirds of the management boards will be drawn from the private sector? I hope that the members of the

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management boards who are drawn from the private sector will be Scottish business men who live and work in Scotland.

On the point about the area enterprise boards overseeing certain projects, what would the Secretary of State consider to be a large project that would not necessarily be in their domain? Can he guarantee—I should welcome the formation of the enterprise areas a little less cautiously if he could do this—that the Cinderellas who have suffered under the redistribution of SDA grants and moneys before, such as Kilmarnock, will no longer fail to receive their fair share of the budget that is available centrally?

There should be two separate training bodies. One reason why we want a separate body for training is to ensure that training is properly carried out and, most importantly, that the business men who so anxiously want to manage these enterprises have the opportunity to play their part in what should be proper training. Furthermore, those who are training should be paid the appropriate trade union rates.

Mr. Rifkind: I agree with the hon. Gentleman that industry should be prepared to make its contribution to the cost of training. That is something that one hopes that industry will acknowledge and to which it will respond. On the hon. Gentleman's point about the membership of the boards of the enterprise companies, I agree that what we are looking for are senior figures from Scottish industry who will be able to make a major contribution to the work of the enterprise companies in their locality.

The hon. Gentleman asked for an example of a project which, despite its local impact, might be considered more suitable to be retained for central control. The Glasgow garden festival is an example. If the festival had been coming into existence under the future structure, although its impact was intended to be within Glasgow, the scale of the project would have justified its being dealt with by Scottish Enterprise rather than by individual enterprise companies. We shall have to consider individual projects and determine that issue on the basis of such criteria.

Mr. Alex Salmond (Banff and Buchan): Yes, but why has the Secretary of State maintained the two-thirds business majority on the boards against calls for a genuine partnership between the public and private sectors, especially when those calls have come not just from every Opposition party but also from the National Federation of Self Employed and Small Businesses Ltd. and from Mr. Ron Lander, the chairman of the CBI's training committee in Scotland? Does not the fact that the Secretary of State has maintained the two thirds majority betray the political bias behind the plans and show that they are a Tory solution to Tory needs rather than a Scottish solution to Scottish needs?

Why did the statement make no mention of the European dimension? Is it not the case that the Department of Employment processes applications for the European social fund, which is a major provider of training funding? Why has that role not been delegated to the Scottish Office or Scottish Enterprise? In the light of the Secretary of State's earlier remarks about the relative positions of the Scottish Office and the Department of Employment in relation to training, does he not remember that the White Paper announcing these proposals described the Department of Employment as the lead Department in these matters? Has anything changed?

Mr. Rifkind: It was described as the lead Department because it is the lead Department. There has never been any secret of that fact. It would be odd if it were not the lead Department, given that it covers such a large proportion of the population of the Unied Kingdom. This is not the occasion to have a debate on European matters, but I believe that my statement is free-standing in its own right.

In response to the hon. Gentleman's initial points, I advise him that he should study the representations before he makes a slight fool of himself——

Mr. Salmond: I have the submissions here.

Mr. Rifkind: In that case, the hon. Gentleman has even less excuse for the questions that he has asked—*[Interruption.]* Yes, indeed, but the two-thirds private sector ratio has been widely accepted right across the spectrum of opinion. What people were quite properly——

Mr. Salmond: What about Mr. Ron Lander?

Mr. Rifkind: The hon. Gentleman refers to one individual, as if one individual out of 420 should determine the course of the Government's response——

Mr. Salmond: Mr. Lander is the chairman of the CBI's education and training committee.

Mr. Rifkind: Well, the CBI strongly supports what is in the White Paper. The fact that the hon. Gentleman has identified one individual who takes a different view shows the paucity of his case. The balance that the Government are proposing in the White Paper has been welcomed right across the political and industrial spectrum. The hon. Gentleman may not like that, but I am afraid that he will have to live with it.

Mr. Norman Hogg (Cumbernauld and Kilsyth): Will the Secretary of State return to the point made by my hon. Friend the Member for East Kilbride (Mr. Ingram), and will he undertake to write to the chief executives or the chairman of the Scottish new town development corporations setting out in some detail the precise relationship between what is proposed and the existing development corporations? Could he then go a little further and deal with the question of the new development companies so that there is absolutely no doubt about the role of the new towns in the new context?

Mr. Rifkind: Yes, we will happily give such advice to the new town development corporations. The answer that I gave the hon. Member for East Kilbride (Mr. Ingram) related both to the existing new town development corporations and to the future local enterprise companies. We shall happily discuss the matter with the new towns so that there is a clarity of understanding about this matter.

Mr. Charles Kennedy (Ross, Cromarty and Skye): If I followed the Secretary of State's statement correctly, he suggested that, as well as its training function, Highlands and Islands Enterprise will take on the environmental function from the SDA. Will he give an absolute guarantee that it will have a requisite increase in its finances for both those functions so that its prime and legislative

development role is not undermined or diluted as a result of the greater range of activity that it will have to undertake?

Secondly, I stress to the Secretary of State that at the weekend my hon. Friend the Member for Inverness, Nairn and Lochaber (Sir R. Johnston), in anticipation of this week's statement, met representatives of the CBI in the highlands and islands of Scotland. *[Interruption.]* I assure hon. Members that it was a perfectly open meeting. Those representatives of the CBI were exactly the kind of business men to whom the Secretary of State will be looking to make this a success. One issue about which they were anxious was whether this would lead to a diminution in the almost unique status of the existing HIDB within Scotland, as it is brought more on a par with Scottish Enterprise generally, and whether the potential is there for this to be a long-term disincentive or disadvantage for the highlands and islands as a whole. Will the Secretary of State address himself to that, too?

Mr. Rifkind: Yes. We have said that the initial funding of both the new agencies would correspond to the funding that currently goes to the various bodies that deal with those matters. In the case of the highlands and islands, if one combines, for example, the existing funding of the HIDB with that of the Training Agency in Scotland, we are talking of funding of about £50 million. I take the hon. Gentleman's point about the environmental aspect. We essentially wish to start from the position of replicating the existing funding in the highlands, wherever it comes from, and that will go to Highlands and Islands Enterprise.

On the hon. Gentleman's second point, I believe that he can be greatly reassured, because, far from being to the disadvantage of the highlands and islands, we are saying that major areas of policy and resources, which up to now have been carried out within the highlands from outside, will in future be determined within the highlands and islands themselves. For the first time, Highlands and Islands Enterprise will have many millions of pounds to spend on training in the highlands and islands—training which up to now has been run from Sheffield. That will now be with the local enterprise companies. There is the point, too, about the environmental functions of the SDA now being controlled from Inverness rather than from Glasgow. The hon. Gentleman and his colleagues can properly recognise what is being proposed as an exciting and substantial decentralisation of power to the highlands and islands.

Mr. John McAllion (Dundee, East): The Secretary of State has tried hard to give the impression this afternoon of an entirely Scottish approach to the important area of training. Will he tell us whether the Department of Employment will continue to have a remit for training provision in Scotland, and, especially, whether the pilot schemes for the workfare-type jobs interview guarantee scheme will continue to go ahead under the Department of Employment, or whether it will be transferred to Scottish Enterprise? In any case, whoever has responsibility, will the Secretary of State guarantee that there will be comprehensive consultation with the local communities before implementation of that scheme?

Mr. Rifkind: There will be relatively few residual functions of the Department of Employment in Scotland, but, overwhelmingly, its current responsibilities are being transferred, with the appropriate resources, to the Scottish Office. There will be a continuing joint responsibility for national training standards in the United Kingdom as a whole, where both Departments will liaise in order to identify Government policy. Within that national framework, we accept that, both at Scottish level and in the various parts of Scotland, there will be substantial flexibility and local autonomy that has not existed up to now and will be a major feature of future arrangements.

Mr. Harry Ewing (Falkirk, East): Does the Secretary of State understand that these are very wide powers, which have been given to a very small number of people, drawn from a very narrow band of Scottish society, over a wide area of Scottish society and highly unrepresentative of Scottish society? That in itself requires the most extensive debate. The Secretary of State mentioned public accountability, but to whom will those local enterprise companies be publicly accountable? Will it be the local authority or the Scottish Office and, through the Scottish Office, the House? The Secretary of State did not mention Locate in Scotland, possibly because nothing is happening in relation to it. I would be grateful if he could confirm that. Finally, if legislation is required—when?

Mr. Rifkind: I shall take the hon. Gentleman's points in reverse order. My statement said that I envisaged early legislation to create Scottish Enterprise. However, even in advance of that legislation, much will be able to be achieved under the existing statutory position.

I am happy to confirm that Locate in Scotland is not affected in any way by the statement. Enterprise companies will be accountable to Scottish Enterprise in the first instance and, through Scottish Enterprise, to the Scottish Office and thereby to Parliament as a whole.

The hon. Gentleman said that those powers will be used by unrepresentative individuals. I ask him to compare what we propose with the existing situation and to see which he prefers. At the moment, the training powers are carried out by people answerable to the Training Agency's headquarters in Sheffield, while the SDA powers are exercised by officials of the SDA in the localities in question and are rarely considered in any depth by SDA headquarters. Compared with the status quo arrangements, a local enterprise company, which consists both of the private sector, and I am sure of local authorities and other local interests, will be considerably more representative and able to identify the needs of the local community than the existing arrangements, which, of course, have existed for a good many years.

Mr. Dick Douglas (Dunfermline, West): Will the Secretary of State acknowledge that one of the intriguing aspects of discussing this initially with Bill Hughes was the fact that he suggested that money should be taken down to the local level? What appears to be happening is that we are creating multifarious bureaucracies. The real danger is that money, especially for training, will not get down to local level. How does he propose to devise a mechanism to obviate that?

Will the Secretary of State give us some indication of how those local companies will be registered? Will they be companies registered by guarantee, and will we, additionally, have an annual report on Scottish Enterprise and on Highlands and Islands Enterprise, too, so that we might have an opportunity of discussing those matters, appropriately in Scotland? One thing that we should keep an eye on and ventilate in Scotland is this proposed set-up.

Mr. Rifkind: I am happy to pay credit to Mr. Hughes for the stimulation that he, as well as others, gave to these ideas. These proposals represent a massive transfer of resources to the local level. At the moment, the effective decision on training are taken in Sheffield and those on the functions of the SDA in Glasgow. We are proposing a contractual relationship with enterprise companies, which have been brought out by the local communities, where they will not be carrying out simply a policy laid down by Government as agents. We would clearly not attract people of calibre to carry out someone else's policy. They will be given real decision-making powers in important areas, which is why the business sector and others have already responded so enthusiastically to what is proposed. I agree that those matters should be debated and discussed, for which there will be many opportunities. What is encouraging is that the public response to the White Paper has given rise not only to so many comments from so many quarters, but such a unanimous endorsement of what is proposed.

Mr. Dennis Canavan (Falkirk, West): When does the Secretary of State expect Scottish Enterprise to achieve a reduction in Scottish unemployment to the level which existed at the time when the Scottish Development Agency was set up by the last Labour Government?

Mr. Rifkind: The hon. Gentleman will recall that after the SDA was set up by the last Labour Government, unemployment—no doubt for other reasons—substantially increased during the remaining period of that Labour Government. It increased further during the early years of this Government, but I am pleased to say that it has been dramatically falling over the past two years and looks set to continue to fall. The Scottish CBI's latest survey shows substantial optimism in Scottish industry. No doubt that is because of a clear realisation that the hon. Gentleman is unlikely to be sitting on this side of the House in the foreseeable future.

Mr. Bill Walker (Tayside, North): My right hon. and learned Friend will be aware that Scotland has a unique history of skill training—that certainly during the industrial revolution and afterwards, Scotland led the world in the level of skill training. Will my right hon. and learned Friend confirm that this new training arrangement will allow training to be conducted in such a manner that, if one wished, one could extend the training period to three years or more to give the opportunities for the levels of skills that are required to meet the needs of the future?

Mr. Rifkind: We certainly envisage that, increasingly, Government requirements will not be expressed so much in terms of the procedure and the detailed way in which training is delivered, as in terms of output and the results. If we are satisfied that enterprise companies are producing the results, the out-turn and the quality of training that is required, we shall be happy for them to have a significant flexibility and autonomy as to how they do that throughout Scotland.

Points of Order

4.59 pm

Mr. Barry Jones (Alyn and Deeside): On a point of order, Mr. Speaker. May I ask whether you have received any requests from Ministers to make a statement on the salmonella outbreak in Clwyd? There is considerable anxiety on Deeside and throughout that county. I believe that, before the end of the day, a statement should be made on this serious outbreak. We need to know whether the outbreak has affected 48 people in Clwyd, whether there are 13 hospital cases, whether there is a seriously ill pensioner and whether children are affected——

Mr. Speaker: Order. The point of order is to me and to ask whether I have received a request for a statement. The hon. Member should not go into detail. I must tell him that I have not had such a request.

Mr. Jones: I was about to say to you, Mr. Speaker, that there is widespread anxiety in my constituency and in neighbouring constituencies. We want to know whether there are enough environmental health officers to assist locate the seat of the outbreak. We urgently want to know from Ministers what the Government are doing so that public anxiety can be allayed. Can you help to establish whether a Minister from the Welsh Office will come to the Chamber and make a statement about this serious outbreak of salmonella? Public opinion demands that that information be given.

Mr. Speaker: I repeat that I have not had any request for such a statement. I am sure that what the hon. Gentleman has said will have been heard on the Government Front Bench. We never know what might happen tomorrow.

Mrs. Alice Mahon (Halifax): On a point of order, Mr. Speaker. You will have heard the Secretary of State for Health during Question Time yesterday make some insulting remarks that implied that my constituents are not fit to vote on whether they want hospitals to opt out of the National Health Service. Would you examine the record, Mr. Speaker, and consider asking the Secretary of State for Health to withdraw those deeply offensive remarks?

Mr. Speaker: I must tell the hon. Lady that I was here and I did not hear any offensive remarks. In any case, the time to raise a point of order on a matter like that is when it occurred, not now. I cannot go back to it today.

Mrs. Mahon: Further to the point of order——

Mr. Speaker: No—I am sorry, the hon. Lady's argument is not with me. She will have to find other ways to take it up.

Mrs. Mahon: Further——

Mr. Speaker: No. I cannot hear it.

BILLS PRESENTED

Nutritional Labelling of Food

Mr. Nigel Griffiths, supported by Ms. Diane Abbott, Ms. Joan Walley, Mr. Harry Barnes, Mr. Andrew Smith and Mr. Peter L. Pike, presented a Bill to ensure that the consumer is provided with full and accurate information

cst.ps/17jm24.7/lets

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Treasury Chambers, Parliament Street, SW1P 3AG

David Crawley Esq
Private Secretary to the
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1

24 July 1989

Dear David,

SCOTTISH ENTERPRISE

Thank you for copying to me your letter of 21 July 1989 to Paul Gray.

The Chief Secretary would like to make two points:

(i) In his letter of 19 July 1989, your Secretary of State had undertaken that the statement would contain a reference along the lines of "We will continue the SDA and HIDB policies of withdrawing in favour of private sector provision wherever practicable". You could add such a sentence into the statement in Page 2 (after paragraph 2).

(ii) He would also like to amend the statement (Page 3, after the last paragraph) more clearly to flag up that Scottish Enterprise should reduce its dependence on public funds over time, as agreed by your Secretary of State on 19 July 1989.

Copies of this letter go to Paul Gray, to the Private Secretaries of other members of E(A), the Chief Whip and the Leader of the Lords, and to Trevor Woolley.

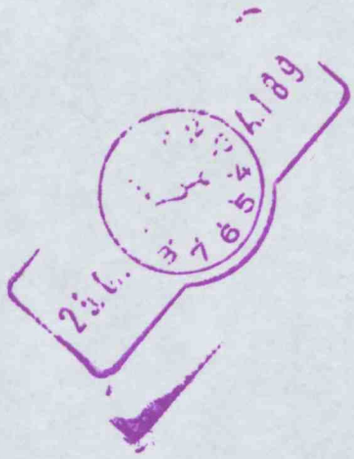
Yours,

Peter

PETER WANLESS
Assistant Private Secretary

Scotland Rey RL

P62



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 July 1989

SCOTTISH ENTERPRISE

Thank you for your letter of 21 July which the Prime Minister has seen.

She is now content with your Secretary of State's revised proposals and with the terms of the draft statement. She would however be grateful in 12 months' time for a progress report and the latest assessment of the timetable for moving to a target of 80 per cent by value for delegation to local enterprise companies.

I am copying this letter to the Private Secretaries to members of E(A), Murdo Maclean (Chief Whip's Office), Nick Gibbons (Lord Privy Seal's Office) and Trevor Woolley (Cabinet Office).

(PAUL GRAY)

David Crawley, Esq.,
Scottish Office.

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

Andrew Dunlop and I agree that ~~this~~ the attached statement is now acceptable. But on X below you may want to ask for a progress report and latest assessment of the timetable in 12 months time.

Content?

Paul Gray Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON
SW1A 2AA

21 July 1989

Dear Paul,

PRCC 21/7

SCOTTISH ENTERPRISE

Thank you for your helpful letter of 19 July about the Scottish Enterprise proposals.

My Secretary of State was particularly grateful for the Prime Minister's agreement on the extent to which functions should initially be delegated to local enterprise companies, and is entirely in agreement about the desirability of increasing this delegation as quickly as practicable. Given the need to explore the detailed implications and indeed to discuss the issues with the local enterprise companies themselves as they are established, he feels that it would be unrealistic to set any explicit target at this stage, but I can confirm that he has no objection to trying to move progressively to a target of 80% by value as soon as possible. He hopes therefore that the Prime Minister will agree to the inclusion in his statement of a general commitment to move decisively in this direction, but without as yet a specific target. He will of course keep the Prime Minister informed of progress towards achieving this end.

X

On membership, Mr Rifkind concurs with the conditions which the Prime Minister proposes, but does not now propose to include any specific reference to membership in his statement.

Mr Fowler will wish to note that the references to Compacts and Training Access Points have disappeared from this shorter version: but I can confirm that it is our intention to proceed in the way he suggests in his letter of 18 July as regards these programmes. On the staffing issues, the draft statement now reflects my Secretary of State's acceptance of a maximum secondment period of 3 years for Training Agency staff; and of a right of return to the Civil Service for such staff. Discussions are still proceeding at official level on the detailed underpinning (both manpower and financial) of the proposals; but my Secretary of State believes that these negotiations are sufficiently far advanced to justify the forms of words proposed.

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I attach a draft statement which Mr Rifkind intends to make on Wednesday 26 July. I would be grateful for any comments by close on Monday, 24 July.

I am copying this letter to the Private Secretaries to members of E(A), the Chief Whip, Lord Belstead and to Trevor Woolley.

Yours sincerely,

Ian Wright

pp DAVID CRAWLEY
Private Secretary

ENC

DRAFT STATEMENT BY THE SECRETARY OF STATE FOR SCOTLAND

With permission, Mr Speaker, I should like to make a statement. Last December I published the Scottish Enterprise White Paper on my proposals to integrate the functions of the Scottish Development Agency, the Highlands and Islands Development Board and the Training Agency in Scotland. I invited comments by 31 March 1989.

I have been delighted by the volume and constructiveness of the 420 responses and by the extent of support demonstrated. In reaching my decisions I have sought to build on that support. There was overwhelming agreement for the **principle** of creating 2 new bodies, in which the functions of the Scottish Development Agency and the Highlands and Islands Development Board would be integrated with those of the Training Agency in Scotland.

Many welcomed the **name** "Scottish Enterprise"; but some called for the retention of the names "Scottish Development Agency" and "Highlands and Islands Development Board"; and there was strong insistence from the North, whatever title was chosen, to retain the word "Islands". We are creating a distinctive new structure; and I have therefore concluded that the new bodies should be called Scottish Enterprise and Highlands and Islands Enterprise respectively. The SDA and HIDB logos are widely recognised, and I see merit in retaining them to provide an element of continuity but that will be for the new bodies to decide as will the way they market themselves abroad.

There was virtual unanimity for the proposition that the network of local agencies or enterprise companies, as we now intend to call them, should have a **contractual relationship** with Scottish Enterprise, in keeping with their private sector focus. The constitution of the companies does mean that there are important issues of public accountability, propriety, control of public expenditure and value for money to resolve, and I have asked my officials to seek ways of ensuring that public funds are properly safeguarded.

In the light of comments received, I am now proposing a **network** of 12 companies in the Lowlands and 8 in the Highlands and Islands. I have made available a map showing the proposed areas for each company. But where consortia feel that the map to be attached to the final version of the statement I am proposing does not fit in with their own ideas, I should of course be willing to consider specific proposals for variation.

As regards **functions**, I can confirm that the full range of statutory powers which the SDA and HIDB now possess will be available for Scottish Enterprise and Highlands and Islands Enterprise; and I accept the recommendations that the latter should discharge the environmental role in the Highlands and Islands currently undertaken by the SDA.

I was impressed by the extent of support for devolving substantial powers relating to enterprise creation to the local enterprise companies from the outset and against that background my proposals now involve a major step in the direction of local delivery of economic as well as training functions, from the start.

I found great attraction as an initial step in the SDA's approach that the enterprise companies should operate within spending limits which would enable them to take responsibility for the great majority of projects and that responsibility for major projects outside these limits should be retained at the centre. I intend to apply this principle to both Scottish Enterprise and Highlands and Islands Enterprise. I intend also that the extent of delegation to local enterprise companies should be increased progressively. The central bodies will have a strategic role and would therefore set the policy framework and monitor the local companies; design, develop and secure the implementation of projects and programmes particularly in industry and enterprise development with an applicability across their areas; approve major projects which fall outwith the companies' competence; handle certain functional activities including major investments, inward investment attracted by Locate in Scotland, marketing, and the design and implementation of major physical programmes; ensure that the Government's Great Britain-wide training policies and priorities are pursued and Government guarantees fully

satisfied; ensure that programmes in support of enterprise delivered on behalf of the Department of Trade and Industry are being satisfactorily discharged; and provide central support services.

Local enterprise companies would have the following functions, depending on their capability and the spending limits agreed: in the Scottish Enterprise area (large and strategic projects apart) SDA functions in respect of the development of property, land reclamation and environmental improvement projects, advice and assistance to business, and urban renewal. In the Highlands and Islands area the same approach would apply to the range of HIDB functions. In both areas they would carry out the range of training functions presently delivered by the Training Agency's area offices and seek to stimulate greater involvement by employers in training. They would also have the scope to devise specific initiatives to meet local needs.

There would be differences of approach between the 2 areas, reflecting their different population, geographic and other characteristics. But there would be an underlying consistency. I have asked officials to work up proposals to ensure that there is a clear framework within which the local enterprise companies are to operate, and that the companies have maximum flexibility, compatible with public accountability, to tailor their activities to local circumstances.

In the light of the comments received on two of the programmes at the interface between industry and education, I have concluded that the Training Agency's Technical and Vocational Education Initiative should now move to the Industry Department for Scotland; and that PICKUP, the Professional, Industrial and Commercial Updating Programme administered by the Scottish Education Department, should transfer to Scottish Enterprise and Highlands and Islands Enterprise.

The resources for the new bodies will initially be broadly those that would have been made available in total to the SDA, HIDB and the Training Agency in Scotland.

Turning now to **management**, many have suggested that an increase to 12 for the Scottish Enterprise board would offer considerably more scope, while retaining the efficiency advantages of a compact board. I intend a board of not less than 9 and not more than 12 members inclusive of the Chairman and the Chief Executive (who will be an ex officio member). I intend a similar approach to Highlands and Islands Enterprise but, in recognition that the number of those able to serve will be circumscribed by distance and sparsity of population, I propose a 7 to 12 formulation. There is broad support for our proposals that two-thirds of the board should be drawn from the private sector; and members of both boards will be chosen on a personal basis, for the contribution that each can make. We need the best people in their own right.

With regard to the boards of the local enterprise companies we will wish to see directors chosen for their individual contribution; reflecting the range of local interests; two-thirds from the private sector; and a board of not less than 9 nor more than 12 in the Scottish Enterprise area; and between 7 and 12 in the Highlands and Islands.

However, the bigger the range of local interest which supports the company the better. I have been pleased by the enthusiasm expressed by the local authority sector, by education and training specialists, by the voluntary sector and by the trades unions for the objectives of Scottish Enterprise and their desire to be involved.

Now, as regards **staffing**. It is important that staff are given a clear indication about their future. There are 3 aims to be fulfilled: Scottish Enterprise should have a single ethos and staffing structure - as should Highlands and Islands Enterprise; local enterprise companies should have as much freedom as possible to choose their own staff; and the arrangements should meet the best interests of existing staff.

