

# SUBMISSION FROM HIGHLANDS AND ISLANDS ENTERPRISE

## Introduction

### Who we are, what we are trying to achieve

Highlands and Islands Enterprise (HIE) is the Scottish Government's economic and community development agency for the north and west of the country. Our region comprises over half the Scottish land mass (including 94 inhabited islands) and is home to around 470,000 people.

HIE's role is to lead regional growth and development in line with Scotland's Economic Strategy (SES), improving competitiveness and building a fairer society across the Highlands and Islands. We welcome the opportunity to respond to this important consultation on work, wages and wellbeing in the Scottish labour market.

HIE's approach to regional development is closely aligned to the national priorities described in SES: Investment, Innovation, Internationalisation and Inclusive Growth. We help build successful businesses, social enterprises and resilient communities; support the growth of industry sectors, and invest in the strategic interventions which create the conditions for a competitive region. Our current priorities, planned activities and budget information can be found in our Operating Plan 2015-18, Building our Future. [[www.hie.co.uk/operatingplan](http://www.hie.co.uk/operatingplan)]

### What we do, how we do it, the difference we have made

For fifty years HIE (and its forerunner, the Highlands and Islands Development Board) has achieved success with partners in broadening the region's economic base, supporting business growth, strengthening communities, investing in modern infrastructure, fostering innovation, stimulating entrepreneurialism and encouraging the internationalisation of the region. Over that time the region's population has risen by 22% (following more than a century of continual decline), and at a rate faster than the Scottish average. While average wages are lower here than across Scotland as a whole (reflecting the structural make-up of the region's economy), the gap has narrowed over time, and continues to do so. Regional GDP, which was around 80% of UK average in the early 1990s is now 85%, and the proportion of Scotland's total GDP generated in the Highlands and Islands has risen from 6.7% in 1997 to 7.2% in 2013.

Real wages are lower now across the country than they were before the recession, but the long term trend has been upwards, and the gap in GDP per capita between the Highlands and Islands and the rest of the country has reduced over time.

The majority of HIE assisted jobs are above average wage rates and, whilst numbers may be small, in a regional context they are showing an increase over time. The average wage of a job assisted by HIE over the last five years is £35,000 and the median wage is £27,500. This compares with the Scottish figures of £25,500 and £21,700 respectively.<sup>1</sup>

This turnaround in fortunes is testament to the appeal the region has as a place to live, work, study and invest. The holistic approach taken to regional development, involving partnership working across the public sector and a shared vision on the long term outcomes we are working towards have been central to the region's performance in attracting and retaining population over the past half century.

Recent research (2015) commissioned by HIE to explore the attitudes and aspirations of 15-30 year-olds found that opportunity, quality of life and strong community links are some of the positive reasons young people are choosing to stay in the region. It is particularly encouraging to find that the majority of young people believe that the region is a better place to live now than it was five years ago, and that it will be better still in a further five years.

High quality jobs, opportunities for career progression, good access to housing, good access to further and higher education and affordable transport links were the top five factors that young people feel would make the region more appealing as a place to live.

Successful regional development requires concerted efforts on a range of fronts from a well-coordinated public sector. Developing communities that are attractive places to live is essential to draw in talent and wealth creators to stimulate and grow the economy. That development involves a range of interventions including:

### **Investing in businesses**

Business support should include incentives to innovate and to internationalise, driving up productivity rates and increasing resilience to external economic shocks. Stimulating growth and fostering ambition with the businesses and social enterprises that operate across the region lie at the heart of HIE's remit and have an impact on the quality of jobs being created and supported through our investments. Growth businesses create employment opportunities and attract people and investment into the region. Social enterprises do likewise and play a key role in the most rural areas, bringing both economic and community benefit.

- Through our account management approach HIE provides bespoke solutions incorporating a wide range of support, including access to national and international services and expertise. Building on this approach we continue to promote and encourage the adoption of the Scottish Business Pledge, articulating the benefits to both businesses and to the wider society.
- Strong leadership and an entrepreneurial culture are essential and our Encouraging Entrepreneurship initiative builds on successful programmes which hundreds of our businesses have taken advantage of. Our strategic partnership with the Massachusetts Institute of Technology (MIT) ensures that our business and social enterprise clients have access to world class products and services. HIE's Leadership programmes also stimulate ambition and create confidence and capacity in a wide range of business leaders to grow their organisation. Separately, these programmes are powerful, but together HIE's Leadership and Entrepreneurship support have stimulated significant growth in companies

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<sup>1</sup> Annual Survey of Household Earnings

such as Blueshell Mussels in Shetland and HWEnergy in Lochaber, creating extra jobs and more importantly good quality jobs.

