

HIGHLANDS and ISLANDS ENTERPRISE DRAFT BUDGET 2019-20

ECONOMY, ENERGY AND FAIR WORK COMMITTEE

DRAFT BUDGET 2019-20

SUBMISSION FROM: Highlands and Islands Enterprise

INTRODUCTION

This paper seeks to update the Economy, Energy and Fair Work Committee on Highlands and Islands Enterprise's (HIE's) achievements in 2017/18, our current delivery, and our focus for the future.

HIE structures its delivery under four operational priorities and these were refreshed in April 2018: Accelerating business growth; Strengthening communities; Supporting growth sectors; and Developing regional attractiveness. These priorities are mutually reinforcing and as a result, many of our interventions contribute to more than one of the 'four I's' of Scotland's Economic Strategy. In particular, investments in fragile and peripheral communities are by their nature *inclusive*, increasing the return those parts of the region can make to the country through provision of enabling infrastructure, capacity building, business growth and social impact, and access to employment and learning opportunities.

HIGHLIGHTS FROM HIE ACTIVITY IN 2017/18

In response to a request from the Committee, HIE and Audit Scotland accelerated timescales for producing the HIE annual report and accounts for 2017/18. These were laid in parliament in August, and are available to inform the Committee's scrutiny of our 2017/18 performance. In overall terms, HIE achieved a balanced budget with a total spend, including next generation broadband, of £91.6m. Scottish Government grant in aid of £69.5m was drawn down in full, which included £9.8m to fund Wave Energy Scotland. A further £0.5m for WES was funded by direct grant from Scottish Government, bringing the total WES funding to £10.3m.

In the short to medium term, HIE's investments will accelerate the growth of client businesses, social enterprises and communities across the region. Longer term impacts will be generated through our ongoing investment in infrastructure, including broadband, land and property developments, and broadening access to academic opportunity. It is anticipated that this update will be helpful, and we look forward to discussing more fully with Committee members at our forthcoming session in the Scottish Parliament on 25 September.

Highlights in the year 2017/18 include:

Inclusive growth

- 12% of business and social enterprise investment by HIE was in fragile areas
- 139 full time equivalent jobs created or safeguarded in fragile areas
- 179,223 premises now have access to fibre-based broadband through the Digital Scotland Superfast Broadband project
- Since launch in April 2016, the current Scottish Land Fund has invested £15.4m in 70 communities, half in the HIE area
- 37 graduate placements and 16 student placements supported through ScotGrad

Investment

- £23.7m approved to support the growth of businesses and social enterprises – the highest in 3 years
- 981 full time equivalent jobs created or safeguarded

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- 6 inward investments were attracted to the region, of which 4 were from new investors to Scotland, delivering 70.5 FTEs for the region
- HIE's leadership role in the collaborative development of Inverness Campus endorsed by independent evaluation. A new strategy is being progressed to inform Phase II.

Innovation

- 323 businesses supported through HIE's 'Innovate Your Business' service
- 408 instances of assistance through various support mechanisms
- 82 clients received in-depth innovation support through our in-house specialists
- £16m funding secured for the Northern Innovation Hub through the Highland City-Region Deal, ERDF and HIE.
- Wave Energy Scotland awards now total £28M to 62 projects involving 171 organisations from industry and academia.
- The Orkney Research and Innovation Campus Limited Liability Partnership was formally established and property ownership transferred from HIE's joint venture partner, Orkney Islands Council. Construction is currently under way.
- As part of our Creative Industries activity, XpoNorth 2017 attracted 2,500 delegates, produced 34 cross-creative seminars featuring a host of leading international speakers and showcased over 80 acts

Internationalisation

- Over 360 businesses supported through HIE's International Highlands and Islands programme
- £40.3m of increased international sales from supported clients
- 67 businesses (17%) in the portfolio are new exporters
- 21 account managed businesses are now on the highest rung of our "international ladder" (monitors progress) i.e. they have over 15% of their turnover generated from overseas sales and are actively engaged in looking at new markets.