I therefore propose that every member of staff employed by the Scottish Development Agency should be offered, 3 months before the establishment of Scottish Enterprise, employment on no worse terms with Scottish Enterprise, with scope for voluntary secondment to an enterprise

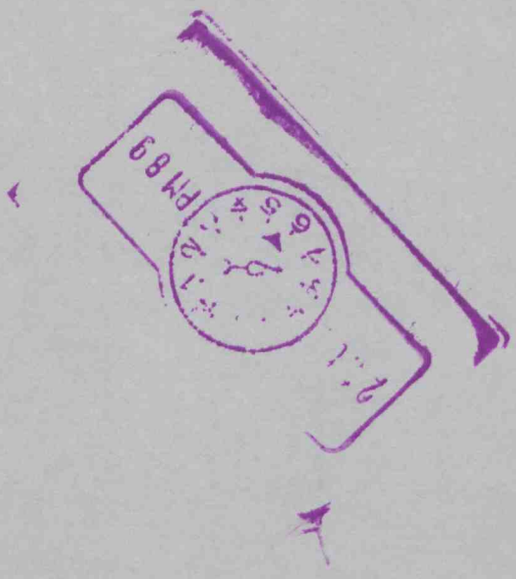
company. I propose a similar approach for HIDB staff. As regards the Training Agency, every member of staff employed in Scotland should be offered, 3 months before the establishment of the new bodies, the choice either of employment on no worse terms with Scottish Enterprise or Highlands and Islands Enterprise as appropriate (with scope for voluntary secondment to an enterprise company), or of secondment to Scottish Enterprise or Highlands and Islands Enterprise, with up to 3 years to decide whether to transfer on the same basis permanently or to return to the Civil Service. I am sure that the local enterprise companies will recognise the value of taking most of their staff on secondment terms from the skilled and experienced pool of existing staff; but they will also have scope to employ their own staff for jobs for which no suitable secondee is available.

Finally, let me indicate how I now see the **way ahead**. I shall seek an early opportunity for legislation to bring Scottish Enterprise and Highlands and Islands Enterprise into being as soon as possible. Given the overwhelming enthusiasm for my suggestion that it might be possible to go ahead with some local enterprise companies in advance of legislation, I shall within the next few weeks be launching a prospectus which will invite the business community to form consortia to bid to become local enterprise companies in lowland Scotland. That will be followed by a prospectus for the Highlands and Islands. These companies will operate within existing legislative powers and within existing public expenditure provision. The number of consortia to be given the go-ahead at this time will depend upon the quality of bids. Consortia throughout Scotland are already making plans in the hope that the Government will take this approach. Their commitment has been a major factor in confirming to me that our proposals for Scottish Enterprise are soundly based.

Mr Speaker, the way ahead is clear. It gives me great pleasure to commend to the House these proposals, which have caught the imagination of the people of Scotland.

SCOTLAND: Regional Police

Part 2.



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cc PV.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 July, 1989.

Dear David,

SCOTTISH ENTERPRISE

The Prime Minister was grateful for your Secretary of State's further minute of 14 July.

On the issue of delegation to local enterprise companies, the Prime Minister is now content for your Secretary of State to work to an initial target of 80 per cent of projects by number, but thinks that your Secretary of State's statement should indicate the intention to move to a target of 80 per cent by value over the next, say, three years.

On membership, the Prime Minister is now content to agree to the introduction of this concept, but considers it should be subject to the following conditions:

(a) membership is not a compulsory requirement, but an option open to local enterprise companies should they wish it;

(b) members should not be able to hire or fire the Board of Directors, or interfere with its decisions;

(c) the membership should have a private sector majority.

Finally, on TVEI, the Prime Minister is content with your Secretary of State's revised proposal that responsibility should rest with the Industry Department for Scotland.

I am sending copies of this letter to the Private Secretaries to the members of E(A) and to Trevor Woolley (Cabinet Office).

Yours,
Paul

Paul Gray

David Crawley, Esq.,
Scottish Office.

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SCOTTISH OFFICE
WHITEHALL. LONDON SW1A 2AU

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The Rt Hon John Major MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

19 July 1989

Dear John.

SCOTTISH ENTERPRISE

Thank you for your letter of 11 July responding to my memorandum.

I am grateful for your agreement to my proposals on staffing.

Taking your detailed points in turn:

(i), (iii) and (v) I agree that it is important to avoid any misunderstanding about the exercise and retention of SDA powers. There is I think nothing between us on the issue of Scottish Enterprise following through the agreed SDA withdrawal strategies. But I judge that it is essential that I make clear in my statement exactly what SDA powers will be transferred to Scottish Enterprise. This was far and away the main issue of concern arising in the consultation exercise and I have consistently said that it is no part of my intention to take away existing statutory powers available to the SDA (and HIDB). I cannot resile from that line in my statement. That does not and will not detract from my intention to set a policy framework for Scottish Enterprise and Highlands and Islands Enterprise to encourage the **exercise** of these powers in a manner which favours private sector provision and requires the continued disposal of assets. But any fudge on the issue of **availability** of powers would put at risk the support which I have been able to build up around these proposals. By including a reference in my statement, along the lines of "We will continue the SDA and HIDB policies of withdrawing in favour of private sector provision wherever practicable." I hope that I can meet what I take to be your underlying concern.

(ii) On funding, it is of course our aim that over time Scottish Enterprise and Highlands and Islands Enterprise should draw in a greater proportion of private sector finance. I am content to flag this point in my statement.

(iv) On New Towns, I am not proposing that the successor local development companies will be local enterprise companies. They will be separate entities, but I envisage that they could link to Scottish Enterprise in 4 ways. Firstly as indicated in the New Towns White Paper they may at the instance of Locate in Scotland contract with Scottish Enterprise direct to, for example, provide sites and premises for inward investment purposes. Secondly, they may act as subcontractors to local enterprise companies to provide specific local economic development services. Thirdly, they may join a local enterprise company as a participant in a consortium. Fourthly, if improbably, a local development company might choose to extend its membership, area of operation and functional interests and bid to become a local enterprise company. I shall include a brief reference in my statement.

(iv) I agree that further work is required on the important issues of propriety and public accountability, and in developing policy guidelines for the new bodies. Work is in hand, and my officials will consult yours as appropriate.

I shall circulate in the next day or so a draft statement in the light of the comments received, taking on board your various drafting points, save to the extent that any dilution of existing powers may be inferred from them.

I am copying this letter to the Prime Minister, other members of E(A), to Kenneth Baker and to Sir Robin Butler.

Yours ever,

MALCOLM RIFKIND

H C 38

CONFIDENTIAL

Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

Telephone 01-273 . . 5803.
Telex 915564 Fax 01-273 5821

Secretary of State

The Rt Hon Malcolm Rifkind MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
LONDON
SW1

19 July

Dear Malcolm.

SCOTTISH ENTERPRISE

Thank you for your letter of 5 July covering a proposal for taking Scottish and Highlands and Islands Enterprise forward to implementation. I have also seen the subsequent correspondence, including the No.10 letter and your own of 19 July.

The overwhelming endorsement your White Paper has received is most encouraging, and is mirrored south of the border by the impressive response we have had from top business leaders wanting to form Training and Enterprise Councils.

I am sure your proposals will form a sound basis on which to proceed. In particular I am sure that it is right to give the local enterprise companies fullest possible delegated responsibilities within strategies devised by business leaders in Scottish Enterprise for Scottish circumstances, and my overall framework of training policies.

I welcome the proposal to give Compacts to Scottish Enterprise, but wonder whether it would not be better to locate these essentially local arrangements between schools and industry at the local enterprise company level. I would also observe that if you chose Scottish Enterprise for the

Secretary of State
for Employment

delivery of Compacts, it should of course be within the terms of the general GB policies of guaranteeing young people who achieve their school targets either jobs with training, or training leading to jobs. I would not want to dilute this key aspect of the Compacts.

Also, though this may just be a matter of emphasis, I think that overall Scottish Enterprise needs to do more than ensure "delivery of national programmes" and "guarantees"; it needs to pursue the Government's GB-wide policies and priorities.

A further minor point about responsibilities concerns the Training Access Points. I am completely content for local budgets to be devolved to Scottish Enterprise and on to the local enterprise companies, but work on the national guidelines, data framework, software and so on, clearly has to remain at the GB level to be cost effective.

The size of the respective networks of local enterprise companies must be for you to decide, but since establishing large numbers of small offices is very expensive, I am sure you will realise that I would expect SDA, HIDB and the Scottish Office itself, to share in the costs.

Finally, there is the position of the Department of Employment staff. I agree with your objectives. However, we must take care to maintain the motivation and morale of staff both north and south of the border. With this in mind it would be helpful if we could give Training Agency staff in Scotland three years, not two, to reach their final decision as we have said that the normal expectation of review south of the border will be three years.

At this stage we have no way of telling how Training Agency staff will react at the end of their period of secondment time. By then there would be virtually no Training Agency presence in Scotland. The offer of other Civil Service jobs would be much more credible and deliverable if it applied to jobs in both the Departments of Employment and the Scottish Office. To give both our Departments an incentive to do this I must ask that, in addition to offering jobs in both Departments, we reach a firm understanding that we share any costs which could arise.

Secretary of State
for Employment

I have already suggested that our officials discuss the detail of this staffing package, and they now need to prepare the staff communications that will need to follow immediately on the day of your statement.

I am copying this letter to the Prime Minister, other members of E(A) and to Sir Robin Butler.

Yours ever.

NORMAN FOWLER

SCOTLAND : POLICY PTZ

20 JUL 1989

PRIME MINISTER

SCOTTISH ENTERPRISE

Malcolm Rifkind is planning to make a statement next week setting out his detailed proposals for Scottish Enterprise in the light of reactions to last December's White Paper.

You saw his earlier proposals ten days ago, and following advice from Andrew Dunlop authorised me to minute out raising five queries. These are set out in my letter at Flag A.

Malcolm Rifkind has now minuted back commenting on these points (Flag B). I have marked on his minute the sections dealing with points (i)-(v) in my letter. He has agreed to your comments on points (iii) and (iv) but is still pressing something close to his earlier approach on the other three points.

Andrew Dunlop has provided further advice at Flag C. He urges you to continue to take issue with Malcolm Rifkind on the outstanding three points:

Degree of decentralisation.

Malcolm Rifkind wanted 80 per cent of projects by volume to be dealt with by local enterprise companies. He now proposes supplementing this with a further statement that the extent of delegation will be progressively increased over time. Andrew Dunlop pointed out earlier that 80 per cent of volume implies only 30 per cent by value; he continues to recommend that you should press for an explicit target of 80 per cent by value, and ask Malcolm Rifkind for detailed proposals on how he intends to achieve this. Agreed

A possible intermediate approach would be to accept 80 per cent by volume initially, but to press Malcolm Rifkind to beef up his statement on the future by spelling out a target of moving to 80 per cent by value over the next, say, three years.

Agreed MS

Membership.

Andrew Dunlop is concerned about the introduction of the concept of membership of local companies in addition to boards of directors. Malcolm Rifkind now says there is no intention of making the membership concept obligatory. Andrew's recommendation is that you could now agree to the concept of membership but with a number of tight conditions:

- it is not compulsory
- members' rights in relation to boards of directors are constrained
- membership should have a private sector majority.

Agreed MR

TVEI.

Malcolm Rifkind originally suggested responsibility for TVEI should be vested in the Scottish Education Department. You suggested Scottish Enterprise. Malcolm Rifkind now suggests the Industry Department for Scotland, but Andrew Dunlop recommends you continue to press for Scottish Enterprise.

Conclusion.

(a) On the degree of decentralisation:

- do you want to stick to the explicit target of 80 per cent by value and press Malcolm Rifkind for detailed proposals on how to achieve this?

  Or

- do you want to accept an initial target of 80 per cent by volume but press for a statement that a target of 80 per cent by value will be achieved over say, three years?

Yes MR

(b) On membership, content to agree the concept subject to Andrew Dunlop's proposed conditions?

Yes

(c) On TVEI:

- do you still want to press for responsibility to be vested in Scottish Enterprise?

  Or

- content to accept the Industry Department for Scotland?

Yes pls

RACG

Paul Gray
18 July 1989

CONFIDENTIAL

PRIME MINISTER

18 July 1989

SCOTTISH ENTERPRISE

Malcolm Rifkind's note offers welcome reassurance on the issues of pay, senior appointments and the network map. But he is still arguing the toss on the three other issues you raised with him. If the radical thrust of the initiative is not to be lost, you will want to press him further on these issues.

1 Degree of Decentralisation

This is crucial to transforming the existing bureaucratic, corporatist culture into an enterprising one. This more than anything else will help to deliver Thatcherism in the economic field.

The Scottish Office are still arguing that the bulk of projects by value should be handled from the centre. Their arguments are not very convincing.

First, accountability. The same principles apply whether local companies have control of 80% of project money or just 20%: tight performance targets and effective monitoring systems are still required.

Second, strategic effectiveness. The Scottish Office argue that the central Scottish Enterprise body must retain its existing ability to provide factory space and industrial finance, and to carry out environmental renewal. They argue that these functions are essential to attracting inward investment. But:

- the government's intention, as John Major's letter points out, is that the SDA should be divesting itself gradually of its industrial property and investments;

- there is no intrinsic reason for the retention within the public sector of a central core of environmental renewal expertise. Why not privatise this function too? The local enterprise companies could then buy in the necessary expertise to help manage complex projects;

- it is right that Scottish Enterprise should continue to be the single body to market the attractions of Scotland for inward investment purposes. But there is no reason why it must also deliver every element of the final package that is offered to inward investors. Local enterprise companies could deliver elements of this on the basis of competitive bids. Scottish Enterprise would merely have a co-ordinating role.

Recommendation

(a) Stick by your suggestion of an explicit target of say 80 per cent by value for projects to be carried out by local enterprise companies.

(b) Ask Malcolm Rifkind to report back to you with his detailed proposals on how he intends to achieve this.

2 Membership

Malcolm Rifkind's note suggests that there is no intention to prescribe that all local enterprise companies should

adopt this approach. But the draft prospectus which the Scottish Office proposes to issue to prospective consortia does prescribe that local enterprise companies must have some form of membership.

Recommendation

Agree to the concept of membership subject to the following conditions:

(a) membership is not a compulsory requirement, but an option open to local enterprise companies should they wish it;

(b) members' rights are constrained so that they are unable to hire or fire the Board of Directors, or interfere with its decisions;

(c) the membership should have a private sector majority.

3 **TVEI**

Malcolm Rifkind has agreed that responsibility should not be vested in the Scottish Education Department. But he merely suggests switching responsibility for it to another part of the Government bureaucracy. I still feel that if the school curriculum is ever to become more relevant to the world of work, then the greater the involvement of industry the better.

Recommendation

Continue to argue that Scottish Enterprise should be given responsibility for TVEI.

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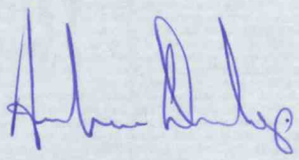
Conclusion

The Scottish Enterprise Initiative is all about breaking up the old corporatist attitudes in Scotland. It will not succeed if the Government allows the terms of the debate to be dictated by the extent to which the existing powers of the SDA have, or have not, been preserved.

It will only succeed (and enthuse and engage people of quality) if the proposals are constructed and sold as a radical change which hand real power to the people. It is crucial, therefore, that the new system has a "lean" centre with the bulk of resources and executive responsibility concentrated at the points of delivery.



ANDREW DUNLOP

Prime Minister

SCOTTISH ENTERPRISE

I was grateful for your comments (as recorded in Paul Gray's letter of 10 July) on the terms of my memorandum on Scottish Enterprise.

I agree that it is essential that we make plain our firm intention that the local enterprise companies will have very substantial powers and resources; and I should want these to be increased as the local enterprise companies prove their effectiveness. In fact my proposal that 80% of all projects by number should be dealt with by local enterprise companies represents a major departure in favour of local delegation, by comparison with the proposals in the White Paper. I believe that this will give them more than enough to tackle in the first instance; and will leave with Scottish Enterprise itself only the large projects by value which reasons of both project management and accountability make it much more sensible should be handled on a national basis. The immediate delegation to local level of 80% of projects by value on the other hand would introduce serious problems of parliamentary accountability for the use of very large funds by as yet untested local enterprise companies and would leave insufficient resources for Scottish Enterprise to discharge its national strategic functions as envisaged in my White Paper of last December.

Even at the level of delegation proposed in the memorandum there are substantial issues of public accountability to be resolved if the Scottish Office (and the Treasury) are to be satisfied that the local enterprise companies can be adequately held to account for the public resources concerned. Any increase in delegated powers and resources would be bound to result in an at least commensurate increase in these difficulties.

it is necessary therefore to move progressively on this, rather than to take a leap in the dark by shifting so much additional power and resources out to the local enterprise companies immediately.

For the purposes of my statement the best way forward on this would be to include a reference as follows:

> "I found great attraction in the SDA's approach that the enterprise companies should operate within spending limits which would enable them to take responsibility for the great majority of projects and that responsibility for major projects outside these limits should be retained at the centre. I should want the extent of delegation to local enterprise companies to be increased progressively over time, as they prove their effectiveness."

(ii) On membership, I had not seen my proposals as doing more than offering consortia a practical means of implementing our policy objective set out in the White Paper that the fullest possible range of interested parties in the area should be involved. Present indications are that potential consortia find this an attractive concept. There is however no intention to prescribe that all local enterprise companies should adopt this particular approach.

(iii) I certainly have it in mind that the arrangements on pay (and staffing generally) agreed in due course between Norman Fowler and John Major in relation to TECs should apply mutatis mutandis to local enterprise companies. And I agree that we shall want to fill senior posts in Scottish Enterprise on the basis of open competition. I do not think, however, that I need refer to this in the statement.

(iv) I can readily confirm that both my statement (and in due course the prospectus inviting the private sector to participate) will make it clear that alternative proposals for boundaries are welcome and will be considered on merits.

As regards TVE1, I am still inclined to feel that it should come to the Scottish Office, rather than to Scottish Enterprise. The administrative complexity of the function, and the particular expertise it requires in curriculum design and assessment, will sit uneasily with Scottish Enterprise. I am confident that we can ensure the retention of its enterprise orientation by locating it within the Industry Department for Scotland which, as I am sure David Young will attest, has been energetic and effective in forwarding the Enterprise and Education Initiative in Scotland and where it will be under the supervision of Ian Lang as Minister of State responsible for both industry and education. I hope that on this basis you will be able to agree.

I am copying this minute to E(A) colleagues, and to Sir Robin Butler.

M R

M R

Scottish Office
14 July 1989

SCOTLAND : POLICE PT2

17 JUL 1989

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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

12 July 1989

Thank you for sending me a copy of your letter of 5 July to Norman Fowler about Scottish Enterprise.

As you can imagine, we are following your proposals with great interest, and I found your memorandum a most helpful exposition of how you are intending to proceed. For our part, I have been very active in urging the formation of Training and Enterprise Councils throughout Wales and am optimistic that these will be in place by the end of next year.

Given that the approach which we are following here in Wales is more akin to that in England than to your own, I do not have any specific points to make on your memorandum and am content for it to go forward as it stands.

I am copying this letter to the Prime Minister, to the other members of E(A) Committee and to Sir Robin Butler.

The Rt Hon Malcolm Rifkind MP
Secretary of State for Scotland
Scottish Office
Whitehall
LONDON SW1A 2AU

dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Malcolm Rifkind QC MP
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Our ref NP2AEJ
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Date 12 July 1989

Dear Malcolm

SCOTTISH ENTERPRISE

Thank you for copying to me your letter of 5 July to Norman Fowler.

I am quite content with the broad thrust of the proposals set out in the memorandum enclosed with your letter.

There are one or two points of detail on the delivery of DTI programmes in Scotland, and my officials will be in touch with yours about these. But this need not hold up your announcement.

I am copying this letter to the Prime Minister, other members of E(A) and to Sir Robin Butler.

Yours ever

Tim

the Enterprise initiative

cst.ps/2jm12.7/lets

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

11 July 1989

Dear Secretary of State,

SCOTTISH ENTERPRISE/HIGHLANDS AND ISLANDS ENTERPRISE

Thank you for copying to me your letter of 5 July 1989 to Norman Fowler. Our officials have now had a meeting to discuss it.

I welcome your proposals for Scottish Enterprise and Highlands and Islands Enterprise which should signal an increasing role for the free enterprise sector in the Scottish economy.

On staffing, I am pleased to note that you have moved away from your earlier proposal to offer Scottish Development Agency (SDA) and Training Agency staff in Scotland a guaranteed job with Scottish Enterprise. The approach you now intend to follow reflected in the wording of the memorandum is acceptable to me. I am also content that the local enterprise companies' flexibility on pay should be the same as that of Training and Enterprise Councils.

I would like to suggest some detailed drafting changes to the memorandum for incorporation in your draft Parliamentary announcement. These are annexed. The main issues are:

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(i) The SDA is planning major disposals of its equity and factory portfolios; the Agency is also re-thinking its role on the provision of new factories. I suggest that, to avoid the risk of misunderstanding you should make clear that you are referring to the retention of existing statutory powers; your reference to the "complete range" of Agency powers being handed over to the new body go much further than paragraph 4.6 of the White Paper which refers to powers broadly as in existing legislation; we should at this stage stick to the White Paper text.

(ii) We should say that the resources available will initially be broadly those that would have been made available to the SDA/HIDB and the Training Agency in Scotland; and that over time, public funding should decline. Again, this follows the White Paper (paragraphs 3.8 and 7.1).

(iii) It would also be best to refer explicitly to Scottish Enterprise continuing the SDA's policy on disposal of assets.

(iv) You are suggesting separately that the successor bodies to the Scottish New Towns should be local enterprise companies under Scottish Enterprise but separate from the main network of local companies. It would be helpful to set out in this announcement how the detailed arrangements will form an integrated and coherent system.

(v) I suggest that you go further in emphasising that Scottish Enterprise will continue the Agency's policy of withdrawing in favour of private sector provision wherever practicable and the Government's policy of encouraging greater employers responsibility for training and its cost. It will be important to make clear that we envisage the private sector to bear a larger funding role in both enterprise and training functions.

(vi) There will be important issues to resolve on propriety, public accountability, value for money and control of public expenditure. Our officials will need to work closely together in order to ensure that public money is properly spent and accounted for.

The underlying structure of Scottish Enterprise bears many resemblances to a public sector body albeit with private sector people on the boards of the local enterprise companies. The problems of securing efficiency in the absence of a profit motive, an effective market and real competition are problems similar to those faced by the public sector more widely. You will I think wish to develop policy guidance to Scottish Enterprise about maintaining efficient and effective operations; our officials can discuss the guidance.

I am copying this letter to the Prime Minister, other members of E(A), to Kenneth Baker and to Sir Robin Butler.

Yours sincerely.

P. Walker

pp JOHN MAJOR

[Approved by the Chief Secretary and signed in his absence.]

Annex

SCOTTISH ENTERPRISE/ HIGHLANDS & ISLANDS ENTERPRISE

Detailed Comments on Draft Memorandum
Circulated by Mr Rifkind on 5 July 1989

Page 2, 2nd paragraph, line 8: Replace "public accountability issues", by "important issues of public accountability, propriety, control of public expenditure and value for money".

Page 2: Add reference to arrangements for new towns.

Page 3, 2nd paragraph: Replace first two sentences by text drawn from White Paper paragraph 4.6: " As regards statutory powers, many respondents shared my view that Scottish Enterprise (and Highlands and Islands Enterprise) should have broadly the statutory powers of the SDA, the HIDB and the Training Agency. I propose also to accept the view that Highlands and Islands Enterprise should discharge the environmental role in its area that is currently undertaken by the SDA.

Page 3, 2nd paragraph, line 10: After "exercise", add "and funding".

Page 3, 2nd paragraph, line 11: After "about." add: "We will continue the SDA and HIDB policies of developing markets by disposing of public sector assets where appropriate."

Page 4, 2nd paragraph, line 3: Delete "all".

Page 5, add new paragraph at end: Funding. The resources available will initially be broadly those that would have been made available to the SDA/ HIDB and the Training Agency in Scotland; over time, public funding should decline in favour of greater funding by the private sector.

Scottish New Towns

3.46 pm

The Minister of State, Scottish Office (Mr. Ian Lang): With permission, Mr. Speaker, I should like to make a statement about the Government's decisions on the future of the Scottish new towns. We are publishing today a White Paper, "The Way Ahead", which sets out our decisions in more detail and builds on the earlier consultation document "Maintaining the Momentum".

We welcomed the substantial response to the consultation document, although it meant that the consultation process itself was extended. We are well aware of the key role played by the five new towns in achieving economic success for Scotland and it is for that reason that, following a major review, we have taken a measured and distinctively Scottish approach to their future.

While recognising—few have questioned it—that the time has now been reached to begin an orderly progress towards wind-up, our central purpose is to ensure the continuing economic vitality the towns have achieved. We acknowledge their importance to Scotland's international industrial image. The achievements of the new towns have been outstanding and reflect the commitment and dedication of the boards of the development corporations and of their staffs. I gladly pay tribute to them.