- Supporting increased internationalisation across the business base is a priority for HIE. The challenge is to develop a more outward and globally aware region. We will develop the exporting base by working with experienced exporters to extend their reach and also work intensively with those businesses who have aspirations to expand into international markets. We will continue to deliver international business support directly and through our partnership with Scottish Development International (SDI). Between 2011 and 2015, over 200 managers and employees from circa 150 businesses have attended training courses to increase their knowledge and capacity to support exporting, widening their skills base, increasing their contribution to the business and helping the business to grow.
- Boosting innovation as set out in Scotland CAN DO is one of HIE's key aims and we are developing a dedicated Innovation Service to support organisations through their account managers and a team of innovation specialists. Innovation is very much about people being supported to think and work differently with input from within the workforce, from advisors, from academia or a combination of these. Denchi Power in Caithness have developed new testing kit with grant and advisory support from HIE and employee input at all levels. Now ready for the market, this development which is very much employee-led will lead to more high level jobs.
- We continue to ensure that our businesses continue to be able to access support from bodies such as the Scottish Manufacturing Advisory Service (SMAS), Scotland's universities, Interface, Innovate UK, Catapults, Enterprise Europe Network and others.
- We will also contribute to the new ministerial-led Innovation Forum and International Innovation and Investment hubs.
- HIE encourages and supports high growth businesses and social enterprises to employ graduates through our ScotGrad Programme. Efforts in this area support the development of Scotland's young workforce through the provision of opportunities to gain experience of working in the Highlands and Islands. Since 2010, HIE has supported 265 graduate placements and 165 summer placements with graduates working on project specific placements to realise growth or sustainability. Retention rates are over 50% with an additional 20% finding alternative graduate level employment in the region. As well as aiding business growth, the graduate programme provides graduate will vital graduate-level work experience in a supportive environment. In addition, graduates benefit from a residential training programme which develops, programme management skills, personal confidence and entrepreneurial and innovative thinking.

## **Investing in communities**

The Highlands and Islands is recognised as a region in which communities take responsibility for shaping their future, where an innovative social enterprise sector helps tackle inequality and create jobs, where community asset ownership and service delivery are well established and supported, and where unique cultural assets, including Gaelic, play a significant role in creating vibrant, strong communities. Investing in communities ensuring they have the skills (capacity) to develop and implement growth plans, and identify and provide the services they require to prosper and succeed is essential, particularly in more peripheral communities. Investing in local culture and heritage projects is a core component of this work.

## **Investing in the provision of further and higher education**

In addition to training the workforce of the future, colleges and universities contribute to the continuing education and development of the existing workforce. These institutions attract and develop talent, supplying the labour market with graduates and other qualified workers, helping increase capacity and driving up productivity. The growth and development of the University of the Highlands and Islands (alongside an increasing presence from five other Scottish higher education institutions) has been of critical importance to the region's increased prosperity over the past couple of decades. Over the past ten years the development of academic research has been a priority for HIE. For the knowledge-based sectors of the regional economy such as life sciences, energy and digital to grow, the region needs to ensure the conditions that support innovation are in place. In addition, a central component of our work with UHI will involve aligning investment with growth opportunities that exist across the region, including promoting the Highlands and Islands as a science region.

## **Investing in infrastructure**

Creating the conditions to support business growth includes ensuring that the business property market is of sufficiently high quality and fit for purpose. HIE is involved in a number of key property developments including;

- The Inverness Campus development with overall investment now approaching £100m, the state-of-the-art facility is being developed by Highland and Islands Enterprise which has invested around £25 million in the 215 acres of prime development land at Beechwood, Inverness. Independent research estimates the Campus has the potential to support up to 1,300 jobs at the Campus over the next five years with a further 940 jobs across the wider region.
- The European Marine Science Park outside Oban which contains 20,000 sq ft of office and laboratory space will support businesses in Scotland's growing Life Sciences and Energy sectors and has the potential to support up to 125 jobs. Benefits to the business community of being located at the EMSP include increased access to research, opportunities for knowledge exchange and the wider benefits of being part of a significant cluster of international expertise. The HIE Board approved an investment of £7.5m to create this first phase of the Park and contributed £4.5m of its own grant-in-aid budget, attracting the remaining £3m from the European Regional Development Fund (ERDF).