The towns recent remarkable progress in creating jobs and prosperity has accelerated their growth to maturity. In 1988 I asked the development corporations to determine their key objectives for the next five years, and identify the major remaining development tasks necessary to achieve physical maturity. The Government broadly endorse the resulting development profiles and I know that the corporation staff are anxious to press ahead with these programmes. I can assure them of our support for the work that remains to be done to secure the remaining development of the towns.

Against that background, we have decided that wind-up will begin for East Kilbride and Glenrothes in 1991 and be completed in 1994. Cumbernauld will begin wind-up in 1993, Livingston in 1995 and Irvine in 1996. I believe that that timetable sets a sensible pace, based on the corporations' own appraisals of what remains to be done, but our legislative proposals will afford some flexibility, again reflecting our aim to implement wind-up in such a way as to take account of each individual town's circumstances.

In seeking to maintain the economic momentum and meet the ends of enterprise after wind-up, the Government considered a range of options. We have decided that the most effective way will be through the establishment in each new town area of a local development company. This will be a private sector company formed to own, manage and develop the residual industrial and commercial assets of the former development corporations. In addition, the local development company will fulfil, for a limited number of years, certain public sector functions in its area, under contract to the successor body to the Scottish Development Agency. The kind of functions that we envisage include the promotion of the area, the provision of premises and support for small business and, especially, for inward investment. Local development companies of this kind will, I believe achieve our economic objectives in an effective and dynamic way. In considering their formation, we shall be willing to give full consideration to management buy-out proposals.

The White Paper details our proposals for the future of communty assets, such as public open spaces, halls and local sports facilities. For those, we propose a diverse solution including possible disposal to local charitable, religious or community organisations or sports clubs. The private sector and local district councils may also have a role to play.

On planning, the White Paper makes it clear that the planning system that presently operates in Glenrothes new town, which does not have a Special Development Order, will progressively apply in the other four towns as the wind-up process proceeds. The Special Development Orders will be revoked at the time of dissolution, by which time we envisage that much of the development of new town areas will be complete.

The White Paper sets out arrangements for the reconstruction of Scottish new town finances, following the financial management survey of 1986 and a thorough study by consultants on the necessary amount of debt write-off that forms part of that wider reconstruction. The approach involved is similar to that adopted for the reconstruction of the English new towns' debt in 1986, which was authorised by the New Towns and Urban Development Corporation Act 1985.

Much of the local interest in our proposals centres, understandably, on housing. I confirm our earlier commitment that, until wind-up, each individual new town tenant will have the right to remain the tenant of a development corporation. As dissolution nears, however, choices will have to be made. The Government see two distinct periods here. In the first, running to wind-up, the White Paper makes the corporations' priorities clear. The resounding success of our sales policies and the encouragement of private sector housebuilding will see home ownership this year rise to more than 50 per cent. in the five towns as a whole, compared with only 8 per cent. a decade ago. That is an outstanding achievement. We are equally concerned to see more variety and choice in the rented sector through housing associations and co-operatives. The development corporations have identified a number of locations suitable for the possible establishment of community-based housing initiatives. We shall encourage tenants associations to consider setting up locally based housing associations or co-operatives, where they will be able to participate in the management of their homes and shape the sort of neighbourhood in which they live.

A survey commissioned by the Government of tenants' attitudes in four of the new towns revealed considerable uncertainty among corporation tenants about their future wishes, as well as a lack of awareness of the full range of rented housing options available. Extensive local consultation is needed and, as part of an information programme for tenants, in the autumn they will receive a detailed information leaflet on the options open to them. I am placing a summary of the tenants' survey findings in the Library today, and the full results will be published later in the summer.

At wind-up, when stage two is reached, the option of a partial transfer to district councils is not ruled out. The alternatives, which also include housing associations, co-operatives, private and other landlords, will each be considered on the basis of their potential contribution to

the farm and again on their arrival at the abattoir. Animals who die from anthrax are cremated by the local authority, and subsequently their surroundings are cleansed and disinfected. Treatment with antibiotics is being undertaken, and an emergency batch of vaccine is being produced at the Weybridge laboratories.

The disposal and disinfection of the slurry is the responsibility of the local authority, but the disposal of the remaining waste is, claims the local authority, the responsibility of the owner, Mr. Priestley. Places where the slurry may be disposed of are still being investigated, and it is hoped to begin disposal in the very near future.

There is no compensation mechanism in respect of anthrax, because, while it is a notifiable disease, its nature is such that it is not highly infectious or transmittable animal to animal—[HON. MEMBERS: "Oh!"] If hon. Members doubt that, they have only to compare the total number of pigs that have died since 19 April with the very large intensive unit of 4,750 pigs.

Several Hon. Members *rose*——

Mr. Speaker: Order. I remind the House that this is a private notice question, which is an extension of Question Time, I can allow questions to continue for only a further four minutes.

Sir Anthony Meyer (Clwyd, North-West): My hon. Friend is of course aware of the seriousness of the matter, but the public will rightly deplore any attempt to frighten them or to exploit the situation for political purposes. Is my hon. Friend aware that while my right hon. and hon. Friends are confident that he will be careful to watch over the situation, we expect him to exercise the utmost vigilance?

Mr. Roberts: I am grateful to my hon. Friend for his remarks, which confirm my own view that there is no need to be alarmist, and assure him that we shall do everything possible to curtail the current outbreak and to deal with the ensuing problem of the slurry.

Mr. Geraint Howells (Ceredigion and Pembroke, North): Over the years there have been many outbreaks of anthrax in Wales, and my experience is that the Department's officials have always done an excellent job to help all concerned. I am sure that the Minister will give the people of Wales, and of Clwyd in particular, his assurance that his officials will do their utmost to safeguard everyone's interests.

Mr. Roberts: The hon. Gentleman is right in saying that. There have been seven anthrax outbreaks in Wales since 1983. They were all in cattle, whereas the latest outbreak is in pigs. I agree with the hon. Gentleman that the state veterinary service does a very good job on such occasions. By imposing restrictions on the movement of animals, and by inspecting animals at the farm and prior to slaughter, the service is safeguarding both the public and the food chain. We shall continue to seek a resolution to the remaining problems in conjunction with the local authority, which of course has a significant role to play.

Dr. John Marek (Wrexham): Are there enough scientific civil servants to test immediately if an outbreak is suspected? Can the hon. Gentleman assure us that, if an outbreak is confirmed, there are sufficient scientific civil servants to monitor and advise? If the outbreak is traced back to food, will the hon. Gentleman get the animal feed industry into a fit shape to provide proper feed for animals so that the public can be assured of the quality of the food that they eat?

Mr. Roberts: It would be wrong for us to anticipate the source of the outbreak when all the investigations that have been carried out so far have failed to reveal it. The hon. Gentleman is right to say that the source is frequently the food given to the animals. If that source is discovered, of course we shall take appropriate action. I assure the hon. Gentleman that there are adequate numbers of veterinary staff to deal with this kind of emergency.

Mr. Jerry Wiggin (Weston-super-Mare): Does my hon. Friend agree that part of his problem comes from the fact that anthrax, although a notifiable disease, is not one for which his Department can pay compensation for compulsory slaughter? Will he urge my right hon. Friend the Minister of Agriculture, Fisheries and Food to review thoroughly the categories of disease that should qualify for compensation, because this probably should never have arisen?

Mr. Roberts: I am not sure that the problem that we face necessarily has a great deal to do with the absence of compensation arrangements. After all, only 17 pigs out of a herd of 4,750 have died.

Mr. Ron Davies (Caerphilly) *rose*——

Mr. Speaker: Order. We must move on to the statement.

[Mr. Lang]

residents of the new towns—the opportunity to become more closely involved with the environment in which they live. Some will, I believe, wish to take advantage of the opportunity to buy the assets that they have enjoyed over the years.

The hon. Gentleman asked for more details of the housing survey carried out by Market Research, Scotland, and I am happy to give him some figures. It is interesting to note that, if invited to make a choice now, more than two thirds of those surveyed would not exercise it—and would therefore be content to remain with the development corporation—while fewer than 20 per cent. would elect to go to the district council. If obliged to choose now, 58 per cent. would choose to go to the district council; but they are not obliged to choose now. If they had to choose at the time of the wind-up, fewer than half would choose to go to the district council. The hon. Gentleman's challenge was that tenants' wishes were not being accepted, but their wishes seem far from clear or precise. That supports our proposal to carry out an information campaign to ensure that all the objections are brought to the attention of the tenants.

Far from being a "piecemeal and disorganised" proposal, these measures, to which much consideration has been given, offer the best prospect for the new towns to move forward to a new environment and to maintain the momentum that they have so firmly established.

Sir Hector Monro (Dumfries): Does my hon. Friend agree that the new towns have been a great success in both industry and housing, and that there is no reason why they should not be further enhanced under the proposal that he has announced? Will he try, through the SDA, to promote throughout the rest of Scotland some of the excellent ideas that have borne fruit in the new towns? Finally, can he assure me that new towns with airstrips, which are important for executive travel in Scotland, will ensure that they are still available in the long-term future?

Mr. Lang: I am grateful to my hon. Friend welcoming the proposal. I certainly agree with his suggestion that the enterprise and ideas that we seek to advance in the new towns should be promoted throughout Scotland, and, if my hon. Friend can contain himself until my right hon. and learned Friend the Secretary of State is able to make his statement on the Scottish Enterprise proposals, I think that he will then see the kind of enterprise initatives that we are keen to foster.

I also agree that the airports are a valuable asset. I have flown from the airport at Cumbernauld, and I believe that those assets should be developed, and will be to the advantage of the new town areas in future.

Mrs. Margaret Ewing (Moray): As one who has lived in, worked in, and at one stage had the honour of representing, one of the new towns, I am appalled by the Minister's proposals. Does he not accept that one of the greatest strengths of our new town communities has been the sense of identity and community that was fostered so carefully in them? Where will that sense of identity and community be respected in the proposed local development companies and the proposed sell-off of community assets?

Mr. Lang: I believe that a sense of community is to be found not only in new towns but in all other towns and cities around Scotland. When the new towns no longer have the special status that they have enjoyed in the past, I believe that the maturity and sense of community that they achieved will be sustained and carried forward into the future. Nothing that we are doing will undermine that.

Mr. Bill Walker (Tayside, North): Does my hon. Friend agree that, while we in Scotland have welcomed the development of the new towns, there has always been a feeling in the old towns and boroughs that the new towns have advantages not enjoyed by others that had been established for much longer? My hon. Friend's proposals will provide more of a level playing field, and other towns will now enjoy some of the advantages that may formerly have been the sole benefit of new towns. Does my hon. Friend also agree that the introduction of private sector enterprise, skills and initiative will help the new towns to build on what they already have?

Mr. Lang: I agree entirely with my hon. Friend. The new towns are extremely important to the economy of Scotland. Over the last seven years, some 40 per cent. of inward investment has gone to them. That has created over 30 per cent. of the jobs that have been derived from inward investment. We are keen to foster and preserve that kind of achievement in the new arrangements. I am grateful to my hon. Friend for his support of them.

Mr. Adam Ingram (East Kilbride): The 45,000 tenants of the new towns in Scotland and the 250,000 people who live and work in the new towns will view the statement with anger and dismay. Will the Minister give an assurance that the assets will be transferred at full market value at the time of wind-up? Will he also confirm that he is saying to new town tenants that on wind-up they will not be allowed to choose the district council as their landlord?

Mr. Lang: I believe that, far from being angry, the tenants will be pleased that they are not being pressed to make a decision on their future housing, given the uncertainty about their preferences. I canot tell the hon. Gentleman what the value of the assets will be at the time of wind-up, but he may rest assured that the Government's purpose is to secure an appropriate value for them. That value will reflect what the market is willing to pay. There is absolutely no mystery about that.

Mr. Robin Cook (Livingston): Does the Minister not appreciate that it is hardly surprising that new town residents are uncertain about which tenure they wish to have, given his refusal to come clean about the choice that will be available to them? If it is indeed the case that the figures that he has received show that less than half would wish to choose the district council, why is he so afraid of putting that choice to every tenant of the new towns? Does he not appreciate that the Government's rhetoric about tenants' choice will sound like humbug to them if he rules out the one option that the largest single body of tenants would wish to exercise?

Mr. Lang: The hon. Gentleman seems not to have heard what I said. We have not ruled out the district council as an option. We believe that all the options must be considered at the appropriate time. What is plain is that

meeting both housing need and the Government's twin objectives of increasing home ownership and providing a wide choice of tenure for those who wish to continue to rent. The present pace of house sales, the new diversification and the rents-to-mortgages initiatives, and the contribution being made by private sector housebuilders are certain to produce a very different housing scene in four years time. The tenants remaining with the development corporation at the time of their dissolution will be transferred to Scottish Homes.

For up to 40 years, Scotland's new towns have grown and matured, providing an attractive environment for their residents and an excellent location for industry, both indigenous and from overseas. The time to prepare for their wind-up, envisaged at the outset, has now arrived. The Government are confident that, with the proposals in our White Paper which I have outlined today, Scotland and the towns themselves, will continue to enjoy the important benefits that the success of our new towns has afforded. It remains our purpose to maintain the momentum.

Mr. John Maxton (Glasgow, Cathcart): If the Government are well aware of the key role played by the five new towns in achieving economic success for Scotland, why are they so intent on destroying that very success with such half-baked and ideological schemes?

Is the Minister aware that there will be considerable anger in Scotland and especially in the new towns at the way in which that success is being jeopardised by the Government because of what appears to be a purely ideological hatred of public bodies and a pathological fear of democratically-elected bodies in Scotland?

How can the Minister justify the cavalier dismissal of local authorities that appears in the document and the absolute non-appearance of local authorities in any future that the Government have in mind for the new towns?

We accept that the new town corporations must cease to exist once they have completed their task, but is not the three-year wind-up period ridiculously short and will it not create enormous difficulties for all who live and work in the towns?

Are not the industrial plans, in particular, a massive rip-off of public assets in the new towns? Will the Minister tell the House today exactly what those assets are worth, what they consist of and what, if anything, the new companies that he is establishing will have to pay for them? Can they possibly do the job that the new town corporations, often together with the SDA, have done in the past?

What business men will come forward to run those companies—[HON. MEMBERS: "Mr. Bill Hughes."]—unless they are being offered substantial rewards? I am sure that that will be true in the case of Mr. Hughes.

Is not one of the attractions of the new towns their open spaces and amenity facilities, including sports facilities? If the planning of those facilities and their use by all in the community is to be maintained, would it not make infinitely more sense to hand them over to the democratically elected local authorities, who know the community's needs, instead of selling them piecemeal to private companies or giving them away to scouts, churches and so on?

Will the Minister give us a little more detail today of the survey carried out of tenant's wishes for future tenure? Like the survey carried out, by the same company using the same methods, for East Kilbride district council, does it not show that on wind-up the vast majority of tenants —up to 90 per cent.—want to be transferred to the local authority, not to any other form of landlord?

Why does the Minister say that he will place the figures in the Library. Is he afraid to give them to the House today? Will he give us a guarantee today that the wishes of each tenant will be fully respected and that all tenants who wish to transfer to the local authority will be allowed to do so? If not, the Government's case for choice goes out of the window.

Does the Minister recognise that his decision to transfer all remaining tenants to Scottish Homes on wind-up means transferring them to private landlords, because Scottish Homes will cease to be a public landlord in the near future?

Will not this piecemeal and disorganised approach to winding up Scottish new towns make it difficult to sustain the planned growth and development that has been their unique contribution to Scottish life, thus damaging their future and Scotland's economic future?

Mr. Lang: The hon. Gentleman asked why we are proceeding with the wind-up of the new towns. He will know that their ultimate wind-up was envisaged at the outset in the legislation that established them. It is plain that East Kilbride and Glenrothes are now close to maturity and that, over the next few years, the other new towns will also be close to maturity. Once the development of their areas has been largely completed, it would be wrong for them to continue to enjoy special privileges not enjoyed by the rest of Scotland's residents, and special funding arrangements which have accumulated substantial borrowings from the national loans fund over the years. We are not seeking to destroy success, but to ensure that the great success achieved by the new towns is sustained after the wind-up. That is what our proposals envisage.

The hon. Gentleman suggested that three years was too short for the wind-up process, but I disagree. Three years will be adequate to complete the wind-up process, particularly when one bears in mind that in the case of the first two new towns it will not start until 1991 and, in the case of the others, until some years later.

There is no question of a rip-off in the disposal of the assets. The corporations will continue to dispose of some of their assets—and, indeed, will be able to fund further developments with the proceeds—but when the local development companies are set up there will be no question of the assets' being handed to them. A price will be paid that will reflect their value at the time, and the proceeds will be for the benefit of the Exchequer.

The hon. Gentleman asked who would come forward to bid. There are a number of possibilities. An existing company may make a bid, a new private company may be established or there may be a management buy-out frame. As I said in my statement, that might have considerable advantages.

We certainly do not rule out the transfer of community assets to local authorities: it is possible that a number will be so transferred, and, if necessary, it may be possible to consider an appropriate endowment to ensure that authorities do not thereby incur excessive losses. I consider it right, however, to give voluntary bodies such as charitable organisations, sports clubs and religious organisations—and, possibly, some of the industrial

NBPH
Told S.O. we had no comment
AT 6/7

cc PM
cc PQ

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Andrew Turnbull Esq
Prime Minister's Office
10 Downing Street
LONDON
SW1A 2AA

11 July 1989

AP's

Dear Andrew,

WHITE PAPER ON THE SCOTTISH NEW TOWNS

I enclose a copy of a statement our Minister of State (Commons) intends to make in the House this afternoon and should be grateful for your early clearance.

I am copying this to the Private Secretaries of the Chief Secretary, Secretary of State for the Environment, Stephen Catling (Lord President's Office), Murdo Maclean (Chief Whip, Commons), Rhodri Walters (Chief Whip, Lords), Bernard Ingham (No 10) and Trevor Woolley (Cabinet Office).

Yours sincerely.
Len Wright.

LEN WRIGHT
Private Secretary

Enc

HMP191M2.043

With permission, Mr Speaker, I should like to make a statement about the Government's decisions on the future of the Scottish new towns. We are publishing today a White Paper, 'The Way Ahead', which sets out our decisions in more detail and builds on the earlier consultation document 'Maintaining the Momentum'

I should say first that we welcomed the substantial response to the consultation document, although it meant that the consultation process itself was extended.

We are well aware of the key role played by the five New Towns in achieving economic success for Scotland and it is for that reason that, following a major review, we have taken a measured and distinctively Scottish approach to their future.

Whilst recognising - and few have questioned it - that the time has now been reached to begin an orderly progress towards wind-up, our central purpose is to ensure the continuing economic vitality the towns have achieved. We acknowledge their importance to Scotland's international industrial image. The achievements of the new towns have been outstanding and reflect the commitment and dedication of the Boards of the Development Corporations and of their staffs. I gladly pay tribute to them.

Their recent remarkable progress in creating jobs and prosperity has accelerated their growth to maturity. In 1988 I asked the development corporations to determine their key objectives for the next 5 years, and identify the major remaining development tasks necessary to achieve physical maturity. The Government broadly endorse the profiles and I know that the corporation staff are anxious to press ahead with these programmes. I can assure them of our support for the work which remains to be done to secure the remaining development of the towns.

Against that background, we have decided that wind-up will begin for East Kilbride and Glenrothes in 1991 and be completed in 1994. Cumbernauld will begin wind-up in 1994, Livingston in 1995

and Irvine in 1996. I believe that timetable sets a sensible pace, based on the Corporations' own appraisals of what remains to be done, but our legislative proposals will afford some flexibility, again reflecting our aim to implement wind-up in such a way as to take account of each individual town's circumstances.

In seeking to maintain the economic momentum and meet the needs of enterprise after wind-up, the Government considered a range of options. We have decided that the most effective way will be through the establishment in each New Town area of a local development company. This will be a private sector company formed to own, manage and develop the residual industrial and commercial assets of the former Development Corporations. In addition, the local development company will fulfil, for a limited number of years, certain public sector functions in its area, under contract to the successor body ~~in~~ to the Scottish Development Agency. The kind of functions we envisage include the promotion of the area, the provision of premises and support for small business and, especially, for inward investment.

Local development companies of this kind will, I believe achieve our economic objectives in an effective and dynamic way. In considering their formation, we will be willing to give full consideration to management buy-out proposals.

The White Paper details our proposals for the future of community assets, such as public open space, halls and local sports facilities. For these, we propose a diverse solution including possible disposal to local charitable, religious or community organisations or sports clubs. The private sector and local District Councils may also have a role to play.

On planning the White Paper makes clear that the planning system which presently operates in Glenrothes new town, which does not have a Special Development Order, will progressively apply in the other 4 towns as the wind-up process proceeds. The Special

Development Orders will be revoked at the time of dissolution, by which time we envisage that much of the development of New Town areas will be complete.

The White Paper sets out arrangements for the reconstruction of Scottish new town finances, following the Financial Management Survey of 1986 and a thorough study by consultants on the necessary amount of debt write-off which forms part of that wider reconstruction. The approach involved is similar to that adopted for the reconstruction of the English new towns' debt in 1986 which was authorised by the New Towns and Urban Development Corporations Act 1985.

Much of the local interest in our proposals centres understandably on housing. I confirm our earlier commitment that, until wind-up, each individual New Town tenant will have the right to remain the tenant of a development corporation. As dissolution nears, however, choices will have to be made. The Government see 2 distinct periods here.

In the first, running to wind-up, the White Paper makes the corporations' priorities clear. The resounding success of our sales policies and the encouragement of private sector housebuilding will see home ownership this year rise to over 50% in the 5 towns as a whole, compared to only 8% a decade ago. That is an outstanding achievement. We are equally concerned to see more variety and choice in the rented sector through Housing associations and co-operatives. The development corporations have identified a number of locations suitable for the possible establishment of community based housing initiatives and we shall encourage tenants associations to consider setting up locally based housing associations or co-operatives where they will be able to participate in the management of their homes and shape the kind of neighbourhood in which they live.

A survey commissioned by the Government of tenant attitudes in 4 of the New Towns ~~this~~ revealed considerable uncertainty among corporation tenants as to their future wishes, as well as lack of

awareness of the full range of rented housing options available. Extensive local consultation is needed and, as part of an information programme for tenants, they will receive a detailed information leaflet on the options open to them in the autumn. I am placing a summary of the tenants' survey findings in the Library today, and the full results will be published later in the summer.

At wind-up when Stage 2 is reached, the option of a partial transfer to district councils is not ruled out. The alternatives, which also include housing associations, co-operatives, private and other landlords, will each be considered on the basis of their potential contribution to meeting both housing need and the Government's twin objectives of increasing home ownership and providing a wide choice of tenure for those who wish to continue to rent. The present pace of house sales, the new diversification an rents-to-mortgages initiatives, and the contribution being made by private sector housebuilders are certain to produce a very different housing scene in four years time.

The tenants remaining with the Development Corporations at the time of their dissolution will be transferred to Scottish Homes.

Mr Speaker, for up to 40 years, Scotland's New Towns have grown and matured, providing an attractive environment for their residents and an excellent location for industry, both indigenous and from overseas. The time to prepare for their wind-up, envisaged at the outset, has now arrived and the Government are confident that, with the proposals in our White Paper, which I have outlined today, Scotland, and the Towns themselves, will continue to enjoy the important benefits that the success of our New Towns has afforded. It remains our purpose to maintain the momentum.

Scot
Reg Post

CONFIDENTIAL

FILE JD. A

dc P.M.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 July, 1989.

Dear David,

SCOTTISH ENTERPRISE

The Prime Minister has seen your Secretary of State's letter of 5 July to the Secretary of State for Employment, and the enclosed memorandum. The Prime Minister has a number of comments on the latest proposals:

(i) She is concerned that the proposals may not reflect adequately the importance which E(A) attached to the new system having a local orientation; they could be interpreted as implying a desire to retain as much control as possible at the centre. She thinks that one way to avoid this would be to set an explicit target of, say, 80 per cent by value for projects to be carried out by local enterprise companies.

(ii) She also questions the introduction of the concept of membership of local companies; she sees little justification for the companies having a membership in addition to a Board of Directors.

(iii) As regards the operation of local enterprise companies, the Prime Minister attaches importance to there being the same flexibility on pay as has been agreed for the Training and Enterprise Councils. She also thinks it essential that senior appointments for Scottish Enterprise should be selected on the basis of open competition.

(iv) She has noted the proposed boundaries of the prescribed map, but thinks it essential that any appeals against it from business should be seriously considered.

(v) Finally, the Prime Minister questions the proposal for the Scottish Education Department to take over responsibility for TVEI; she suggests instead that Scottish Enterprise should have responsibility for this programme.

I am sending copies of this letter to the Private Secretaries to the Members of E(A) and to Trevor Woolley (Cabinet Office).

Yours, Paul

Paul Gray

David Crawley, Esq.,
Scottish Office.

CONFIDENTIAL

KK

PRIME MINISTER 7 July 1989

SCOTTISH ENTERPRISE

The direction in which E(A) decided (to see) the Scottish Enterprise initiative should develop is clear. It is to be:

- locally based;
- private sector led;
- market-oriented.

My main concern is that the spirit of these general objectives should not be frustrated by the letter of the policy proposals.

There are strong pressures to water down the proposals on political grounds. But if these proposals are not sufficiently radical, they will fail to bring about a sea-change in the corporatist culture of the SDA.

It is no secret that the SDA establishment were unhappy with the White Paper. They saw it as a threat to their position. They would have liked to integrate the proposed network of local development companies into their own corporate structure. Such an approach would have flown in the face of what Ministers intended.

Reading between the lines of Malcolm Rifkind's paper I remain very concerned that this kind of approach is the preferred option despite the steer given by E(A). The practical effect would be that the **new local companies would be dominated by the centre.**

My **specific concerns** are as follows:

1. **The Network Map:** The Scottish Office want to prescribe the map. I would prefer to see a less top-down, more market-oriented, approach (as Norman Fowler proposes for TECs) in which businesses decide for themselves what boundaries make economic sense.

By prescribing a map, which conforms closely to the existing SDA regional structure, the Scottish Office are less likely to fire the imagination and enthusiasm of industrialists. Indeed they are more likely to attract those businessmen who have been working already within the existing SDA-led system.

The Scottish Office propose a compromise. A map will be prescribed, but business will be allowed to make their case if they wish to depart from it.

If this device is to be more than just a form of words, it will be essential to stress the importance you attach to this "right of appeal" and your hope that any appeals are considered seriously.

2. **The Degree of Decentralisation**: The original intention was that Scottish Enterprise should form a lean centre, with resources concentrated at the point of delivery - at the level of the local enterprise company. Scottish Enterprise would be primarily a regulator, ensuring efficient performance, quality and standards.

Malcolm Rifkind's paper gives a rather different impression:

- **Funds**: the paper proposes that the local enterprise companies should operate within limits. This would enable them to take responsibility for 80 per cent by volume of the projects undertaken currently by the SDA. The rest would be retained at the centre. But this would mean that by value only 30 per cent of the existing SDA budget would fall within the discretion of the local enterprise companies; 70 per cent would be retained at the centre. (Although the local level would still have most of the training budget).

- **Policy Framework**: the paper refers to the policy framework that Scottish Enterprise would set and within which local enterprise companies would work. It is not specified what it would comprise.

  The objective should be to strike a proper balance between safeguarding public funds and providing local companies with the freedom and flexibility to decide how to achieve their targets. This will be crucial if there is to be real innovation. Unless local enterprise companies are given sufficient delegated authority, the policy framework could be used by the centre as a straight-jacket to control the local tier.

- **Functions**: the paper proposes that the central Scottish Enterprise body should continue to have the full range of powers which the SDA has now for "the strategic functions".

  This strikes the wrong note. It begs the question: "so what's changed?" Moreover it sits oddly with the Government's intention that the SDA should be divesting itself gradually of its industrial investments and of its property. **The presumption should be that, of the current SDA executive functions, what is not sold off to the private sector should be devolved to the local level.** Where the local tier does not itself possess the necessary specialist expertise - on environmental renewal for example - it could contract out.

3. **Membership of Local Companies**: the paper introduces, for the first time, the concept of membership. But it is not made clear what rights and responsibilities the membership would have. I am nervous of this. The paper accepts rightly that the boards should have a two-thirds private sector

majority; other board members should be appointed in their individual capacity, not as representatives of local interest groups.

The introduction of a membership in addition could undermine the effective operation of the company. This membership would not be analogous to shareholders. At best the membership would turn the local enterprise company into a talking shop. At worst there is nothing to stop local authorities flooding the membership with their own place-men and exerting undue influence on the board.

Thought Malcolm Rifkind does specifically reject place men.

I question whether there is any need to have a special membership beyond the board. But if the Scottish Office can mount a convincing case for it, then it should be so constituted to ensure that (a) there is a clear private sector majority amongst the membership (b) the membership could not exert undue influence on the conduct of the local company affairs.

4. **Staffing**: this is a very sensitive issue. Other Departments will have specific comments. Two points would, however, be worth flagging up at this stage.

First, it will be important that the local enterprise companies are given the same flexibility as TECs to determine their own pay structure.

Second, Scottish Enterprise will be a new entity. It, therefore, seems right that senior staff appointments should be made on the basis of open competition. There would, of course, be nothing to prevent the present incumbents competing for the top posts. I know Bill Hughes attaches great importance to achieving an injection of new blood. He does not think, for example, that the existing SDA Chief Executive is the right man to preside over what must be a major change in culture.

5. **TVEI**: Malcolm Rifkind wants the Scottish Education Department to take over responsibility for this programme. Norman Fowler is likely to oppose this very strenuously. He is right to do so. TVEI is all about preparing school children for the world of work. Many of its key components (teacher placements, work experience and the use of appropriate materials) rely on business input. And its central objective is to liven up the final years at school and make them more relevant. **This is more likely to be achieved if it is given to Scottish Enterprise to run than if it is given to the Scottish Education Department.**

CONCLUSION

Malcolm Rifkind's paper makes all the right noises. But I am sceptical that the detail is quite right. His proposals still leave the centre with too big a role. This is unlikely to bring about the radical change that is required.

RECOMMENDATIONS

1. Express concern that the proposals do not appear to reflect adequately the weight which E(A) attached to the local orientation of the new system. They are likely to be interpreted as implying a desire to retain as much control as possible at the centre;

2. One way to avoid this would be to set an explicit target of say 80 per cent by value for projects to be carried out by local enterprise companies;

3. Suggest there seems little justification for local enterprise companies having a membership in addition to the board of directors;

4. Underline the necessity of (a) giving local enterprise companies the same flexibility on pay as TECs (b) selecting the senior appointments for Scottish Enterprise on the basis of open competition;

5. Suggest an explicit right of appeal against the boundaries of the prescribed map.

6. Suggest that TVEI should be given to Scottish Enterprise to run.

ANDREW DUNLOP

PRIME MINISTER

SCOTTISH ENTERPRISE

Following last December's White Paper, Malcolm Rifkind has now come forward with his proposals for implementing the Scottish Enterprise package (Flag A). He presents this as a continuing radical approach. He seeks authority to make a Statement in the next couple of weeks on the basis of his paper.

Andrew Dunlop (Flag B) expresses worries. He suggests that, although the language of Malcolm Rifkind's paper is positive, underneath the surface are a number of changes and trends that leave the centre with too large a role. He sets out a number of specific recommendations on pages 5-6 of his note.

You may like to quickly skim through Malcolm Rifkind's paper to get the flavour of it. But I suggest you then concentrate on the points in Andrew's minute.

Do you want me to minute out in the terms recommended by Andrew Dunlop?

Yes

PAUL GRAY

7 July 1989

SL2AVU

SCOTTISH OFFICE
WHITEHALL LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

5 July 1989

Dear John,

WHITE PAPER ON THE SCOTTISH NEW TOWNS

John Wakeham's letter of 7 March provided a place in next session's legislative programme for our Scottish Enterprise proposals, including express provision for the reconstruction of Scottish new town finances and the wind-up of the development corporations. The necessary precursor is publication of a White Paper, a draft of which I now attach for formal clearance for publication. This draft has been discussed and agreed with your officials.

BACKGROUND

Following publication of our Consultation Document "Maintaining the Momentum" on 28 October 1988, we received over 2,600 responses by the end of January. Ian Lang has conducted a considerable number of meetings with industrialists in the new towns, development corporation staff representatives, tenants and residents associations, local authorities and senior board members of the corporations themselves. The ground has been very thoroughly prepared and we are committed publicly to publication of the White Paper in July. The main points of the White Paper and some comment on them are in Annex A.

The Scottish new towns are more important to the overall performance of the Scottish economy than their counterparts in England and Wales. This is particularly true of their contribution to our inward investment effort. In the 7 years 1981-88, the towns secured 40% by value of all inward investment in Scotland and 31% of all jobs thus created. As engines of growth, they have made a crucial contribution to recent economic prosperity. Their anticipation of new trends (notably their pioneering work in high quality science parks such as Peel Park in East Kilbride and Kirkton Campus in Livingston) combined with the speed of their response to industrialists' needs has established them in a unique position in promoting enterprise and development in Scotland.

Scotland has 9.5% of the combined population of Scotland and England yet we have 5 new towns compared to 21 in England, and had just under 11% of all jobs in the 26 new towns in 1987. The Scottish proportion has increased still further since then and is estimated at 11.4% for mid-1989. Some 5.3% of Scotland's population lives in the new towns as against 3.6% in England and, more importantly, because of the low net population growth in Scotland, their importance in Scotland is growing steadily; they are expected to form at least 5.5% of the Scottish population at the 1991 Census.

Each Scottish new town also makes a telling local contribution, contributing materially towards the reconstruction and renewal in their hinterlands, most notably in Lothian (Livingston) and Ayrshire (Irvine). In Irvine, the development corporation has created net some 1,600 new jobs in the last year and since 1986 has halved local unemployment. Workers now travel in from up to 20 miles away to share this wider prosperity.

It is this vital role in the Scottish economy that prompted my concern to ensure that the economic momentum can be effectively sustained following dissolution of the development corporations. Thus, our proposals seek to identify opportunities for successor bodies which reflect our commitment to private enterprise, provide early openings for corporation staff to make their energies and expertise available to support our Scottish Enterprise initiative and narrow the focus of activity to economic promotion related to employment. Chapter 4 of the White Paper sets out my proposals in this field. I believe that they achieve valuable presentational consistency, help maintain an important continuing flow of investment and new jobs into Scotland via the new towns and help considerably with our continuing campaign to reduce the dominance of the public sector as industrial landlords in Scotland. Considerable thought and care has gone into the formulation of policy in this complex area. The policy is innovative and enterprise led but yet distinctively Scottish, and seeks to build from the proven track record of the corporations.

As colleagues are aware, I intend to make a statement on our Scottish Enterprise proposals before the House rises for the Summer Recess. To ensure the maximum publicity for both the new towns and Scottish Enterprise statements, I should like to have a decent interval between them. Accordingly, I should be grateful for formal agreement to this New Towns White Paper no later than close of play on Friday 7 July, which will enable Ian Lang to make a statement on 11 July if - as I understand seems likely - this proves possible from the business managers' point of view.

I am copying this letter to the Prime Minister, all Cabinet colleagues and Sir Robin Butler.

Yours ever,

MALCOLM RIFKIND

HMP186L5.042

ANNEX A

WHITE PAPER ON THE SCOTTISH NEW TOWNS

Chapter 1 sets out the background and the scale of the outcome to the consultation exercise.

Chapter 2 reviews the forward development programmes of the 5 corporations as set out in their updated development "profiles" preparation of which also formed an important contribution to the consultation process. In considering the range of possible criteria by which corporations could be considered to be ready to begin the wind-up process, we concluded that physical maturity was most appropriate. Thus, corporations were asked to identify the outstanding development tasks which in their view were essential to the achievement of maturity. Some had comparatively few, notably Glenrothes and East Kilbride (the two oldest corporations); the others still have programmes which will require most of the next decade to complete. Government endorsement of these profiles has been sought by corporation boards, as providing a continuing challenge to officials, to sustain their enthusiasm and commitment to the towns. The White Paper generally endorses the objectives of the profiles, but makes it clear that individual projects will have to satisfy the normal approval requirements and be subject to the availability of resources.

Chapter 3 sets out the forward timetable for wind-up, with specific years identified for each town to begin the wind-up process. It also confirms our view that wind-up should not take any longer than 3 years to conclude. The timetable set out should ensure that, from the date of the first order in 1991 to the dissolution of the last corporation (Irvine) in 1998/9, the entire process will be accommodated in less than a decade. Flexibility will be built in by a new legislative device - a dissolution confirmation order - which can be made at any time after a wind-up order is made but no later than 12 months before the date set in the dissolution confirmation order itself.

Chapter 4 sets out our vision for the best means of maintaining the established economic momentum of the towns. For Scotland, we deliberately eschew the idea of a Commission for the New Towns, since it

could not sustain a commitment to continuing local development; nor would it fit well into the wider scene presented by our Scottish Enterprise initiative. PA Management Consultants thoroughly appraised the options and concluded that a private sector based local development company, possibly but not necessarily formed by a management buy-out team, best met our policy objectives.

We wish to see successor bodies firmly based in the private sector, with proven industrial development and promotional expertise, with a positive commitment to the local area, a thorough grasp of how its local economy functions, its potential and how to maximise returns from those opportunities. As a private sector contractor, it will be able to tender for public sector business in exactly the same way as we envisage for our locally based companies carrying out certain functions for the central board of Scottish Enterprise.

Chapter 5 deals with housing. It is envisaged that Scottish Homes will assume an increasing role as dissolution approaches and will become a temporary landlord of those houses still in development corporation ownership at dissolution. The towns have made major strides towards expanding home ownership and will collectively achieve the 50% level this year. The best performer, Cumbernauld, has already passed 60%. Between now and dissolution, I expect to see sales under both Right to Buy and voluntary sales continuing to break records. However, using Scottish Homes, the White Paper makes clear that we will seek to extend choice by expanding the activities of housing associations and stimulating the growth of housing co-operatives and self-build and other participatory initiatives. Management agency agreements offer scope for new private sector companies to demonstrate their potential for improved service to tenants, and we have endorsed such agreements being considered. Through these means, our aim of at least 60% private ownership in each town at wind-up should be comfortably achieved. The existence of Scottish Homes enables us to effect a continuum of Government control which will transcend the dissolution process itself and enable us to effectively promote new initiatives, such as the Rents to Mortgages scheme, through detailed knowledge of tenant circumstances.

Chapter 6 deals with a range of minor community related assets. The primary intention is to encourage voluntary and community based groups

to assume responsibility for certain assets, with local authorities receiving the residue of what is a fairly small part of the overall asset portfolio. The progressive transfer of packages of these assets has already started and significant progress has been made. Our proposals here are predicated by well established DoE practice for the English new towns; the active voluntary sector in Scotland affords us useful opportunities for diversification and resident participation.

Chapter 7 deals with planning procedures. In England, the Commission for New Towns has been able to utilise the planning system employed by development corporations to maximise receipts. I propose in the same way to provide for planning capability to pass to industrial successor bodies, particularly our preferred local development companies. These transitional arrangements will be strictly time limited and their existence reflects the absence of a Commission in Scotland. These arrangements to deal with planning in the key industrial areas are exceptional and are consistent with our objectives for economic development in Chapter 4. In all other respects planning will revert to the normal system of structure and local plans. Approved local plans will be in place for all new town designated areas in advance of dissolution to ensure that individuals are left in no doubt as to the identity of regulatory bodies at each stage of the wind-up process.

Chapter 8 deals with the 2,100 staff, whose continuing commitment to development should be given fresh impetus by the prospects for the corporations development profiles in Chapter 2. DoE's experience showed that retention of key personnel and, in particular, the "can do" parts of the professional estates and development teams was the best guarantor of both a sustained economic momentum through the transition of the wind-up process to continued future prosperity both for the towns and the individuals concerned. We have already seen the privatisation of some functions with associated staff (eg in computers) and the White Paper makes plain our belief that there is considerable scope for more such businesses to be created. We are in close touch with staff at all levels in the corporations and are confident that the younger, more able managers, will respond to the challenges and opportunities which dissolution affords.

Chapter 9 deals with both the debt reconstruction and write-off exercise necessary to provide for the proper operation of development corporation finances in the period leading to dissolution. The framing of our detailed provisions has benefited from expert consultancy advice from Coopers and Lybrand and DoE's legislative experience of a parallel exercise in 1980-81.

WHITE PAPER ON THE SCOTTISH NEW TOWNS

Secretary of State's Foreword.

1. The Review of Scottish New Towns: Consultation and the response.

2. The Forward Development Programme.

3. Timing of the Wind-up Process.

4. Economic Development.

5. Housing

6. Community Life and the Environment.

7. Planning.

8. Staff.

9. Financing the operations of the development corporations.

Annex 1 - List of organisations which responded to the consultation paper.

Annex 2 - The Scottish new towns - historical note

Figure 1 - Location of the Scottish new towns.

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SECRETARY OF STATE'S FOREWORD

The five Scottish new towns have made a clear mark in the post-war economic development of Scotland. Their success is measured in an unparallelled record of attracting investment and employment in a highly competitive international market, and in stimulating Scottish-based economic and industrial growth. The new towns have grown to maturity through dynamic, enterprising and progressive leadership. The contributions made by board members and staff have been crucial in sustaining long-term prosperity in the towns, through their enthusiasm, determination and skill; the Government are grateful for this contribution and effort.

It has always been understood that once a development corporation had fulfilled its task, it would be dissolved. Wind-up is not therefore a new concept, but one which was implicit in the original legislation establishing the new towns. The Government feel that the time is now right to embark on a programme for wind-up, and our proposals are aimed at securing the most appropriate wind-up timescale and successor arrangements for each town.

I have every confidence that under the Government's proposals past success will be maintained and that the towns will continue as caring, well-rounded communities, where the spirit of enterprise, resourcefulness and commitment to development will flourish well into the future.

X0300106.069

1. THE REVIEW OF SCOTTISH NEW TOWNS: CONSULTATION AND THE RESPONSE

1.1 This White Paper sets out the Government's decisions on the review of the Scottish new towns which was announced by the Secretary of State for Scotland on 13 May 1988. The review was carried out by consultation with the New Town Development Corporations, and the publication of a consultative document in October 1988, on which comments were invited not later than 31 January 1989.

1.2 The consultative document "The Scottish New Towns: Maintaining The Momentum", published on 28 October 1988, attracted wide attention. Copies were widely distributed. In the new towns it was made available to tenants, residents and their representative groups, community and voluntary organisations, commerce and industry. There were more than 2,600 replies - 131 from organisations and 40 from individuals together with 2526 in the form of standard replies. The Government are grateful for this reaction. Annex 1 lists those organisations which responded.

1.3 Special notice has been taken of the views of new town tenants in framing the proposals in this White Paper. An independent opinion survey of some 3,000 tenant households was carried out for the Scottish Office in Cumbernauld, Glenrothes, Irvine and Livingston, to complement a similar survey undertaken in East Kilbride for the District Council. Both surveys have provided valuable detailed information about residents' views on home ownership, housing management, and preferred choice of landlord. A summary of the main findings of the Scottish Office survey is being published separately with this White Paper. **The full survey findings will be published later this year.** The Government have also had the benefit of the views of all others who responded to the consultation document and to the views expressed at several meetings between Scottish Office Ministers and various interested groups. There has also been close and continuing dialogue over this period with the corporations themselves.

1.4 Having considered very carefully all the views that emerged during consultation, the Government now propose to give effect to the proposals in this White Paper. **Legislation will be brought forward at the earliest opportunity to amend the New Towns (Scotland) Act 1968.**

X0300106.069

2. THE FORWARD DEVELOPMENT PROGRAMME

2.1 The five Scottish new towns, established between 1947 and 1966, were designed to assist the dispersal of industry and population from overcrowded cities and towns and to provide modern sites for economic expansion.

East Kilbride, Scotland's first new town (designated in 1947), relieved congestion in overcrowded areas of Glasgow and North Lanarkshire. Forty-two years of steady economic and industrial growth have established it as a very attractive centre for business and industry.

Glenrothes (designated in 1948) was designed to provide new opportunities for workers in the declining Scottish coalfields. The East Fife regional road, due to be completed in 1992, will greatly enhance links with the rest of central Scotland and will further advance the major contribution which Glenrothes already makes to economic growth in Fife.

Cumbernauld, designated in 1956, originally comprised two small villages with a combined population of 2,500. Today the relatively young population of almost 50,000 (44% are under 25 years old) has over 50% of homes in private ownership. Good transport links and the proximity of Glasgow have helped to attract a wide diversity of industry.

Livingston was designated in 1962 to revitalise the local economy of West Lothian, much affected by the decline of traditional coal and shale mining. Standing on the main Glasgow-Edinburgh road, Livingston is regarded as a prime location for both traditional and hi-tech industry. It is now the second largest town in Lothian Region and the dominant growth point of West Lothian.

Irvine, Scotland's youngest new town, designated in 1966, has a coastal location. It has revived Irvine and Kilwinning, two older settlements within its area, and is rapidly attracting diverse businesses especially in engineering, electronics and paper making.

2.2 At the request of the Scottish Office, the development corporations surveyed their state of development at spring 1988, and identified the tasks essential to achieve a mature township and developments considered desirable by the date of wind-up. Completion of the towns' infrastructure, particularly roads and sewerage, was a major priority. The corporations also wanted a full range of civic, community, health, educational, sports and leisure facilities for their townspeople. For industrial, commercial, retail and housing developments, the corporations envisage for themselves an increasingly important role as facilitators in various ways in preparing sites and planning for developments which private sector investment could undertake.

2.3 Further development of business parks and high-amenity industrial sites, suitable for single or multiple use, with attendant job creation, is a priority. Several corporations have identified a demand for office

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accommodation and accommodation suitable for research and development activities. Market research has identified campus-style layouts as offering maximum flexibility for use and corporations are seeking ways of exploiting this market. Changes in consumer trends have shown a demand for retail warehousing, which few of the corporations can at present meet; they are now considering how this demand might best be satisfied. Recent economic success has established a need to provide high-calibre facilities to attract both UK-based and overseas investors, and urgent consideration is being given to development of private sector housing for households of all sizes and income groups, of hotel and conference facilities, and of sports and leisure complexes to cater for all tastes.

2.4 Rehabilitation of land, older industrial stock and older rental housing stock is a key task for the corporations. They are devoting considerable effort to refurbishment and redevelopment of older industrial areas. Rehabilitation and conversion of older housing stock is a continuous process. Radical solutions are often required, and there remains scope for imaginative projects to turn housing designed 20 or more years ago into attractive houses for rental or sale now and in the future. Other agencies and the private sector are being actively encouraged to participate.

2.5 **The Government endorse the objectives of the corporations as set out in their 1988 development profiles.** These will form both the broad basis and a substantial part of the detailed framework for decisions on the precise timing of wind-up in the case of each town. It is our broad objective that the outstanding tasks identified in them should be completed by the time of wind-up, subject to the normal financial and other procedures. **Decisions on the prospective wind-up timetable for each town must therefore be taken in the light of the period within which it is reasonable to expect the outstanding tasks to be completed.** It is also important, however, that the completion of particular tasks should not be allowed to delay the wind-up process. Such periods will set the corporations challenging targets, and it will be only in the most exceptional circumstances that they will be varied. The Government are confident that the corporations will respond to these challenges, which present the opportunity to ensure that at the date of dissolution the towns are physically well integrated, with a sound economic base to carry them forward, and that the momentum is truly maintained.

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3. TIMING OF THE WIND-UP PROCESS

3.1 Consultation revealed a strong desire for dates to be set for the wind-up process. There was broad acceptance of the projected wind-up sequence: East Kilbride and Glenrothes first, followed by Cumbernauld, and then Livingston and Irvine. Some respondents thought that 3 years between the making of a wind-up order and dissolution of a development corporation was too short. There was widespread agreement on the unsuitability of population as the main criterion for determining when a town is ready to begin the wind-up process.

3.2 Legislation will be required to create the necessary scope for more market based solutions to the wind-up process, and it is anticipated that this will proceed in the 1989/90 Parliamentary session. It is therefore now clear that no corporation will begin the wind-up process before 1991. **Wind-up orders will be made during 1991 for both East Kilbride and Glenrothes; those corporations will be dissolved no later than 1994. Cumbernauld will begin wind-up in 1993, Livingston in 1995, and Irvine 1996.**

3.3 When a corporation is made formally the subject of a wind-up order, we anticipate that there may already have been significant reductions in its range of activities and the size and number of its assets. **It is for this reason that the Government confirm their view that, once made, a wind-up order should normally run for 3 years before formal dissolution of a corporation is carried out.** This White Paper describes elsewhere how both assets and activities could, in certain circumstances, move from the corporations in advance of the wind-up process.

3.4 Final decisions on the actual dates when dissolution will occur will be determined with reference to progress in the completion of tasks and projects in the development profiles, and the extent, quality and viability of locally based successor arrangements. Present procedures allow for both local and wider consultation by the Secretary of State prior to making a wind-up order and the Government are committed to that consultation process, so that the actual date reflects the individual town's economic and social maturity.