Property developments such as these have the potential to support the growth of indigenous businesses in key sectors. In addition these growing businesses generally pay higher than average wages which assists not just the local community but the region as a whole.

Affordable, reliable connectivity is essential for thriving, prosperous communities. Transport links (air, sea, rail and road) both within the region and between here and the rest of the world require continued investment to match consumer expectations and to keep pace with developments elsewhere. In addition, communications infrastructure is of paramount importance to ensure the economy operates at its optimum level. HIE is leading on a £146m broadband project to provide access to next generation services to 84% of the region's premises. In addition, HIE is delivering the Community Broadband Scotland programme on behalf of the Scottish Government to take services to those communities beyond the reach of the current fibre roll-out programme.

Sustained efforts in these areas have all contributed to the Highlands and Islands' revitalisation in recent decades, making it a more attractive place to live, work, study and invest.

## **Evidence from research**

With regard to wellbeing, evidence from ONS surveys suggests that people who live in the Highlands and Islands, particularly in the islands, are amongst the happiest in the UK. The scenery, the culture and a sense of belonging to a particular, distinct community are key factors here which have strong links to quality of life and wellbeing.

HIE's 'Young people and the Highlands and Islands: Attitudes and Aspirations research', published in July 2015, identifies the factors that make this region a more attractive place to live, and also highlights the issues the public sector should focus its efforts on in order to make it even more attractive in the future.

Six in ten young people who choose to stay in the region do so because they value the quality of life and are considered lucky to be able to do so. A further class themselves as 'reluctant leavers', with their departure being necessary due to a perceived lack of opportunity.

### **The current challenge and factors impacting upon it, and how we intend to focus our resources in the future**

Sustained focus on creating the conditions that will attract and retain talented people, fostering innovation and encouraging internationalisation of the business base will be essential if the gains made in recent years are to be capitalised upon in the future. Maximising the impact of the broadband roll-out and the distance-shrinking opportunities it creates for businesses, the provision of education and other public services and for society more widely is one key area where we can make a material difference to the quality of life offered across the region.

Data from the Annual Survey of Hours and Earnings (ASHE) shows consistently that average earnings in the Highlands and Islands are lower than across Scotland as a whole. This deficit is a function of the structure of the regional economy, including the importance of sectors such as food and drink, and tourism, which tend to pay lower wages. Evidence also suggests that there is a greater level of underemployment in more peripheral communities – where job opportunities don't make full use of the skills available within the economy.

Given the importance of these sectors to the regional economy, and given their potential for growth in the medium term, HIE works with employers and industry bodies to develop and disseminate new approaches to drive up productivity rates, improving competitiveness and resilience across the region. Maximising the use of digital technology, capitalising on provenance and introducing more efficient processing / manufacturing techniques are all ways in which HIE support can support the sustainability of the sector in the longer term.

The MIS Remote Rural Scotland research, commissioned in 2014 by a partnership led by HIE, demonstrates that the cost of living is higher in more sparsely populated, peripheral parts of the country (particularly small islands). The higher cost of living is a function of the distances people have to travel for work, the scattered nature of the settlements reducing retailers' economies of scale and the higher cost of domestic heating – related to the limitations of the gas grid and the age of the housing stock.

However, there is an underlying sense of confidence in the region, businesses express it in panel surveys undertaken by HIE in recent years, and the 4,400+ young people who contributed to our recent research exercise overwhelmingly suggest that the region is a better place to live now than it was five years ago, and that it will be better still in five years' time.

Investments in infrastructure such as the dualling of the A9 and A96, and the roll-out of Next Generation Broadband are essential to fostering long-term shared prosperity, but further progress will need to be made in mobile connectivity and ensuring the more peripheral parts of the region remain connected to the wider economy.