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4. ECONOMIC DEVELOPMENT

4.1 The development corporations have generated employment and economic activity to the benefit of the new towns' local economies and the Scottish economy as a whole. They have contributed to the development of existing firms, the formation of new businesses and the attraction of companies keen to set up in Scotland. A substantial part of recent economic momentum has been achieved by the corporations' ability to compete successfully for overseas inward investment. In the 7 years 1981-88 the towns secured 40% by value of all inward investment in Scotland and 31% of all jobs thus created. **The Government have concluded that the economic benefits which the new towns have generated for themselves, their surrounding areas and Scotland have been too significant simply to wind them up without providing for any successor arrangements. The Government therefore intend to make sure that satisfactory arrangements are in place before any corporation is wound-up.**

4.2 Responses to the consultation paper identified many factors as important to the development corporations' success. These include the "one-door" approach to development; a wide range of industrial property; the professional experience and expertise of corporation staff; an attractive physical environment; a skilled and adaptable workforce; and the planning regime. A survey of companies located in the new towns carried out earlier this year has reinforced the importance of attractive sites and premises, focused marketing, effective service delivery, and the availability of skilled labour in the towns.

4.3 The Government have examined a number of successor arrangements to seek to retain these advantages. It has been necessary to form a view on which of the corporations' industrial and commercial functions are likely to be undertaken by the private sector. The private sector's investment in housing, industry, and in commercial facilities has been of crucial importance to the development of the new towns. It is essential that the private sector continues to play a major part. But if the new towns are to continue to attract inward investment, some form of co-operation between the private and public sectors will be required for a time to deliver those functions which contribute to successful performance. Responses to the consultation paper broadly supported this point of view, while differing to some degree on the preferred form of this partnership and on the respective roles of the private and public sectors.

4.4 **After full consideration of a range of options, the Government have concluded that the most effective organisation to undertake economic development activities in the new towns would be a private sector based local development company with contractual obligations to fulfil certain public sector functions, channelled through the board of Scottish Enterprise.**

4.5 Among the options considered by the Government were the following:-

4.5.1 Early Disposal

This would involve the piecemeal disposal of all industrial and commercial land and property to the private sector with no successor body being established. Receipts from sales would be maximised in the short term, but there would be no provision for subsequent economic development activity.

4.5.2 Transfer to Local Authority

Under this option the development corporations' industrial and commercial assets would be transferred to the local authority. The Government's own view, confirmed by independent advice, is that this is unlikely to be an effective option.

4.5.3 Community-Based Company

This option might take a number of forms of "community ownership" such as a co-operative or a non profit making company limited by guarantee. It would require a substantial locally-based funding input as well as the commitment of management expertise and direction. There is little evidence of such local commitment and the Government do not believe that this option represents a reliable or practical means of meeting their declared objectives.

4.5.4 Private Sector Company

Under this option all the industrial and commercial assets of a development corporation would be disposed of to a single private sector company, probably either a property development company or a financial institution, which would own and manage them and continue property development activities in the new town. Commercial considerations would decide the range of activities to be undertaken by the company and these would be likely to be restricted to property management with some trading and property development. This option would be unlikely to undertake the wider economic development activities necessary to sustain momentum.

4.5.5 Local Development Company

Essentially, a local development company would be a limited company in the private sector, profit-driven and with a normal share structure, articles of association and board of directors. Its role would be to own and manage the residual industrial and commercial assets of the former new town development corporations and undertake such new property development on a commercial basis as it judged appropriate.

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In addition, and for a limited number of years, it would undertake certain public sector functions in its new town area, under contract. These functions, which might not otherwise be commercially attractive, could include promotion of the area; small business support and advisory services; training; the provision of premises for small businesses; indigenous companies and inward investment; the provision of advice on planning, financial assistance and other matters to companies; the provision of property management and design-and-build services to both private and public sector customers.

Depending on the size and scale of operations of each local development company, and on the extent of public sector functions to be undertaken, there could be scope for initial government representation on its board, and for participation in its share ownership in the early years.

The main opportunities which a local development company offers are:

- the potential for the introduction of a substantial private sector involvement in the economic development of the new towns;

- the disposal of a major part of the industrial and commercial assets to the private sector;

- the development company could concentrate on these key activities; promotion; marketing and support for the attraction of inward investment; property development and business support and advisory services;

4.6 **In due course, the Government will wish to discuss with interested parties the arrangements under which local development companies will be established for each new town. It would be inappropriate, given the diversity in local circumstances and characteristics of the new towns, to impose a uniform structure. The form of each local development company and its functions will be determined by the actual economic requirements, strengths and weaknesses of each new town area, in discussion involving the Government, the Corporations and local interests.**

In considering how such a local development company might be formed, the Government would wish to afford full consideration to management buy-out proposals. This might involve the management team of a development corporation bidding to acquire some or all of the industrial and commercial property and land of the development corporation, having formed a private company with backing from a financial institution. Such a team would probably seek to effect rapid transition to publicly quoted status, in order to transform its loan debt into equity. Since management buy-outs tend to be highly geared, they have to operate under tight financial discipline. It would therefore probably prove necessary for the company in its early stages to dispose of some of the property either to reduce or to service loan debt.

A development company set up through the management buy-out option, would allow the valuable experience and expertise of the staff to be

retained and more widely applied in a private sector context. It would retain the credibility of the staff as developers and the goodwill which comes from their extensive network of business contacts at home and abroad. It would also focus economic development within a defined geographical area, and stimulate private sector involvement in the property related elements of the economic development process.

4.7 The Government recognise the contribution made by local enterprise trusts to small business support and creation in their areas. But local enterprise trusts are unlikely to have the resources and capability to undertake the range and scale of activities which the local development companies might undertake. However, an enterprise trust could be merged with a local development company or act as a contractual agent for it.

4.8 There are similarities between the local development companies described above and the local bodies to be established under Scottish Enterprise. But the main relationship that the local development companies will have with Scottish Enterprise will be with the central organisation and in connection with contracts to deliver public sector economic development functions, such as the provision of sites and premises for inward investment purposes. It may well be that at some time the local development companies will be integrated into the local network of Scottish Enterprise bodies.

4.9 Property

One important feature of economic development is the provision of property for business and industry. The consultation paper invited comments on the disposal of the corporations' industrial and commercial property. The dominant view was that industrial and commercial assets should be disposed of over a number of years in order to realise the best price obtainable and to allow for the re-investment of the sales receipts in the corporations' residual development programmes. There was also a view that a portfolio of good quality income-producing property should be preserved, to be transferred to any successor body.

4.10 The Government have had to take into account a number of different objectives:-

- the main priority is to assemble portfolios of industrial and commercial property and land for disposal to local development companies which will provide them with a strong asset base;

- in relation to the residual property the intention will be to seek the best possible price and to complete the programme of disposals within the timetable for winding up the corporations;

- it will be desirable that the stream of receipts from sales in the years before wind up should minimise the call on public funds to finance the corporations' remaining development programmes;

- the wish to see the private sector more active in the industrial property market in Scotland. The disposal of the corporations' industrial and commercial assets provides a means to encourage private sector investment in existing property and new property development;

- a concern to ensure that the business interests of existing tenants are not adversely affected by disposal; their immediate interests are of course already safeguarded by the terms of their existing lease agreements.

4.11 **The Government do not at this stage intend to proceed to any early large scale sale of corporation property.** We are fully aware of the importance attached by business and industry to the provision of good quality property. The Scottish Development Agency is currently preparing for the disposal of its industrial property portfolio to the private sector and this sale will precede that of the development corporations' assets. Until development corporations are ready to proceed with major property disposal, they will continue with individual disposals to the private sector. In particular tenants will be encouraged to take up existing options to purchase. For the new towns to continue to prosper after wind-up, the continued availability of good quality industrial and commercial property will be essential. There remains a need to ensure access to small sized units for newly formed businesses as well as to high quality, high amenity sites for inward investors. The Government wish to ensure that the successor body to a development corporation is not constrained in its economic development functions by the lack of a property management role.

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5. HOUSING

5.1 Soon, most new town residents in Scotland will own their homes. This reflects the popularity of the Government's right-to-buy legislation. Recent activity by private sector housebuilders has diversified the type of houses available to meet the widening expectations of a maturing population. Housing associations have helped to meet the special requirements of some residents. Joint ventures with the private and public sector have been developed to tackle particular problems of physical condition or client need. There has been modernisation and renewal of services in older properties.

MANAGEMENT OBJECTIVES UNTIL WIND-UP

5.2 **A first task until wind-up will be for the corporations to continue to pursue their notable achievements in extending home ownership, via right-to-buy and voluntary sales and private sector housebuilding.** But new town residents have a smaller range of choices of rented housing than tenants in other Scottish towns. **A second major emphasis between now and wind-up will therefore be to increase choice in the rented sector.** This will consolidate the towns' progress towards maturity, lessen the dominance of any one form of rented housing and give consumers a range of choices closer to their needs. **Third, the progressive modernisation of older properties will continue and, where it is needed, there will be comprehensive action to bring certain neighbourhoods to the same standards of quality generally available in the towns.**

5.3 The development corporations' housing staff made their reputation by building and managing substantial numbers of good quality houses with associated community facilities. Their expertise has been fully tested by sales and modernisation programmes and by other changes over the past 10 years. It is that proven management skill which the Government now wish to see applied to increasing tenure choice, for example by agreed transfers to approved private landlords, housing associations and co-operatives. Corporations will also be encouraged to use expertise available from Scottish Homes' advisory panel and from the private and voluntary sectors.

5.4 Three significant developments since publication of the consultation document have further increased the prospects for choice. First, the Government's new Rent-to-Mortgage scheme will give those new town tenants who first choose to transfer to Scottish Homes the opportunity to acquire their houses with payments phased over a number of years. The scheme is designed to be attractive to those who do not at present have sufficient income to fund the purchase of their homes outright under right-to-buy or voluntary sale arrangements, but who can expect to be able to repay a mortgage based on their rent payments. Second, there has been a marked increase in the number of tenants' and residents' associations. These associations are ideally placed to form the nucleus of community based housing associations, providing yet another means of diversifying tenure. Third, increased interest has been expressed in agency agreements for the management of corporations' housing stock.

HOUSING NEED

5.5 **The Government have concluded that present building programmes in the new towns are sufficient to meet their waiting list requirements.** The development corporations will be encouraged to consider the formation of joint waiting lists with District Councils such as already exists between East Kilbride District Council and the Development Corporation. This should ensure a smooth transition of waiting list information to the statutory authority after wind-up. **In all the towns, early action will be taken to accelerate house completions, thus reducing the most pressing housing needs before wind-up.** Receipts from house sales will continue to help to finance the new stock.

TRANSFER OPTIONS AT WIND-UP

5.6 **The Government are committed to ensure that no individual new town tenant will have to change landlord in the period before wind-up.** The Government note the expression of opinion revealed by consultation in favour of a right for tenants to transfer to the district council at wind-up. Our own survey showed that a very high proportion thought that such a transfer option should be available, though significantly fewer thought that they themselves would choose to exercise it if it were available to them.

5.7 The Government's survey of tenants revealed a considerable lack of knowledge about the present range of available options and much uncertainty about which option best suited individual circumstances. Respondents frankly admitted they did not always understand what was meant by terms such as housing association or housing co-operative. **The Scottish Office will embark on an information programme involving the issue of a factual leaflet to every new town tenant in the autumn of 1989.** In addition, corporation housing advisers will be briefed so that they can fully address tenants' questions about their position, were they to choose to transfer to alternative forms of rented housing. **The Government's survey will be published in full later this year**; its main findings are being published at the same time as this White Paper.

5.8 The Government's survey of tenants revealed a substantial measure of uncertainty both about the options available and over what tenants' preferences would be. Almost half those surveyed were not aware of the existence of new proposals on housing in Scotland and most of those who were aware of them misunderstood their nature. Very few tenants surveyed had contributed to the wind-up consultation process. What was clear from the survey, however was the continuing interest in home-ownership, with almost 40% of householders interested in becoming home owners. Given a choice of new landlord now only one in 3 tenants would exercise it. Of that one-third, the preferred choice ranged over a number of options, with the district council being the first choice in 78% of cases, or 23% of the total surveyed, in Glenrothes, to as few as 43%, or 12% of the total surveyed, in Cumbernauld. Given a choice of a new landlord at wind-up, fewer than half those surveyed indicated that they would choose the District Council and 40% were undecided. If they had to choose now, 58% would choose the District Council, with 30% opting for a range of alternatives including housing associations, housing

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co-operatives and Scottish Homes. Fully one-third of respondents did not know who their second choice landlord would be, while 22% chose a housing association, 16% a co-operative and 10% Scottish Homes.

5.9 It would appear that current policies of extending housing choice are supported by the survey findings. Clearly, there is a need for tenants to become more fully informed of all the options before final decisions are taken. The sole and automatic transfer of development corporation housing to district councils would run directly counter to the expressed wishes of a significant number of tenants and close off options for those who have yet to make up their minds.

5.10 At wind-up, the development corporations' role as landlords will cease to exist. Choices therefore will have to be made at that time. **The position in each town will be carefully considered once an order for dissolution has been made, and formal consultations will be held with the development corporations, district councils and representative tenant groups to review the position and to determine to what extent transfers might take place, be it to housing associations, co-operatives, district councils, private or other landlords. Those tenants who have not transferred to other landlords will be transferred to Scottish Homes at wind-up, with a view to pursuing further diversification with the small residual number of houses.**

MANAGEMENT AGENCY AGREEMENTS

5.11 It is possible that corporations may wish to expand the range of choices already detailed in the consultation document (for example, private landlords, housing associations, co-operatives) by entering into management agency agreements. Such agreements, which are normally entered into for a fixed term of up to 5 years, would provide that ownership of the houses remained with the development corporation, who would contract the day-to-day management of all or part of the stock to a professional housing management company. This would provide the opportunity for residents to compare the relative quality of services on offer from those who wish to be considered as successor landlords. **The Government would be content to see management agency agreements concluded in appropriate circumstances.** Such agreements would be arranged for only parts of the total stock, since an agreement covering the entire stock would run counter to the key objective of increasing choice. The Government have an open mind on whether such management agencies could be operated by teams comprising present corporation housing staff and would consider each proposal on its merits.

HOUSING FOR KEY WORKERS

5.12 From the earliest days of the development corporations, there has been a recognised need to have housing always available for key incoming workers until they can either be allocated a house or buy one locally. The ability to offer good accommodation has been important in the attraction of overseas inward investment. **Consultation has convinced the Government that such housing should continue to be available. Scottish Homes will be available to assist with this strategic role at dissolution.**

SPECIAL NEEDS HOUSING

5.13 Provision for special needs housing has only recently begun to catch up with demand in the new towns. As the population has matured, more of these houses are required. Given their additional construction and management costs, it makes sense for many of these special housing schemes to be developed jointly by development corporations and district councils. This ensures that special needs housing is very fully used and avoids expensive overprovision. **The Government believe that such housing should continue to be available on a needs basis and has therefore concluded that nomination rights for all development corporation special needs housing should pass to the district councils at wind-up. The Government will also pursue with the corporations the market opportunities for private sector sheltered accommodation, to supplement the numbers of such houses available and to provide more choice of tenure.**

HOMELESSNESS

5.14 A number of consultees commented on the problems of homelessness, particularly amongst those aged 16 to 21. Homelessness is not a statutory responsibility of development corporations but all have set aside a number of dwellings to address this problem, working jointly with district councils, who have legal responsibility for the homeless. These arrangements have worked well. Although the number of houses set aside is modest, when taken together with those provided by the district councils the problem has been tackled realistically. **The Government have concluded, therefore, that making a certain number of houses available to the district council for nomination will be a condition of the disposal of housing to successor landlords.** It will then be for district councils to decide whether they nominates homeless persons or those on waiting lists.

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6. COMMUNITY LIFE AND THE ENVIRONMENT

6.1 The Scottish new town development corporations provide for many sporting, cultural, and educational activities in a wide range of buildings and grounds. The diversity of these facilities presents a variety of interesting possibilities for disposal. Some smaller facilities are used by local charitable, religious or community organisations, non-profit making bodies, trusts, and sports clubs. Such groups will be given the opportunity to acquire the premises which they use, to maintain them for their own interest and provide continuing access for the wider community. Management of the larger leisure complexes is clearly beyond the capabilities of community or voluntary groups. **The Government intend to explore the possibility of engaging private sector leisure companies to run these facilities, under agreements which will safeguard their use and may include an endowment to provide for their upkeep.**

6.2 The corporations will be encouraged to consider whether some facilities should be sold on the open market. Such disposals might include adjacent land to encourage further development. There are considerable commercial advantages in releasing these assets for sale over an extended period, as receipts may be used to provide capital endowments for the upkeep of other facilities. **Local authorities (who already have power to provide facilities for many initiatives) may also be the recipients of particular premises, but not automatically so.** Successful disposals of some assets to the local authorities have already taken place. Further transfers will be on financial terms aimed at securing the maintenance of those facilities in the future.

6.3 The extensive areas of landscaped and mature open space have done much to make the new towns attractive. The development corporations have always appreciated the importance of parks, woodlands, and recreational areas as a way of enhancing their towns. **The Government will ask the corporations to undertake a comprehensive environmental audit of such areas, to identify the potential for disposal and for future responsibility for upkeep and as a basis of any formal transfer of ownership.** The audit will also assist the calculation of an endowment, if appropriate, to accompany the transfer of particular assets.

6.4 A principal objective will be to encourage residents to take more direct control of the conditions in which they live. The diverse nature of the open spaces in the towns allows a number of options to be considered. **The Government want to strengthen the initiative shown by locally based enterprises. Local interests such as community groups, voluntary bodies, charitable organisations and the residents themselves will be encouraged to acquire areas of land packaged with portfolios of revenue-earning assets to pay for management and maintenance of the land.**

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6.5 Given their responsibilities, the district councils will often be the most appropriate inheritors of some open space in residential areas. **The development corporations will also be encouraged to include as much of this land as possible in sales to sitting tenants, or to private developers.** The transfer of these assets will be on terms aimed at minimising the financial impact on the successor bodies. Similar arrangements were used during the wind-up of the English new town development corporations. Where the assets concerned have significant maintenance costs, but produce no revenue income, it may be possible to package them with revenue-producing assets. Where this is not possible, assets which do not earn any revenue will be endowed with a capital sum to cover their annual maintenance costs.

6.6 The companies in the towns are well suited to manage ground surrounding their properties. Many have welcomed the opportunity to improve their premises by the cultivation of their immediate environs and have already assumed this responsibility. Similar arrangements will be encouraged in the future. Other areas of open space will be offered for sale on the open market. There are some mature plantations and areas of parkland which should be attractive propositions for commercial, leisure-related development. These will be progressively identified and offered for sale. Such disposals will be subject to conditions to secure continued access.

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7. PLANNING

7.1 Consultation has demonstrated beyond doubt that one of the new towns' greatest assets has been the way in which developments may be turned speedily from proposals into reality under the special planning arrangements which apply in the towns.

7.2 New town development corporations are not planning authorities. But, with the exception of Glenrothes, they exercise planning powers under Special Development Orders which give them control over matters within their designated areas for land which they own, or have disposed of for particular developments. Corporations submit proposals to the Secretary of State to develop areas of the town for a range of uses, and if he approves the proposals under Section 6(1) of the New Towns (Scotland) Act 1968, they are enabled by the Special Development Orders to proceed with detailed development in accordance with the Secretary of State's approval. The approvals - known as "6(1) approvals" - persist until the area in question ("the 6(1) area") has been fully developed. Under this system, corporations have been able to frame a flexible development strategy for areas of the town, which enables them to build and provide a range of facilities from completed development to serviced plots and land for developers. The rapid response to development inquiries which the new town planning system provides has been a major attraction to inward investors. **Before wind-up, the corporations will be required to undertake a comprehensive audit of all their 6(1) areas to determine which are capable of further development, which are unlikely to be developed further, and which are "spent".** For those on which development is for all practical purposes complete, powers will be taken to extinguish existing 6(1) approvals. For others various solutions may be adopted to integrate them into a future planning regime.

7.3 Most 6(1) areas have been partially developed and thus it is important to ensure that the transitional arrangements provide adequately for those developers currently engaged in those areas, so that they can realise their development proposals consistent with the 6(1) approval. **Proposals for the undeveloped balance will be reappraised by way of the existing 6(1) amendment procedure.** If it is considered that there is little likelihood of development taking place within the foreseeable future, the entire 6(1) approval will be extinguished. If development within the next 10 years seems probable, existing 6(1) approvals may, if appropriate, be amended. The Secretary of State will continue to approve 6(1) proposals until the corporations are wound up. In order to facilitate further development and maintain the continuing process of economic expansion in the towns following wind-up, arrangements will be made to accommodate unextinguished 6(1) approvals within the normal planning system.

7.4 The Government intend that, subject to the transitional arrangements described above, the new towns will become integrated into the normal planning system, with the district and regional councils in each case exercising all their normal planning and control powers throughout the former new town designated areas. The Special Development Orders will be revoked at the time of dissolution. It is not at present considered necessary to give planning powers to any other bodies which might be

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involved in successor arrangements, although the Government will review this, if necessary, in light of any relevant developments. It will in the meantime be necessary to ensure that the development process continues smoothly. Each new town has been developed in accordance with a master plan which shows an overall picture of the town once fully developed. In addition, corporations produce, at the Secretary of State's request, development profiles which review development progress, identify priority developments for the future and detail the necessary resources required for implementation. The master plan fulfils a function similar to a local plan prepared by a district council, but master plans have no statutory basis. Some district councils have prepared local plans for new town areas, but none has yet been adopted.

If the development impetus of the new towns is to be maintained, local plans will have to be in place by the date of dissolution so that business, industry and potential investors, not to mention local residents, may have a clear picture of the future planning framework. The procedures to be set in train to deal with planning are collectively designed to achieve the minimum dilution of the present speedy and efficient planning system. The benefits of that system are regularly endorsed by developers and industrialists alike, and form an important part of the package attracting jobs to the new towns. **The forthcoming legislation will include measures to secure that local plans for each new town are adopted prior to the date of the dissolution of each development corporation.** The plans need not be confined to the designated areas of the new towns, but may encompass a wider area, taking in territory over which the development corporations have no powers but whose development might desirably be integrated with the new town area following dissolution of the corporation.

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8. STAFF

8.1 Staff of the Scottish new towns are widely recognised for their dynamism, enterprise, and commitment. The "integrated team" approach has been important in attracting inward investment, creating employment, and fostering the spirit of corporate enterprise within the communities which they serve. The Government recognise and pay tribute to board members, past and present, and to the staff of the development corporations. **The Government wish to see as far as possible successor arrangements which retain the advantages of the present management teams' experience and skills and which offer opportunities for the wider application of these talents.**

8.2 The consultations clearly indicated the concern of the corporations' employees about the timing of the wind-up process, the desirability of completing the residual development programmes, and the need to know about future employment opportunities. Consultation also focused attention on the possibilities which exist for safeguarding employment in advance of wind-up.

8.3 The corporations currently employ some 2,100 people. Whilst for those still employed by the corporations at the time, wind-up will mean the ending of these jobs in their present form, it will also create a variety of opportunities for alternative employment. **The Government regard a number of the corporations' functions as appropriate for early privatisation.** Under such arrangements the corporations' employees could contract to exercise certain functions, such as housing management, for the corporations on an agency basis. Former employees operating in the private sector could also contract to carry out physical works such as repairs and maintenance, and could compete with other other work not available to them while working in the public sector. Where work is contracted out to a private company, for instance computer services, it may be possible to transfer the corporations' employees to the external contractor. **Where property transfers such as housing stock or industrial and commercial property, take place to successor bodies, the Government will expect corporations to explore the opportunities for the re-employment of employees by the new owners.**

8.4 Several ways of retaining the talents of present management teams whilst also opening up wider opportunities to them are already under consideration. Some proposals have already been put into practice; others are mentioned in Section 4 of this White Paper.

8.5 There will of course be a significant number of employees of retirement age when the corporations are dissolved. There will also be other employees who are prepared to accept early retirement. It will be for the development corporations as employers to exercise their discretion within the terms of existing national agreements on the amount of compensation to be paid to employees who are made redundant. **The Government will seek to ensure that the corporations exercise the existing flexibility within the terms of the national agreements concluded by the**

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Whitley Council for New Town Staff and the Scottish National Joint Councils for Local Authority Services to determine redundancy packages appropriate to the circumstances of employees. The Government will also be concerned to see that there is fairness and consistency in the treatment of employees.

9. FINANCING THE OPERATIONS OF THE DEVELOPMENT CORPORATIONS

9.1 The capital expenditure of the development corporations falls into 2 programmes. The first is spending on public housing. The second is spending on the provision of sites and premises for industry and commerce, on general infrastructure, landscaping and the provision of some civic amenities, and on site servicing and infrastructure for private housing. Such expenditure is funded principally through advances from the National Loans Fund, supplemented by income from the sale of assets. The corporations have to service and repay the loans from the Fund. Taxpayers' support for the Scottish new towns has been very substantial over a long period. Outstanding long-term loans payable to the Fund at 31 March 1989 were:-

	£000
Cumbernauld	233,362
East Kilbride	117,948
Glenrothes	150,513
Irvine	163,694
Livingston	295,813
Total	961,330

9.2 The practice of funding the corporations through such borrowing has applied throughout Great Britain since new towns were first established. The underlying assumption of this system was that the corporations should be regarded as long-term investments. The development corporations also finance the deficits on general revenue accounts through borrowing from the Fund. However, in 1963, it was recognised that the cost of servicing this additional borrowing was in itself aggravating the difficulties of the corporations in balancing their General Revenue Accounts. The Government agreed to meet the interest charges on loans taken out to finance general revenue deficits by means of grants.

9.3 Cumbernauld, Glenrothes, Irvine and Livingston have incurred general revenue deficits in most years since 1963-64. These corporations incurred an aggregate deficit in 1988-89 of £13.2 million, making the cumulative deficit to 31 March 1989 £279.3 million. This sum has been met entirely by further borrowing from the Fund. To meet the interest charges on this borrowing, grants totalling £18.4 million were paid out in 1988-89 bringing the cumulative total of such grants to £92.5 million since they were first introduced in 1963-64. East Kilbride has achieved a surplus in each year since 1970. Much of its development was completed at a time when interest rates were generally lower than today. Furthermore, due to higher construction costs incurred with more recent developments, other corporations have borrowed larger sums to finance development programmes.

9.4 An independent Financial Management Survey of the new towns carried out for the Scottish Office in 1985-86 concluded that all the corporations with the exception of East Kilbride, under the existing financial arrangements, were likely to continue to incur deficits on their general revenue accounts until wind-up. It was thought unlikely that at wind-up any excess of industrial and commercial property market values above historic costs incurred would eliminate accumulated revenue deficits. The Survey recommended a financial reconstruction of the corporations' debt, writing off loans not represented by asset value. The report also recommended a complete overhaul of the corporations' statutory accounts and of the budgeting and financial information systems employed by the Scottish Office and the corporations, and the introduction of new funding arrangements more appropriate to the corporations' industrial and commercial activities.

9.5 In July 1987 the Government announced their intention to put the funding of the corporations' industrial and commercial activities on a more stable and realistic basis. But it will first be necessary to write off part of the corporations' existing debts. **Provisions to put the new funding arrangements in place and to permit the debt write-off will therefore be part of the legislative proposals for wind-up. The Government intend to introduce a new financial framework after the reconstruction of the corporations' debt.** This will be designed to meet the financial requirements of the corporations in the period before the wind-up process begins, whilst ensuring that they do not incur further general revenue deficits. The new arrangements will recognise the difference between the corporations' revenue earning and non-revenue earning activities, and will be designed to promote optimum value for money from investment. The new framework will also be flexible enough to allow for the completion of essential remaining development tasks, the disposal of the corporations' assets, the privatisation of their functions and, where appropriate, the establishment of successor bodies in advance of the commencement of the formal winding-up process.

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ANNEX 2

THE SCOTTISH NEW TOWNS - HISTORICAL NOTE

In 1946 the Government, on the recommendation of the Reith Committee, decided that a number of new towns should be established throughout Britain, to accommodate people and industry from overcrowded cities.

The five Scottish new towns of East Kilbride, Glenrothes, Cumbernauld, Livingston and Irvine were established between 1947 and 1966. Their main objectives were to assist the dispersal of industry and population from overcrowded urban areas and to provide locations for economic expansion. Congestion was most marked in the City of Glasgow where housing conditions were extremely bad and many industries were operating in out-of-date premises with little hope of expansion or improvement. Development corporations were established for each new town, to provide good quality housing for rental, to lay down an infrastructure for industry and to facilitate economic and environmental development. To create locally based employment, development corporations made opportunities for business, industry and commerce by offering incentives such as rent free periods and purpose built factories.

Designated in 1947, with a population of 2,500, East Kilbride was the first Scottish new town. Its prime function was to relieve congestion in Glasgow and North Lanarkshire. East Kilbride has proved an excellent location as forty two years of growth confirms. Today, it boasts a population of around 69,000, thriving business and industry and a varied selection of leisure facilities.

Glenrothes, designated in 1948, was established principally to provide opportunities for coal miners moving from declining pits in the west of Scotland to new and expanding coalfields in the east. It would not have been sensible to create a town which depended solely on coal mining, and the town was therefore planned on the assumption that miners should account for not more than 1 in 8 or 1 in 9 of the population of the town, the attraction of other industries providing a well balanced economy. When the new Rothes pit ran into difficulties, the development of Glenrothes proceeded without serious disruption on this broader industrial basis. In its 40th year, with a population of some 38,000, the town is a major contributor to economic growth in Fife.

Cumbernauld, designated in 1956, was to attract 80% of its target population from Glasgow. Cumbernauld's shape was to be physically compact, with houses built to a fairly high density around the town centre, and business and industrial areas towards the periphery. The original site proved insufficient for the growth of industry and recreation, and Cumbernauld's designated area was extended in 1973. Cumbernauld now has a population of over 50,000.

By the early 1960s it had become apparent that the new towns were more than mere providers of new, integrated communities for Glasgow "overspill". Because of their flexibility and capacity to innovate and respond quickly to demand, they began to play a key role in promoting economic growth. In 1962, Livingston new town was designated, with a

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target population of 70,000. As with East Kilbride and Cumbernauld, most were to come from Glasgow; however, Livingston's primary purpose was to revitalise the local economy of West Lothian, much affected by the decline of traditional coal and shale mining. Despite prosperous Edinburgh proving a counter-attraction, Livingston is now the second largest town in Lothian Region, and the major growth point of West Lothian. It has turned its proximity to Edinburgh - and the main Glasgow-Edinburgh artery - to signal advantage as a prime location for both traditional and hi-tech industry.

Irvine, Scotland's largest new town in terms of area, has 2 unique features. Designated in 1966, it is the only new town by the sea and incorporates 2 former burghs within its boundaries. Irvine's main aim was to encourage economic growth in an area with potential to attract industry but also to provide housing and facilities for an extra 55,000 people, mainly from Glasgow. Its population stands at over 56,000. Irvine has made its seaside location a major feature in attracting business and industry.

Collectively, the 5 towns have just under 5% of the total population of Scotland and contain almost as many people as Central Region. By the end of 1988, the 5 development corporations together had created:

79,200	houses
835	shops
236,000	square metres of office development
2,434,000	square metres of factory space
46,780	square metres of factory space under construction

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Scotland.

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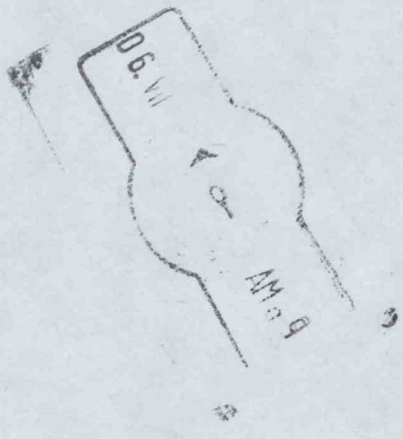

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

5 July 1989

Dear Norman,

SCOTTISH ENTERPRISE

Attached folder to Pt 1

Following publication of my White Paper on Scottish Enterprise in December 1988, I have received 420 responses, demonstrating overwhelming endorsement of the merits of integrating the Scottish Development Agency and the Training Agency in Scotland into one body and a widespread recognition of the importance of involving employers directly as the leaders of the proposed network of local agencies. Since April I have been reassessing the Scottish Enterprise proposals in the light of all the comments received.

My decisions are set out in the attached paper which will form the basis of the oral statement which I would like to make to the House as soon as possible. You will see that for the most part these decisions reflect and confirm the terms of the White Paper, though in a few minor respects (for example, the number and distribution of local enterprise companies) I have modified my approach in the light of comments received. My proposals do however differ from the White Paper in one major respect which is the extent to which I now propose that functions currently carried out by the Scottish Development Agency should be devolved to the new local enterprise companies. The White Paper had envisaged a cautious and evolutionary approach but in the light of the very positive response from those consulted to the prospect of substantial SDA functions being carried out locally I believe that we can and should start by taking a major step in that direction. From the beginning therefore, the local enterprise companies will have substantial training and enterprise responsibilities.

More generally I am now able to put rather more flesh on the bare proposals set out in the White Paper as regards how Scottish Enterprise itself and the local enterprise companies will operate. I am confident that I have now arrived at decisions which will command general support (indeed, enthusiasm) in Scotland and will provide a firm foundation for the continued revitalisation and growth of the Scottish economy in face of the twin challenges of 1992 and skills shortages. On staffing, the paper reflects the preferred option in my letter of 6 June: I should be grateful for confirmation that you agree.

CONFIDENTIAL

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My proposals differ substantially in detail from the Training and Enterprise Council regime which you are introducing south of the border. Given the existence of the Scottish Development Agency with its wide-ranging economic and environmental remit, it could not be otherwise. But I am satisfied that, though delivery arrangements will be different, the broad policy thrust north and south of the border will be the same.

There is one issue I should draw to your attention. On TVEI the logical choice is between transferring it in Scotland to Scottish Enterprise (along with the other Training Agency programmes) or to the Scottish Office. TVEI is a national curricular initiative and the arguments of policy, principle and practice for retaining a unitary central administration strike me as very powerful indeed. TVEI is now being delivered - and accepted - throughout Scotland and the particular expertise its management requires would not lend itself to delegation to local enterprise companies. I have therefore proposed that TVEI be transferred to the Scottish Office and I should be grateful for your agreement. I understand that the power to make payments to education authorities for TVEI now rests under the Employment Act 1988 with the Secretary of State and that it would be open to me to exercise that power in the same way as you have exercised it, after agreement is reached on appropriate PES and running costs transfers and on arrangements for expenditure to be brought to account on a Scottish Office Vote.

Much work of course remains to be done in the coming months by our officials in terms of the preparation of legislation, and the detailed implementation arrangements, both for the local enterprise companies and for Scottish Enterprise and Highlands and Islands Enterprise. But I hope that you and other colleagues will agree that the attached paper provides a suitable framework within which that detailed work can be taken forward. If you and other colleagues are able to comment - or to indicate that you are content - by Wednesday 12 July, I would hope to make a statement in the week beginning 17 July.

I am copying this letter to the Prime Minister, other members of E(A) and to Sir Robin Butler.

Yours ever,

MALCOLM RIFKIND

CONFIDENTIAL

EML185L1

SCOTTISH ENTERPRISE

MEMORANDUM BY THE SECRETARY OF STATE FOR SCOTLAND

Last December I published the Scottish Enterprise White Paper - with green edges - on my proposals to integrate the functions of the Scottish Development Agency, the Highlands and Islands Development Board and the Training Agency in Scotland. In the Lowlands I envisaged the creation of a new body, Scottish Enterprise, and of a network of employer-led local agencies: for the Highlands and Islands my proposals were more open-ended. The ultimate objective of the proposals was the creation of a dynamic self-sustaining Scottish economy in which investment and training are private sector-led and financed. I invited comments by 31 March 1989.

I received 420 substantive submissions. The enthusiasm and the constructiveness of virtually all the responses is a solid representation of the interest our proposals have generated.

I have been struck by the extent of support in the views expressed to me; and I have sought to build on that.

There was overwhelming support for the **principle** of creating 2 new bodies, in which the functions of the Scottish Development Agency and the Highlands and Islands Development Board would be integrated with those of the Training Agency in Scotland. Virtually all respondents recognise the potential for synergy which is the central attraction of my proposals. Though there were some who expressed doubts about whether the private sector would be sufficiently willing to **participate**, particularly in the Highlands and Islands, they were outweighed by a factor of almost two to one by those saying how keen they were to do so.

There was less unanimity on the question of what the 2 new bodies should be called. Many have welcomed the **name** "Scottish Enterprise"; but a number of respondents called for the retention of the names "Scottish Development Agency" and "Highlands and Islands Development Board"; and there was strong insistence from the North, whatever title was chosen, to retain the word "Islands". In reaching my decision on this point, I have borne in mind that we are creating a distinctive new

structure; and I therefore concluded that the new bodies should be called Scottish Enterprise and Highlands and Islands Enterprise respectively. I propose to leave it to them to determine the names to be used abroad. The SDA and HIDB logos are widely recognised and valued, and I see merit in retaining them, thus providing an element of continuity and identification.

There was virtual unanimity for the proposition that the network of local agencies (or enterprise companies, as I should now prefer to call them) should have a **contractual relationship** with Scottish Enterprise. There was some expectation that progress would need to be slower in the Highlands and Islands, but I am satisfied that the basic relationship needs to be a contractual one, in keeping with the private sector focus which these local companies must have. The constitution of the companies does mean that there are public accountability issues to resolve, and I have asked my officials to seek ways of ensuring that public funds are properly safeguarded.

In the light of comments received, I have somewhat revised my view of **how many** local enterprise companies there should be, and their **distribution**. I now propose a network of 12 companies in the Lowlands and 8 in the Highlands and Islands, shown on the attached map. In the Lowlands the balance of opinion was in favour of a reduction in numbers from the 16 proposed in the White Paper, mainly on the grounds that if companies were to have extensive responsibilities this would be easier to achieve if the network were relatively small. I received some responses recommending very large units on the Highland mainland; but many more emphasising the need to have regard to distinctive entities in the mainland area, a principle which found complete acceptance in the case of the islands and is reflected in the revised network.

The network proposed now has regard to the existing SDA and HIDB regional structures; and to a considerable extent to local authority boundaries. There was significant support amongst respondents for this approach.

A few responses suggested that I should not prescribe a map at all, and simply wait to see what areas prospective consortia wished to serve. I can of course see the free market merits of such an approach; but I fear that bids received would be likely both to overlap in some respects and leave other areas entirely unaccounted for. My soundings suggest that the business community would prefer to have the map sorted out now, rather than have boundary changes imposed upon them only after they have done considerable detailed planning. But where consortia feel that the map I am proposing does not fit in with their own ideas, I will consider specific proposals for variation.

As regards **functions**, many respondents shared my view that Scottish Enterprise (and Highlands and Islands Enterprise) should have the complete range of strategic economic, environmental and training powers. The full range of powers which the SDA and HIDB now possess should be available for the strategic functions of both Scottish Enterprise and Highlands and Islands Enterprise; and I propose to accept the view that the latter should discharge the environmental role in the Highlands and Islands currently undertaken by the SDA. I will however make equally clear the importance which I attach to an increasing role for the private sector in the exercise of these functions and in the economy generally which my proposals are designed to bring about. I was impressed also by the extent of support (including from the SDA itself) for devolving substantial powers relating to enterprise creation from Scottish Enterprise to the local enterprise companies from the outset and to a very much greater extent that envisaged in the White Paper. Against that background I think we can be very much less cautious than the White Paper indicated and my proposals now involve a major step in the direction of local delivery of economic as well as training functions, from the start.

As regards specific functions, I found great attraction in the SDA's approach that the enterprise companies should operate within spending limits which would enable them to take responsibility for some 80% of projects by volume and that responsibility for major projects outside these limits should be retained at the centre. I intend to apply this principle

to both Scottish Enterprise and Highlands and Islands Enterprise. The central bodies would therefore set the policy framework within which the companies would act in their respective areas; design, develop and secure the implementation of projects and programmes particularly in industry and enterprise development with an applicability across their areas; agree, resource and monitor local companies' business plans; approve major projects which fall outwith the companies' competence; handle certain functional activities including major investments, the attraction of inward investment, marketing, and the design and implementation of major physical programmes requiring scarce expertise; and provide central secretarial, finance and staffing functions. In addition, they would need to satisfy themselves that national training programmes are being delivered and Government guarantees fully satisfied; and that programmes in support of enterprise delivered on behalf of the Department of Trade and Industry are being satisfactorily discharged.

This means that local enterprise companies would have the following functions, depending on their capability and the spending limits agreed: in the Scottish Enterprise area (large and strategic projects apart) all SDA functions in respect of the development of property, land reclamation and environmental improvement projects, advice and assistance to business, and urban renewal. They would have similar responsibilities in the Highlands and Islands Enterprise area but with the addition of the HIDB's tourism and social functions. In both areas they would carry out the range of training functions presently delivered by the Training Agency's area offices and seek to stimulate greater involvement by employers in training.

This general approach meets the 2 main concerns expressed by respondents: that Scottish Enterprise and Highlands and Islands Enterprise should have a strong strategic role; and that local enterprise companies should have truly challenging and worthwhile responsibilities. There would be differences of approach between the 2 areas, reflecting the different range of functions exercised by SDA and HIDB. I attach importance to retaining these distinctions, which reflect local needs. But

there would be an underlying consistency. I have asked my officials - working jointly with those in the Scottish Development Agency, the Highlands and Islands Development Board and the Training Agency - to work up detailed proposals on this basis, which will at once ensure that there is a clear policy framework within which the local enterprise companies are to operate, and that the companies have maximum flexibility (compatible with public accountability) to tailor their activities to local circumstances.

I have considered with interest the comments received on two of the programmes at the interface between training and education. The Training Agency's Technical and Vocational Education Initiative is becoming firmly embedded in the educational system throughout Scotland. I am persuaded that the best way to build on achievements to date is for TVEI now to move to the Scottish Office as was advocated by a majority of those commenting on this issue. Conversely PICKUP, the Professional, Industrial and Commercial Updating Programme administered by the Scottish Office, complements the existing activities of the Training Agency in working with employers to develop retraining courses geared to the needs of industry. A number of respondents pointed to the benefits of transferring responsibility for PICKUP to Scottish Enterprise. I agree, and have so decided.

On other education related Training Agency programmes, I propose that Training Access Points and Compacts be transferred to Scottish Enterprise (and Highlands and Islands Enterprise as appropriate) but I would be content for Enterprise and Higher Education to be operated from Sheffield on the GB basis, given its limited coverage at present; and for the Open College to remain on a GB basis.

I received a few comments proposing that Scottish Enterprise should be given responsibility for certain functions outwith the remit of the SDA and the Training Agency; for example, tourism, regional assistance and export services. I have no plans for such changes: it would not be helpful to overburden Scottish Enterprise at the start.

Turning now to **management**, there was widespread recognition of the merits of a relatively small board of directors. The White Paper proposed a 10 member board for Scottish Enterprise: but many have suggested that an increase to 12 would offer considerably more scope, while retaining the efficiency advantages of a compact board. To give greater flexibility, I intend to propose a formulation which allows the appointment of not less than 9 and not more than 15 members inclusive of the Chairman and the Chief Executive (who will be an ex officio member). I intend a similar approach to Highlands and Islands Enterprise but, in recognition that the number of those able to serve will be circumscribed by distance and sparsity of population, I propose a 7 to 12 formulation.

There is broad support for my proposal that two-thirds of the board should be drawn from the private sector. It makes sense to look for a sectoral and geographical spread broadly reflecting the Scottish economy. I would hope to include small business interests if at all possible.
Members of both boards will be chosen on a personal basis, for the contribution that each can make. This is vital if the boards are to realise their full potential. I do not accept the approach suggested by a few organisations that they should have the right to nominate representatives directly. We need the best people in their own right, not placemen whose hands are tied by outside bodies.

I intend the same philosophy to apply to the boards of the local enterprise companies. I shall be looking to see a board of directors chosen for their individual contribution, rather than on a representational basis; I shall want that board to reflect the range of local interests, with two-thirds of the board from the private sector; and I shall expect that board to be kept small (not less than 9 nor more than 15 in the Scottish Enterprise area; between 7 and 12 in the Highlands and Islands). The membership of the company can be as large as the company chooses: indeed, the bigger the range of local interest that can be pulled into the company in this way, the more likely it will be that the company can operate effectively in its locality. But the board itself needs to be small if it is to work properly.

In the White Paper I stated that in the longer term it would be for the board of Scottish Enterprise to determine the staffing needed to carry out its functions, but that it would be crucial for Scottish Enterprise to have experienced, effective and highly motivated staff. For that reason I indicated that most of its staff at start-up were likely to be drawn from the Scottish Development Agency and the Training Agency in Scotland. As regards the local agencies, I said that the staff of the SDA and the Training Agency would be made available, either on a secondment basis or as permanent employees. Over time local agencies would then be likely to recruit staff from a variety of sources.

I am very aware that the present uncertainty is having a significant effect on staff morale and retention. It is important that staff are given a clear indication about their future. As I see it, there are 3 aims to be fulfilled: Scottish Enterprise should have a single ethos and staffing structure - as should Highlands and Islands Enterprise; local enterprise companies should have as much freedom as possible to choose their own staff; and the arrangements should meet the best interests of existing staff.

I therefore propose that every member of the Scottish Development Agency staff in post 3 months before the establishment of Scottish Enterprise should be offered employment on no worse terms with Scottish Enterprise, with scope for voluntary secondment to an enterprise company. I propose a similar approach for HIDB staff. As regards the Training Agency, every member of staff in post in Scotland on the same date should be offered the choice either of employment on no worse terms with Scottish Enterprise or Highlands and Islands Enterprise as appropriate (with scope for voluntary secondment to an enterprise company), or of secondment to Scottish Enterprise or Highlands and Islands Enterprise, with up to 2 years to decide whether to transfer on the same basis permanently or to return to the Department of Employment.

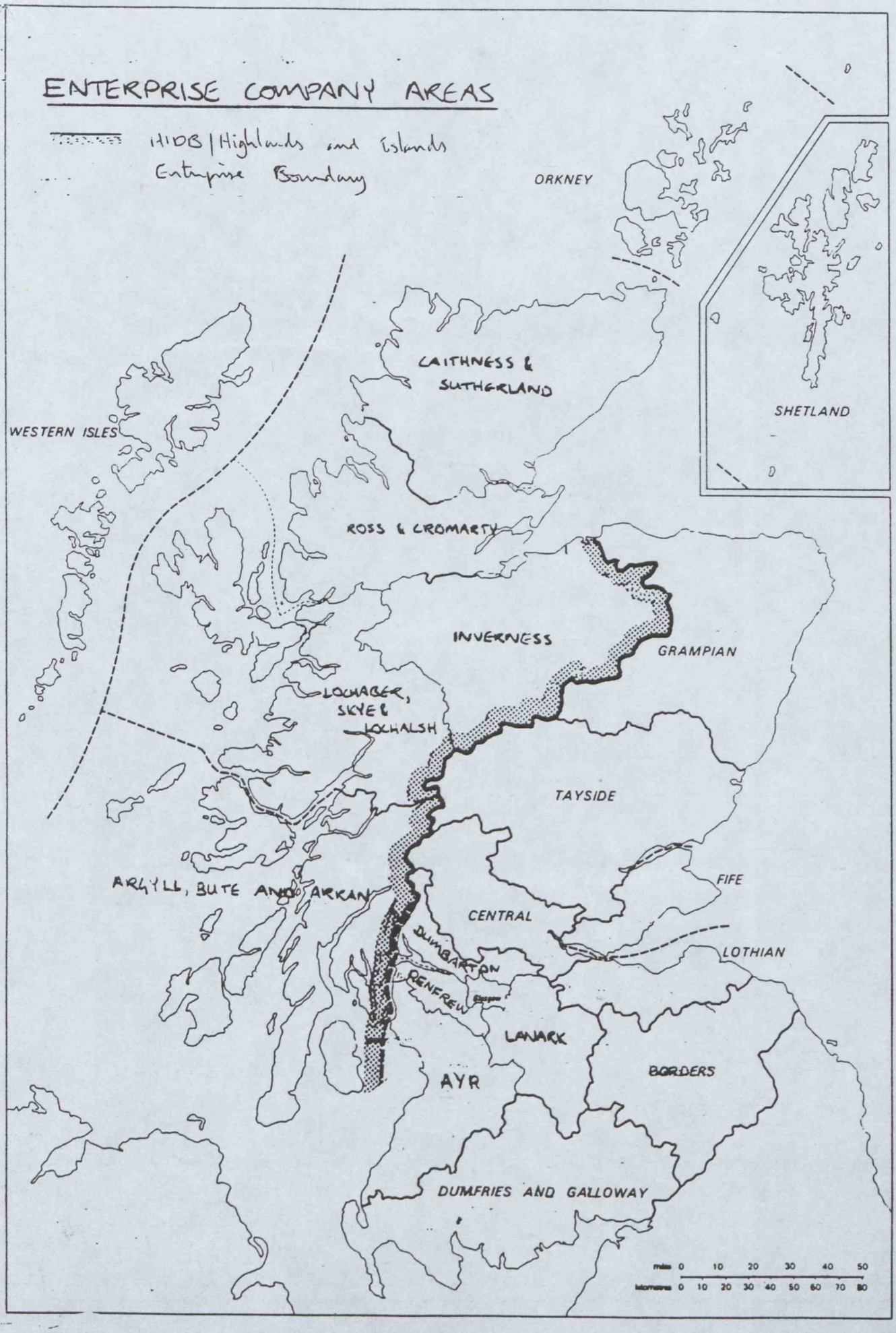
This will enable Scottish Enterprise and Highlands and Islands Enterprise to have their own single sets of staff within 2 years, while at the same time safeguarding the interests of all staff. I am sure that the local enterprise companies will recognise the value of taking most of their staff on secondment terms from the skilled and experienced pool of Scottish Enterprise and Highlands and Islands Enterprise staff; but they will also have scope to employ their own staff for jobs for which no suitable secondee is available.

I have permission to bring forward legislation in the 1989-90 Session. This would recast the functions of the Scottish Development Agency together with the powers of the Training Agency in Scotland as functions of Scottish Enterprise, and similarly recast the Highlands and Islands Development Board as Highlands and Islands Enterprise, but with greater flexibility in directing and consultative structures than present statute provides. The aim will be to have both bodies in operation by 1 April 1991.

There has however been overwhelming enthusiasm for my suggestion that it might be possible to go ahead with some local enterprise companies in advance of legislation. I very much welcome that enthusiasm, and I intend to proceed in that way. These companies will operate within existing legislative powers and within existing public expenditure provision.

After a statement in the House, therefore, I intend to launch a prospectus which will invite the business community to form consortia to bid to become local enterprise companies in lowland Scotland. That will be followed by a prospectus for the Highlands and Islands. At that stage, such consortia will simply be asked to submit bids for development funding to enable them to explore the feasibility of their proposals, and to work up a detailed 3 year business plan. During this development phase, consortia will have access to detailed advice and guidance from Scottish Development Agency (or HIDB, as the case may be), Training Agency and of course Scottish Office officials.

The number of consortia to be given the go-ahead at that time will depend upon the quality of bids, and there will be scope for further rounds of approvals in due course. Consortia throughout Scotland are already making plans in the hope that the Government will take this approach. Their commitment has been a major factor in confirming to me that my proposals for Scottish Enterprise are soundly based.


ENTERPRISE COMPANY AREAS
HIDB/Highlands and Islands Enterprise Boundary
ORKNEY
SHETLAND
CAITHNESS & SUTHERLAND
WESTERN ISLES
ROSS & CROMARTY
INVERNESS
GRAMPIAN
LOCHABER, SKYE & LOCHALSH
TAYSIDE
FIFE
ARGYLL, BUTE AND ARRAN
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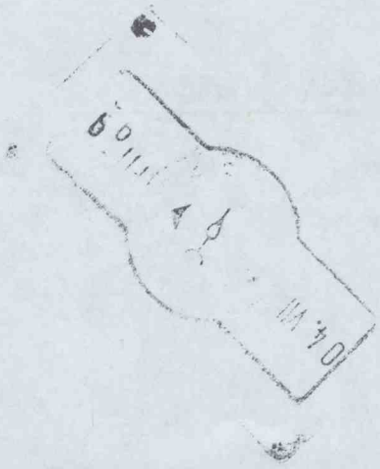

CONFIDENTIAL

Prime Minister

HIGH-LEVEL INTERNATIONAL CONFERENCES IN SCOTLAND

I have seen the minute of 28th April attached which the Secretary of State for Scotland has sent to you and colleagues drawing attention to the advantages of Scotland as a place for holding major, high-level, inter-governmental conferences.

The Secretary of State's minute contains some cogent arguments in support of his recommendation, and I very much hope that our colleagues will take every opportunity of arranging for conferences to be held in Scotland whenever circumstances make this practicable.

I am copying this minute to Members of the Cabinet and Sir Robin Butler.

MJC.

9th May 1989

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 May, 1989.

Dear David

HIGH LEVEL INTERNATIONAL CONFERENCES IN SCOTLAND

The Prime Minister has seen your Secretary of State's minute of 28 April which she has noted without comment.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet and to Trevor Woolley (Cabinet Office).

Yours ever

Dominic

Dominic Morris

David Crawley, Esq.,
Scottish Office.

CONFIDENTIAL

Prime Minister 2

Mr Rifkind knows that London is scotted as the venue for the 1991 Summit but hopes to get colleagues to focus on other possible opportunities.

Prime Minister

HIGH LEVEL INTERNATIONAL CONFERENCES IN SCOTLAND

I am minuting to draw your and colleagues' attention to the advantages of Scotland as a place to hold major high level inter-governmental conferences.

I have a number of reasons for wanting to raise the profile of Scotland as a place to hold major international conferences:

First, I believe we have a great deal to offer in terms of facilities. We have excellent hotels with longstanding international reputations such as Gleneagles and Turnberry. Within Edinburgh and Glasgow themselves we now have a vastly greater range of high quality hotels than before. There are good conference facilities in some hotels; there is the excellent Scottish Exhibition and Conference Centre in Glasgow; and in Edinburgh we have the very attractive facilities of the Royal High School. Edinburgh Castle is of course very good for formal state entertaining and Bute House for more informal gatherings. We can also call on traditional and distinguished houses like Hopetoun House near Edinburgh or Culzean Castle in Ayrshire. Scotland also of course has magnificent scenery, very good leisure facilities (especially golf courses!), a strong cultural reputation and shopping in Edinburgh and Glasgow which has improved out of all recognition in the last few years. Transport links by air, rail and road are very good;

Secondly, I do think there are enormous advantages in holding major conferences outside London wherever possible. Quite apart from the problems of security and congestion in London, there is also the fact that we can make a great impact on representatives from other governments by taking them outside London. In my view we can

achieve this particularly well in Scotland. The NATO Nuclear Planning Group meeting for example was held in Gleneagles in 1981 and judging by the very warm reports we had afterwards it was a great success which gave a considerable boost to the reputation of the UK as a whole;

Third, I see important political advantages in demonstrating that Scotland as part of the United Kingdom is in a position to host major international conferences, and does so in a way which simply could not possibly happen if it were cut off from the Union. In the light of the present debate in Scotland about the Union, I believe it is very important that we should make every effort to demonstrate in this kind of way that Scotland has a far more influential role within the United Kingdom than it could possibly ever have outside it.

There have been a number of significant conferences in Scotland in the past, in addition to the NATO meeting in Gleneagles. The Heads of Commonwealth Governments met, again at Gleneagles, in 1977 and next month the European Ministers of Transport are meeting in Edinburgh. Scotland has also hosted a number of other but rather smaller and less prestigious conferences. I think we have generally always been judged to do these very well and to provide the right mix of facilities for business and enjoyment. Edinburgh does not yet have a conference centre of its own although that will be put to rights in a few years time but given what has been done in the past, I do not see the absence of such a centre as a significant disadvantage. We would like to have more major conferences here and I hope that you and colleagues will do whatever you can to encourage this.

I am copying this minute to members of the Cabinet and Sir Robin Butler.

MR

M R

Scottish Office
28 April 1989

cc PG.

ST. ANDREW'S HOUSE
EDINBURGH EH1 3DG

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

12 April 1989

RA

Dear Paul,

SCOTTISH ENTERPRISE

Thank you for your letter of 10 April. We have indeed now received a substantial number of responses to Mr Rifkind's White Paper and we shall of course ensure that the Prime Minister is kept closely in touch with the follow-up before decisions are taken.

Yours,

David.

DAVID CRAWLEY
Private Secretary

EML102L6

Scotland: Regional Policy Pt 2.

CONFIDENTIAL

file PS

cc Andrew Dunlop
Policy Unit

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 April 1989

SCOTTISH ENTERPRISE

The Prime Minister understands that responses have now been received to your Secretary of State's White Paper and that these are being considered. She would be grateful to be kept closely in touch with the follow-up to the White Paper before decisions are taken.

Paul Gray

David Crawley, Esq.,
Scottish Office.

PRIME MINISTER

SCOTTISH ENTERPRISE

The Policy Unit note attached reports on the position reached in the follow-up to the Scottish Office White Paper, and is based on discussions with Bill Hughes.

The Policy Unit pass on Bill's concern that an attempt is under way - led by the SDA - to stifle the Scottish Enterprise initiative. On the other hand the spirit of the original proposals is alive and well in the approach being advocated by Bill Hughes, Hector Laing and Scotbic.

Content that I should ask the Scottish Office to keep you closely informed on the follow-up to the White Paper before decisions are taken?

pp P. GRAY
7 APRIL 1989

Yes please

MRMANR

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PRIME MINISTER

7 April 1989

SCOTTISH ENTERPRISE

Bill Hughes came to see us recently to highlight some serious concerns about the way in which the Scottish Enterprise initiative is developing.

He raised some important issues. We suggest you flag them up with the Scottish Office. Ian Lang is coming in to see your next week to discuss the Scottish speech. This might provide the opportunity.

Bill raised two main concerns:

a) The hitherto corporatist approach of the SDA has failed to tackle the fundamental underlying weaknesses of the Scottish economy. Two recent reports by Peat Marwick provide evidence to support this view.

b) The SDA response to the Scottish Enterprise White Paper proposes cosmetic changes to its existing methods of operation. What is required are more fundamental changes along the lines proposed by Scotbic.

The Peat Marwick Reports

Both Reports indicate that - despite the much trumpeted successes of the SDA - Scottish industry could be much more enterprising.

First, the rate of new business formation and growth in Scotland has been low:

- Scotland has contributed only 4 per cent of stockmarket/Unlisted Securities Market entrants since 1980;

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- only three Scottish management buy-outs have exceeded £10m (despite the fact that Scottish-based advisers have helped many of the UK's largest buy-outs elsewhere).

Second, the low rate of growth in sales by Scottish manufacturing companies is matched by their failure to innovate:

- 65 per cent of the companies surveyed reported low growth rates;

- rates of innovation are low with 40 per cent of companies reporting "few" or "some" changes.

Third, Scottish companies seem less aware of new market opportunities and less active in pursuing them:

- only 6 per cent of the companies surveyed rate 1992 and the completion of the Single Market as their main future challenge;

- although 74 per cent of Scottish manufacturing companies are exporters, 54 per cent do not export to Europe;

- the vast majority of Scottish manufacturing industry see the main strategic objective as as increasing their share of existing markets; 42 per cent have no plans to enter new markets with new products.

Implications for Government Policy

The Scottish Enterprise initiative is one of the major levers by which the Government can seek to turn this situation around.

Consultation on the White Paper has now been completed. Two distinct views have emerged. One view is represented by the SDA. It is a thinly veiled attempt to preserve the status quo. The alternative view, proposed by Sir Hector

Laing and Scotbic, represents a more radical devolution of power to the private sector. Scotbic's proposals are, therefore, much closer to Bill Hughes' original concept.

The most important differences between the SDA proposals and those of Scotbic are as follows:

1. **Appointment of Chairman and Board**

- SDA: Secretary of State seeks nominations and, appoints Chairmen of local agencies who propose boards for approval.

- Scotbic: the local, business-led, community identifies local board by consultation and agreement. Board elects chairman. Jointly they bid to become the local agency.

2. **Size of Network**

- SDA: 9 "Area Development Companies" (ADCs) based on existing SDA regional office areas.

- Scotbic: self-selection by local boards based on what they believe to make economic and territorial sense. Scotbic believe that this would lead to a network of 16-22 agencies. This network would be more locally focussed and self-selection would generate a greater degree of business commitment.

3. **Relationship with Scottish Enterprise**

- SDA: the ADCs would become initially part of the corporate structure of the SDA. Ultimately their relationship would be akin to that of subsidiary operating companies accountable to a central holding company.

- Scotbic: local agencies should be independent. Their relationship to Scottish Enterprise should be regulated

by means of a contract reviewed every three years (subject to satisfactory performance).

Conclusion

The Peat Marwick reports highlight the continuing weaknesses in the Scottish economy. These weaknesses remain despite (and one might argue, partly because of) all the efforts of the SDA.

Scottish Enterprise provides an opportunity to effect real changes.

The SDA have welcomed the initiative. But their response to the White paper is an appeal - subtly seasoned with a few cosmetic concessions - for the status quo. Their approach is top-down, imposed and corporatist. It will stifle intiative.

The Scotbic approach is bottom-up, and achieved through local initiative, consultation and agreement.

Predictably the Scottish establishment and media favour the SDA approach. (The attached article is typical of current Scottish comment). The Scottish Office will be under great pressure to take the line of least resistence. That would be disastrous. It would play into the hands of those who have seen Scottish Enterprise as a means, not of transforming the culture of the SDA, but of expanding its powers by adding training resources to its budget.

Recommendation

The Scottish Office is now beginning to consider the responses to the White Paper. Because of the importance of these issues, we recommend that you ask to be kept closely informed of developments so that there is no dilution of Bill Hughes' original concept.

Andrew Dunlop.

ANDREW DUNLOP

Mr Rifkind, don't destroy the momentum of economic development

I have not sent you a submission of my own on your Scottish Enterprise proposals. That's not really what journalists are for. However, the deadline for comments falls today and since I seem to have written an awful lot of words on the subject since Bill Hughes first shared his thoughts on merging the work of the Scottish Development Agency and the Training Agency with me last June, I wanted to put a few last concerns to you as you ponder the pile of submissions and come to a final conclusion about the way ahead.

First, we all understand the political backdrop to Scottish Enterprise. We are only too aware of the distress members of your party feel when they don't get the political credit for costly initiatives like the Glasgow Garden Festival or other features of the Second City's urban facelift. Your Minister of State Ian Lang made the point with crystal clarity at your conference in Perth last May.

Your party's instinctive desire is to lay finally to rest any vestiges of socialist interventionism that still cling to the SDA. You all want, I suspect, an alternative creation that springs directly from the Tory Party's loins, one whose paternity is not in any doubt.

The danger you face is that, in creating Scottish Enterprise, in giving private sector employers "a sense of ownership" of the system of training and enterprise creation (as the White Paper rather unhappily puts it), you will, in fact, destroy much of the momentum on economic development that has been built up in many parts of Scotland in recent years. And you will destroy it at a time when, with the advent of the single European market, Scotland's still-fragile economic base is singularly vulnerable.

Now, I do not count myself among those who suspect you (or your party's former press supremo, Alex Padgett, for that matter) of a Machiavellian plot to fillet the SDA completely and exorcise a socialist ghost still stalking Bothwell Street.

You are, I suspect, too much of a pragmatist for that. Your recent offer of an olive branch to Cosla, your desire to be seen to be saving the Longannet mine complex (even at the cost of higher electricity tariffs), and your willingness to be cast as the prime protector of Scottish & Newcastle's independence, all lend credence to that conclusion.

But some of your colleagues have no such scruples. They would be happy to see the SDA gutted. If you play into their hands do you really think that would add a single vote to the Tory Party's account in Scotland?

The kernel of the original Hughes concept, the integration of training with the rest of economic development, has been welcomed almost everywhere. It has never made any sense to keep the development of Scotland's human skills base in a separate box, largely run from Sheffield.

But many of us are far from convinced that you have achieved real devolution of responsibility for training in Scotland. Norman Fowler's Employment Department remains the lead ministry for the whole UK. The big national schemes, ET and YTS, will continue to dominate training budgets.

And beyond that, as demography renders the worst of our current unemployment problem a thing of the past, your Government has made it perfectly clear that it expects employers to shoulder more of the responsibility, and the cost of training.

Still, once control of a £350m training budget is devolved, however imperfectly, a lot of discretion can be applied to spending it. In the short term, even if only 10% of that budget, say £35m, is not fully spoken for in ET and YTS provision, enough flexibility exists to make some impact on the present mismatch between training and skill requirements.

But Scottish Enterprise will only achieve that advance if it takes the public providers of much of our core training along with it. Your efforts to give employers a sense of ownership of the system has, unfortunately, appeared to have as its corollary, freezing the local authorities out.

Surely all the evidence of the SDA's past successes (and your own White Paper makes this very point) is that maximum economic development impact is achieved when the public and private sectors work together in harmony. Leverage, they call it. An ugly word, but an effective concept. Let's hope your sweet-talking at Cosla will extend to public sector involvement in Scottish Enterprise.

Finally, a word about the SDA's future in the new set-up. The agency's total annual budget of £150m generates about £600m spending in the marketplace. That's about 10% of total capital formation, including housing, in Scotland in any one year. A big slice of the action to risk dissipating.

Yet, apart from ScotBIC, the umbrella body for local enterprise trusts, there is a thread of concern running through many of the submissions I have read that, by devolving too many responsibilities to too many local agencies, you will, indeed, fritter away much of what has been achieved so far.

While there are many admirable people working in enterprise trusts, that network's main forte is delivering local small business support services. With an average budget of little more than £100,000 a year, many spend much of their time going round with the cap for further funds to keep the doors open.

Frankly, ScotBIC (which has angered some of its own trusts by the opportunist tone of its submission) is short on real experience of economic development, but very long on ambition.

The SDA, on the other hand, while it certainly has its faults, has developed a real strategic capacity to mount and sustain major economic initiatives. Its staff know the inward investment game and the area development game. It will make money on the St Enoch's development. And on the reconstruction of the Broomielaw.

Are you really prepared to throw all that expertise up in the air? Do you really want the already-demoralised staff of both the SDA and the Training Agency to have to reapply for their jobs to local groups dominated by businessmen who, no matter how enthusiastic and dedicated, are likely to know less about the nitty-gritty of economic development than the people they are interviewing?

I didn't think much of the way the SDA presented its alternative version of Scottish Enterprise. I was even less impressed by their weak-kneed discarding of their own name. But there is plenty in what the agency had to say that you should ponder very carefully.

Scottish Enterprise is a big opportunity. But it is also a big opportunity to get things spectacularly wrong. If you do, at a time when Scotland is still economically vulnerable, you'll find few, even in the business community, who will forgive you.

Yours sincerely,

Alf Young

Malcolm Rifkind: urged not to wave goodbye to the momentum on economic development that has been built up in many parts of Scotland in recent years.

HERALD 31/3/89

Scottish Enterprise

4.22 pm

The Secretary of State for Scotland (Mr. Malcolm Rifkind): With permission, Mr. Speaker, I should like to make a statement about the White Paper on Scottish Enterprise, laid before Parliament today. The proposals set out in this paper will further strengthen the Scottish economy to meet the challenges of the 1990s by integrating the Government's support for training and for enterprise creation into a new body, Scottish Enterprise.

The Government have already transformed the British economy and given new confidence to industry, commerce and, indeed, the whole business community. We have reformed industrial relations legislation, stimulated increases in productivity, pushed forward a programme of deregulation, and opened up many sectors of the economy to competition through our privatisation programme and by other means. As a result, unemployment is now in sharp decline and enterprise is flourishing.

As these processes have gained in momentum, our two main instruments of direct support to the business of wealth creation in Scotland have seen a change of emphasis. The Scottish Development Agency, in its early years preoccupied with the problems of declining and elderly industries, now has the more positive purposes of accommodating, advising, informing, financing, attracting and developing enterprise, as well as a continuing commitment to renewing our environment. The Training Agency has coped admirably with the difficult and demanding task of alleviating the worst ills of unemployment, but it is now increasingly engaged in the aim of uprating and updating the skills of new entrants to the labour market, of unemployed adults and, indeed, of those in jobs.

As we enter the 1990s, two challenges face us. One is that of international competition, typified by the single European market in 1992. Skills of the highest order will be required at every level as firms increasingly look outward. The other challenge is the prospect of skill shortages. Continued growth is offering the unemployed wider opportunities, while the number of young entrants to the labour market is set to decline in Scotland, as elsewhere.

These challenges are combining to bring into sharp focus the need for a new and integrated approach. Enterprise creation and the growth of existing businesses are inextricably bound up with developing the skills of the work force. Industry is now prospering and able to shoulder its full responsibility for investing in the skills of its work force. Employers have to rediscover fully a sense of ownership of the system of training and enterprise creation. It is my hope that the proposals I am announcing today will constitute a quantum leap forward in this process.

Our proposals involve the creation of a new national body, Scottish Enterprise, whose main role will be to consider strategic issues relating to enterprise, employment creation and training and a network of employer-led local agencies, which will be responsible for stimulating the growth of self-sustaining enterprise, encouraging the creation of viable jobs and improving the skills of the work force in each area.

Scottish Enterprise will be a powerful agent for change. The statutory functions and powers of Scottish Enterprise will be broadly like those in the Scottish Development Agency Act 1975, as amended, together with the powers in the Employment and Training Act 1973, as amended. Consequently, Scottish Enterprise will have a wide-ranging remit to enable it to continue the process of building the enterprise culture in Scotland.

It will continue the vital ongoing work of the SDA, but in addition, and for the first time, training in Scotland will be delivered through a Scottish body, working within a training policy framework for Great Britain agreed with my right hon. Friend the Secretary of State for Employment, but answerable to and provided with its resources by the Secretary of State for Scotland. Broadly speaking, Scottish Enterprise can be expected to receive the level of funding which would otherwise have been provided both for the Scottish Development Agency and for training programmes in Scotland. In the curent year, that would amount to the best part of £500 million. The challenge for Scottish Enterprise and for the Scottish Office will be to use this enhanced role to meet the needs of business in Scotland in the 1990s.

A radical feature of our proposals is the creation of a comprehensive network of employer-led local agencies. Such local agencies will offer one-door approach to employers and the wider community and will enable provision to be more closely attuned to the needs of the local labour market. They will allow local employers and others a much greater say in the delivery of services in their areas for training and enterprise creation. The opportunity is there to forge strong partnerships at local level and to provide a powerful focus for effecting local change. Local agency functions will include analysing the local labour market, developing training plans, subcontracting training work and monitoring performance, encouraging employers to increase their investment in training and providing business advice and support. Local agencies will, therefore, be responsible for the delivery of training tailored to meet local needs while operating within the framework of national policy.

Once local agencies have gained in strength and confidence, and shown themselves capable of taking on wider responsibilities, certain functions at present carried out by the Scottish Development Agency may be devolved to them. There are attractions in delegating as much authority as possible to the local level. However, in certain of its areas of operation, a national remit and powers have proved a major strength of the agency. A balance will have to be struck between local and central powers which enables the retention of present strengths as well as the desired improvement of local delivery. The Government have not yet come to a conclusion as to where this balance should lie and would welcome the views of all those concerned.

To set up the local agencies proposed, the Government will issue a prospectus inviting local employers to come forward with others from the community, such as people from enterprise trusts, colleges, training providers, trade unions, local authorities and voluntary organisations, to form the board of management in each area. We would expect two thirds or more of the membership to come from the senior ranks of private sector business. The Government are committed to giving the employers who will lead local agencies real responsibilities and the power to take the main decisions within a framework that ensures

[Mr. Malcolm Rifkind]

public accountability. We are confident that within each community there are local employers and others who can rise to this exciting new challenge.

I am aware that these proposals will touch directly the lives of many people in Scotland: trainees, trainers, those already involved in enterprise support and, of course, the staff of the two bodies that are to merge. The success of Scottish Enterprise and of the local agencies will depend greatly upon the quality of their staff. For that reason, the Government believe that many of the staff in both the SDA and the Training Agency will choose to continue their present work with either Scottish Enterprise or the local agencies.

I should now like to draw attention to the position in the highlands and islands. We have in mind that the same principles outlined for Scottish Enterprise and the local agencies should apply there. Local employers should be given the opportunity to take a similar role as elsewhere. Of course, the geographical and economic characteristics of the north and west are different and we recognise the distinctive value of the contribution made by the Highlands and Islands Development Board to the regeneration of its area. We take the view that future arrangements must build on success to date. This points to the retention of a distinctive body for the highlands and islands and we put forward three options: to set up a new body, Highland Enterprise, incorporating the HIDB's functions together with responsibility for training; to retain the HIDB as it is and invite Scottish Enterprise to set up local agencies for training services in the highlands and islands; or to invite the HIDB to act as a local agency with Scottish Enterprise for training provision. We look forward to hearing the views of those who live and work in the highlands and islands on these options.

In conclusion, I take pride both in pointing to the achievements of the past and in presenting a White Paper which opens up challenging new vistas for the future. In so doing, I pay tribute to the contribution of Bill Hughes of the Scottish CBI who has stimulated public interest and debate in these ideas. I have been delighted by the widespread interest and enthusiasm for these proposals already obvious in public and private comment over recent weeks. It is clear that the people of Scotland are attracted to the new opportunities offered by this approach to training and enterprise creation. Important new responsibilities are proposed for the Scottish Office, for the staff of the Scottish Development Agency and for those involved in training, and especially for the Scottish business and industrial community.

We have not sought to answer all the questions at this stage. There will now follow a full consultation period until the end of March. I hope that everyone concerned with training and enterprise in Scotland will take the trouble to comment on these proposals so that together we can produce the best possible Scottish solution to Scottish needs.

Mr. Donald Dewar (Glasgow, Garscadden): I cannot remember any announcement that has been so well trailed and heralded. When we received it, the statement had been well decorated with public relations copy, including a fetching picture of a well-known Glasgow public house. The Secretary of State has done well in the cliché business in the past few minutes. There was one really purple passage at the beginning, which says something for the right hon. and learned Gentleman's courage, or at least for his brass neck. However, it is not clear how much substance there is behind the style. I suspect that those who were alarmed by the advance publicity will be at least temporarily relieved and that those who wanted a real attack on the problems of industrial training will be bitterly disappointed.

I shall start with the positive, because there is a positive side. I agree with the Secretary of State and welcome the need for a Scottish dimension to training. There should be a means of tailoring schemes to our needs in Scotland. I welcome the transfer of responsibility to the Scottish Office, although I note that the Department of Employment will still call the shots on national schemes. Will the Secretary of State note that one test for the new organisation when it is in being will be its ability, working with the Scottish Office, to influence the development of employment training and new training schemes?

There is an assumption in the White Paper that training is done for, not by, industry. There is no attack on the sad failure of industry in this country, which has left us trailing so far behind our principal competitors. At some point the Government must think seriously about the responsibility of industry, not just in terms of seconding an occasional executive to a local agency, but of tackling training in its own plants and factories with determination and the necessary resources.

The Secretary of State said that local agencies will be employer-led. We will expect them to represent the community generally. There must be a partnership, and few of us are convinced that there is an army of bright business men ready to enrol. In any event, whatever contribution employers may make to the new structure, they cannot have exclusive jurisdiction. The trade unions and local education authorities must have their place—not just a nod in passing.

There was also an assumption in the White Paper that the new structure will be funded simply by aggregating the existing budgets of the Scottish Development Agency and the Training Agency in Scotland. I take it from that that there is to be no new money to back the new proposals. The Secretary of State must accept that adequate funding is essential if the quality is to be established and maintained. Our European competitors do that and do it well. Why should we not do the same? The Secretary of State talks about the challenge of 1992, but there will simply be window dressing if the investment is not made.

Training will obviously impact heavily on the Scottish Development Agency. Many of us feel that the case for combining the SDA and the Training Agency is not proven. Does the Secretary of State recall that the Opposition set down a number of tests which should be met?

I should like to ask the Secretary of State a number of specific questions. Will Locate in Scotland be affected in any way by the new arrangements? Will the ability of the Scottish Development Agency to stimulate investment, back growth and provide risk capital be in any way inhibited? Will the agency be able to mount local task forces and initiatives, linking with local authorities and the community, such as we have seen in Dundee, GEAR, Greenock and the Garnock valley? What happens to the Scottish Development Agency's decentralised structure? Will it continue, given that the agency's functions appear to be largely unaffected, at least at this stage? Does the

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Alison Smith
Private Secretary
Lord President's Office
Privy Council Office
Whitehall
LONDON
SW1A 2AT

5 December 1988

Dear Alison

SCOTTISH ENTERPRISE - PARLIAMENTARY STATEMENT

David Crawley wrote to Paul Gray on 30 November about the Draft White Paper on "Scottish Enterprise".

I now enclose a draft of the statement Mr Rifkind intends to make about the White Paper in the House tomorrow afternoon - Tuesday 6 December. I would be grateful for your clearance and that of copy recipients by close of play today.

Copies of this letter go to Paul Gray and the Private Secretaries to Cabinet members, Eleanor Goodison, Trevor Woolley, Murdo Maclean (Chief Whip, Commons), Rhodri Walters (Chief Whip, Lords) and Bernard Ingham (No 10).

Yours sincerely

L WRIGHT
Private Secretary

Enc

HMP340F3.010

DRAFT STATEMENT BY THE SECRETARY OF STATE

MR SPEAKER, WITH PERMISSION I SHOULD LIKE TO MAKE A STATEMENT ABOUT THE WHITE PAPER ON SCOTTISH ENTERPRISE, LAID BEFORE PARLIAMENT TODAY. THE PROPOSALS SET OUT IN THIS PAPER WILL FURTHER STRENGTHEN THE SCOTTISH ECONOMY TO MEET THE CHALLENGES OF THE 1990S, BY INTEGRATING THE GOVERNMENT'S SUPPORT FOR TRAINING AND FOR ENTERPRISE CREATION INTO A NEW BODY, SCOTTISH ENTERPRISE.

THIS GOVERNMENT HAS ALREADY TRANSFORMED THE BRITISH ECONOMY AND GIVEN NEW CONFIDENCE TO INDUSTRY, COMMERCE AND INDEED THE WHOLE BUSINESS COMMUNITY. WE HAVE REFORMED INDUSTRIAL RELATIONS LEGISLATION, STIMULATED INCREASES IN PRODUCTIVITY, PUSHED FORWARD A PROGRAMME OF DEREGULATION, AND OPENED UP MANY SECTORS OF THE ECONOMY TO COMPETITION THROUGH OUR PRIVATISATION PROGRAMME AND BY OTHER MEANS. AS A RESULT UNEMPLOYMENT IS NOW IN SHARP DECLINE AND ENTERPRISE IS FLOURISHING.

AS THESE PROCESSES HAVE GAINED IN MOMENTUM OUR TWO MAIN INSTRUMENTS OF DIRECT SUPPORT TO THE BUSINESS OF WEALTH CREATION IN SCOTLAND HAVE SEEN A CHANGE OF EMPHASIS. THE SCOTTISH DEVELOPMENT AGENCY, IN ITS EARLY YEARS PREOCCUPIED WITH THE PROBLEMS OF DECLINING AND ELDERLY INDUSTRIES, NOW HAS MORE POSITIVE PURPOSES, ACCOMMODATING, ADVISING, INFORMING, FINANCING, ATTRACTING AND DEVELOPING ENTERPRISE, AS WELL AS A CONTINUING COMMITMENT TO RENEWING OUR ENVIRONMENT. THE TRAINING AGENCY HAS COPED ADMIRABLY WITH THE DIFFICULT AND DEMANDING TASK OF ALLEVIATING THE WORST ILLS OF UNEMPLOYMENT, BUT IS NOW INCREASINGLY ENGAGED IN THE AIM OF UPRATING AND UPDATING THE SKILLS OF NEW ENTRANTS TO THE LABOUR MARKET, OF UNEMPLOYED ADULTS AND INDEED OF THOSE IN JOBS.

AS WE ENTER THE 1990S, TWO CHALLENGES FACE US. ONE IS THAT OF INTERNATIONAL COMPETITION, TYPIFIED BY THE SINGLE EUROPEAN MARKET IN 1992. SKILLS OF THE HIGHEST ORDER ARE GOING TO BE REQUIRED AT EVERY LEVEL AS FIRMS INCREASINGLY LOOK OUTWARD. THE OTHER CHALLENGE IS THE PROSPECT OF SKILL SHORTAGES. CONTINUED GROWTH IS OFFERING THE UNEMPLOYED WIDER OPPORTUNITIES, WHILE THE NUMBER OF YOUNG ENTRANTS TO THE LABOUR MARKET IS SET TO DECLINE, IN SCOTLAND AS ELSEWHERE.

THESE CHALLENGES ARE COMBINING TO BRING INTO SHARP FOCUS THE NEED FOR A NEW AND INTEGRATED APPROACH. ENTERPRISE CREATION AND THE GROWTH OF EXISTING BUSINESSES IS INEXTRICABLY BOUND UP WITH DEVELOPING THE SKILLS OF THE WORK FORCE. INDUSTRY IS NOW PROSPERING AND ABLE TO SHOULDER ITS FULL RESPONSIBILITY FOR INVESTING IN THE SKILLS OF ITS WORK FORCE. EMPLOYERS HAVE TO REDISCOVER FULLY A SENSE OF OWNERSHIP OF THE SYSTEM OF TRAINING AND ENTERPRISE CREATION. IT IS MY HOPE THAT THE PROPOSALS I AM ANNOUNCING TODAY WILL CONSTITUTE A QUANTUM LEAP FORWARD IN THIS PROCESS.

MR SPEAKER, OUR PROPOSALS INVOLVE THE CREATION OF A NEW NATIONAL BODY, SCOTTISH ENTERPRISE, WHOSE MAIN ROLE WILL BE TO CONSIDER STRATEGIC ISSUES RELATING TO ENTERPRISE, EMPLOYMENT CREATION AND TRAINING; AND OF A NETWORK OF EMPLOYMENT-LED LOCAL AGENCIES, WHICH WILL BE RESPONSIBLE FOR STIMULATING THE GROWTH OF SELF-SUSTAINING ENTERPRISE, ENCOURAGING THE CREATION OF VIABLE JOBS AND IMPROVING THE SKILLS OF THE WORKFORCE IN ITS AREA.

SCOTTISH ENTERPRISE WILL BE A POWERFUL AGENT FOR CHANGE. THE STATUTORY FUNCTIONS AND POWERS OF SCOTTISH ENTERPRISE WILL BE BROADLY AS IN THE SCOTTISH DEVELOPMENT AGENCY ACT 1975 AS AMENDED, TOGETHER WITH THE POWERS IN THE EMPLOYMENT AND TRAINING ACT 1973 AS AMENDED. CONSEQUENTLY SCOTTISH ENTERPRISE WILL HAVE A WIDE-RANGING REMIT TO ENABLE IT TO CONTINUE THE PROCESS OF BUILDING THE ENTERPRISE CULTURE IN SCOTLAND.

IT WILL CONTINUE THE VITAL ON-GOING WORK OF THE SDA BUT IN ADDITION AND FOR THE FIRST TIME TRAINING IN SCOTLAND WILL BE DELIVERED THROUGH A SCOTTISH BODY, WORKING WITHIN A TRAINING POLICY FRAMEWORK FOR GREAT BRITAIN BUT ANSWERABLE FOR POLICY AND FOR ITS RESOURCES TO THE SECRETARY OF STATE FOR SCOTLAND. BROADLY SPEAKING, SCOTTISH ENTERPRISE CAN BE EXPECTED TO RECEIVE THE LEVEL OF FUNDING WHICH WOULD OTHERWISE HAVE BEEN PROVIDED BOTH FOR THE SCOTTISH DEVELOPMENT AGENCY AND FOR TRAINING PROGRAMMES IN SCOTLAND. IN THE CURRENT YEAR THIS WOULD AMOUNT TO THE BEST PART OF £500M. THE CHALLENGE FOR SCOTTISH ENTERPRISE AND FOR THE SCOTTISH OFFICE WILL BE TO USE THIS ENHANCED ROLE TO MEET THE NEEDS OF BUSINESS IN SCOTLAND IN THE 1990S.

A RADICAL FEATURE OF OUR PROPOSALS IS THE CREATION OF A COMPREHENSIVE NETWORK OF EMPLOYER LED LOCAL AGENCIES. SUCH LOCAL AGENCIES WILL OFFER A ONE-DOOR APPROACH TO EMPLOYERS AND THE WIDER COMMUNITY; AND WILL ENABLE PROVISION TO BE MORE CLOSELY ATTUNED TO THE NEEDS OF THE LOCAL LABOUR MARKET. THEY WILL ALLOW LOCAL EMPLOYERS AND OTHERS A MUCH GREATER SAY IN THE DELIVERY OF SERVICES IN THEIR AREAS FOR TRAINING AND ENTERPRISE CREATION. THE OPPORTUNITY IS THERE TO FORGE STRONG PARTNERSHIPS AT LOCAL LEVEL, AND PROVIDE A POWERFUL FOCUS FOR EFFECTING LOCAL CHANGE. LOCAL AGENCY FUNCTIONS WOULD INCLUDE ANALYSING THE LOCAL LABOUR MARKET; SUBCONTRACTING TRAINING WORK AND MONITORING PERFORMANCE; ENCOURAGING EMPLOYERS TO INCREASE THEIR INVESTMENT IN TRAINING; AND PROVIDING BUSINESS ADVICE AND SUPPORT.

LOCAL AGENCIES WILL, THEREFORE, BE RESPONSIBLE FOR THE DELIVERY OF TRAINING TAILORED TO MEET LOCAL NEEDS WHILE OPERATING WITHIN THE FRAMEWORK OF NATIONAL POLICY.

ONCE LOCAL AGENCIES HAVE GAINED IN STRENGTH AND CONFIDENCE, AND SHOWN THEMSELVES CAPABLE OF TAKING ON WIDER RESPONSIBILITIES, CERTAIN FUNCTIONS AT PRESENT CARRIED OUT BY

THE SCOTTISH DEVELOPMENT AGENCY MIGHT BE DEVOLVED TO THEM. THERE ARE ATTRACTIONS IN DELEGATING AS MUCH AUTHORITY AS POSSIBLE TO THE LOCAL LEVEL. HOWEVER, IN CERTAIN OF ITS AREAS OF OPERATION, A NATIONAL REMIT AND POWERS HAVE PROVED A MAJOR STRENGTH OF THE AGENCY.

A BALANCE WILL HAVE TO BE STRUCK BETWEEN LOCAL AND CENTRAL POWERS WHICH ENABLES THE RETENTION OF PRESENT STRENGTHS AS WELL AS THE DESIRED IMPROVEMENT OF LOCAL DELIVERY.

THE GOVERNMENT HAVE NOT YET COME TO A CONCLUSION AS TO WHERE THIS BALANCE SHOULD LIE AND WOULD WELCOME THE VIEWS OF ALL THOSE CONCERNED.

TO SET UP THE LOCAL AGENCIES PROPOSED THE GOVERNMENT WILL ISSUE A PROSPECTUS INVITING LOCAL EMPLOYERS TO COME FORWARD WITH OTHERS FROM THE COMMUNITY SUCH AS PEOPLE FROM ENTERPRISE TRUSTS, COLLEGES, TRAINING PROVIDERS, TRADE UNIONS, LOCAL AUTHORITIES AND VOLUNTARY ORGANISATIONS TO FORM THE BOARD OF MANAGEMENT IN EACH AREA. WE WOULD EXPECT TWO-THIRDS OR MORE OF THE MEMBERSHIP TO COME FROM THE SENIOR RANKS OF PRIVATE SECTOR BUSINESS. THE GOVERNMENT ARE COMMITTED TO GIVING THE EMPLOYERS WHO WILL LEAD LOCAL AGENCIES REAL RESPONSIBILITY AND THE POWER TO TAKE THE MAIN DECISIONS WITHIN A FRAMEWORK WHICH ENSURES PUBLIC ACCOUNTABILITY. WE ARE CONFIDENT THAT WITHIN EACH COMMUNITY THERE ARE LOCAL EMPLOYERS AND OTHERS WHO CAN RISE TO THIS EXCITING NEW CHALLENGE.

I AM AWARE THAT THESE PROPOSALS WILL TOUCH DIRECTLY THE LIVES OF MANY PEOPLE IN SCOTLAND: TRAINEES, TRAINERS, THOSE ALREADY INVOLVED IN ENTERPRISE SUPPORT, AND OF COURSE THE STAFF OF THE 2 BODIES WHICH ARE TO MERGE. THE SUCCESS OF SCOTTISH ENTERPRISE AND OF THE LOCAL AGENCIES WILL DEPEND GREATLY UPON THE QUALITY OF ITS STAFF. FOR THIS REASON THE GOVERNMENT HOPE THAT MANY OF THE STAFF IN BOTH THE SDA AND THE TRAINING AGENCY WILL CHOOSE TO CONTINUE IN THE EMPLOYMENT OF EITHER SCOTTISH ENTERPRISE OR THE LOCAL AGENCIES.

I SHOULD NOW LIKE TO DRAW ATTENTION TO THE POSITION IN THE HIGHLANDS AND ISLANDS. WE HAVE IN MIND THAT THE SAME PRINCIPLES OUTLINED FOR SCOTTISH ENTERPRISE AND THE LOCAL AGENCIES SHOULD APPLY THERE. LOCAL EMPLOYERS SHOULD BE GIVEN THE OPPORTUNITY TO TAKE A SIMILAR ROLE AS ELSEWHERE. OF COURSE THE GEOGRAPHICAL AND ECONOMIC CHARACTERISTICS OF THE AREA ARE DIFFERENT IN THE NORTH AND WEST, AND WE RECOGNISE THE DISTINCTIVE VALUE OF THE CONTRIBUTION MADE BY THE HIGHLANDS AND ISLANDS DEVELOPMENT BOARD TO THE REGENERATION OF THEIR AREA. WE TAKE THE VIEW THAT FUTURE ARRANGEMENTS MUST BUILD ON SUCCESS TO DATE. THIS POINTS TO THE RETENTION OF A DISTINCTIVE BODY FOR THE HIGHLANDS AND ISLANDS AND WE PUT FORWARD 3 OPTIONS: TO SET UP A NEW BODY, HIGHLAND ENTERPRISE, INCORPORATING THE HIDB'S FUNCTIONS TOGETHER WITH RESPONSIBILITY FOR TRAINING; TO RETAIN THE HIDB AS IT IS AND INVITE SCOTTISH ENTERPRISE TO SET UP LOCAL AGENCIES FOR TRAINING SERVICES IN THE HIGHLANDS AND ISLANDS; OR INVITE THE HIDB TO ACT AS A LOCAL AGENCY WITH SCOTTISH ENTERPRISE FOR TRAINING PROVISION. WE LOOK FORWARD TO HEARING THE VIEWS OF THOSE WHO LIVE AND WORK IN THE HIGHLANDS AND ISLANDS ON THESE OPTIONS.

IN CONCLUSION, MR SPEAKER, I TAKE PRIDE BOTH IN POINTING TO THE ACHIEVEMENTS OF THE PAST AND IN PRESENTING A WHITE PAPER WHICH OPENS UP CHALLENGING NEW VISTAS FOR THE FUTURE. IN SO DOING I PAY TRIBUTE TO THE CONTRIBUTION OF BILL HUGHES OF THE SCOTTISH CBI WHO HAS STIMULATED PUBLIC INTEREST AND DEBATE IN THESE IDEAS. I HAVE BEEN DELIGHTED BY THE WIDESPREAD INTEREST IN AND ENTHUSIASM FOR THESE PROPOSALS ALREADY OBVIOUS IN PUBLIC AND PRIVATE COMMENT OVER RECENT WEEKS. IT IS CLEAR THAT THE PEOPLE OF SCOTLAND ARE ATTRACTED TO THE NEW OPPORTUNITIES OFFERED BY THIS APPROACH TO TRAINING AND ENTERPRISE CREATION. IMPORTANT NEW RESPONSIBILITIES ARE PROPOSED FOR THE SCOTTISH OFFICE, FOR THE STAFF OF THE SCOTTISH DEVELOPMENT AGENCY AND FOR THOSE INVOLVED IN TRAINING, AND ESPECIALLY FOR THE SCOTTISH BUSINESS AND

INDUSTRIAL COMMUNITY. WE HAVE NOT SOUGHT TO ANSWER ALL THE QUESTIONS AT THIS STAGE. THERE WILL NOW FOLLOW A FULL CONSULTATION PERIOD UNTIL THE END OF MARCH. I HOPE THAT EVERYONE CONCERNED WITH TRAINING AND ENTERPRISE IN SCOTLAND WILL TAKE THE TROUBLE TO COMMENT ON THESE PROPOSALS SO THAT TOGETHER WE CAN PRODUCE THE BEST POSSIBLE SCOTTISH SOLUTION TO SCOTTISH NEEDS.

I PRESENT THIS WHITE PAPER TO THE HOUSE.

SCOTLAND: POLICE PT2.

cst.ps/3pw2.12

CONFIDENTIAL

ECO

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

NBPM

RRC6

21/12

Clive Norris Esq
Private Secretary
to the Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London
SW1H 9NF

2 December 1988

Dear Clive,

SCOTTISH ENTERPRISE: FUTURE TRAINING ARRANGEMENTS IN SCOTLAND

The Chief Secretary has seen attached (file copy) Mr Fowler's letters (received on 30 November) to Mr Rifkind and Mr Walker. He has asked me to say that he is content with the agreement which has been reached in respect of the Scottish component of training expenditure, and with your Secretary of State's proposals for Wales. It will of course be necessary to decide in due course on the method of determining the Scottish element of training expenditure following agreement on the GB figure in the Survey.

I am copying this letter to Paul Gray (No.10), David Crawley (Scottish Office) Stephen Williams (Welsh Office) and to Trevor Woolley (Cabinet Office).

Yours,

Peter

PETER WANLESS
Assistant Private Secretary

SCOTLAND - Regional Policy June 79.

10 DOWNING STREET

Paul

Message from David Crawley re drafting of Scottish Enterprise White Paper.

SS/Scot would like the penultimate sentence of para 5.16 to read:

> Amongst employers in certain localities, Local Authorities may have a contribution to make.

Reason being, CBI in Scotland have laid stress on positive involvement of employers.

PG says impossible to clear with PM before Rhodes but he believes she would much prefer to leave sentence out all together - told Scot Office 1400 - 1/12

Wesley
1/12

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

1 December 1988

Dear Norman

SCOTTISH ENTERPRISE: FUTURE TRAINING ARRANGEMENTS IN SCOTLAND

Many thanks for your letter of yesterday following up our meeting on responsibility for future training arrangements.

I am glad that you can now agree to my approach to expressing Scottish Enterprise's PES provision for training. For my part I have studied carefully your formulation of a "concordat" to fill out the details of the inter-relationships between you, me and Scottish Enterprise on training. I am content with the substance of these, and have only one small point of drafting to suggest. The fourth indent on page 2 might be recast to clarify the joint nature of our monitoring duties in relation to Scottish Enterprise, thus:

> "Scottish Enterprise would provide the Secretaries of State for Employment and for Scotland with periodic monitoring reports on its training activities, or those of its subsidiaries, in a form and with a frequency to be agreed between the Employment Department and the Scottish Office".

As you say towards the end of your letter, the precise range of functions which Scottish Enterprise is to carry out as part of its training responsibilities has still be to defined. I am perfectly content to leave this matter to our officials, who will in any case have to keep closely in touch in the weeks ahead in implementing the principles which you and I have now agreed.

HMP336F7.010

May I say finally how much I appreciate the efforts you have made to secure a satisfactory resolution of these issues. I am copying this letter to the Prime Minister, John Major and Sir Robin Butler.

MALCOLM RIFKIND

HMP336F7.010

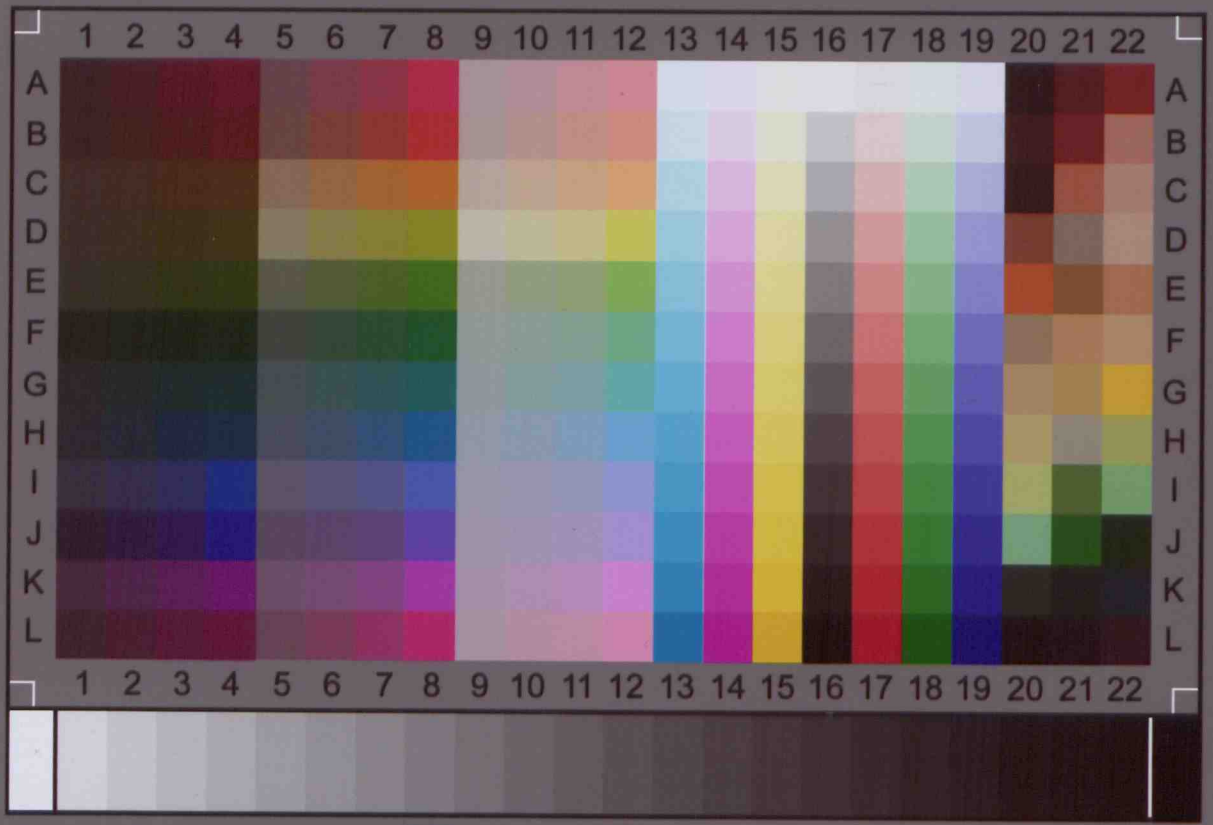
SCOTLAND: Policy
June 79

PART 1 ends:-

SS/Emp to SS/Scot 30.11.88

PART 2 begins:-

SS/Scot to SS/Emp 1.12.88



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