FOCUS FOR THE FUTURE

HIE shares the aspiration of the Enterprise and Skills Strategic Board for further collaboration and a strengthened resolve for inclusive economic growth across Scotland and will work with partners to achieve the best outcomes for the Highlands and Islands.

The Highlands and Islands has continued to experience positive population and employment growth over the past few years, with the productivity gap closing. However, this growth is not shared equally across all parts of the region, with areas such as Argyll and the Islands still experiencing population decline and GVA per capita for the Outer Hebrides at 71% of total Scottish GVA and 66% of total UK GVA. There is clearly a need to continue to address internal disparities and at the same time grasp opportunities which contribute to regional and national growth.

Fundamentally the operating environment remains uncertain. Our recent Business Panel research indicates that overall confidence in the economy remains low amongst businesses in the region although they are optimistic about their own prospects. HIE will need to be flexible and agile, and work closely with partners to respond to the forthcoming changes resulting from exiting the EU and their impact on our businesses and communities.

HIE's Operating Plan for 2018/19 highlights our key priorities for the year which make a valid contribution towards those set out in Scotland's Economic Strategy, and we will continue to pursue our long-term purpose and vision of a highly successful and competitive region where increasing numbers of people choose to live, work, study and invest.

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Further detail on key investments and relevant associated actions to meet our objectives are set out below.

Inclusive growth and fair work

The region continues to face challenges arising from: an ageing demographic; lower average wage levels; seasonality of employment; a narrow business base, and infrastructural constraints. HIE's Operating Plan, with its focus on delivering inclusive and sustainable economic growth in every part of the region, addresses these challenges. We target all sizes of business and communities, exercising a policy of flexing support to tackle disadvantage and nurture distinctive opportunities. It is important that our approach remains flexible and the relative impact of making investments in the more remote and fragile areas is understood.

It is also important that we fully comprehend our region's challenges and opportunities. Recent and current research has focused on a range of issues including: young people (*Young People and the Highlands and Islands: Maximising Opportunities Study*); business confidence, performance and growth aspirations (through our *Business Panel Survey*), and access to banking services in rural areas. This research is invaluable and will be actively used to support policy development and deliver inclusive growth.

HIE has clear targets, including job creation and retention (at a regional level and also within our fragile areas in particular), although budgets are more broadly set against the four priorities set out previously, whilst respecting geographical need and opportunity. Internal disparities exist but our prioritisation of fragile areas and employment action areas aims to tackle these. Our place-based approach to inclusive growth is clearly embedded in our operating plan and is particularly evident in our strengthening communities support.

We also aim to create quality, sustainable and fair employment through our business investments. We can monitor this aim more effectively through a new monitoring framework (ladders) for our account managed businesses and social enterprises. This, alongside our research, will further our insight, highlighting areas for business development and potentially demonstrate benefit gained from strong, fair and responsible business values. Early analysis of our Business Values Ladder indicates 70% have progressive workplace policies such as flexible working; 90% play an active role in their community; and 85% actively seek to recruit young people from school, students/graduate placements, or Foundation or Modern Apprentices.

Job creation and retention remain key targets. However HIE also uses average wage levels, along with the Business Values Ladder, to provide a more rounded evidence base for performance, allowing us to monitor our objective to raise wage levels and address the imbalance in wage distribution across the region. The average salary of jobs supported (FTE) in 2017/2018 was £26,120 (target £25,000).

To further tackle inclusive growth, in addition to the actions set out above we will:

- undertake a holistic place-based approach, working with partners, to tackling inter-regional challenges and opportunities
- review our area prioritisation to ensure it remains fit for purpose
- continue to invest in social enterprises and build community capacity through the provision of specialist support, and increase the sustainability of asset-based enterprises
- lead and facilitate the ongoing development of a regional talent attraction and retention strategy working with partners of the Convention of the Highlands and Islands
- use our knowledge and experience to inform and support the establishment of the South of Scotland Enterprise agency

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Investment and accelerating business growth

The Operating Plan sets out our aim to not only accelerate the growth of businesses in the region but also to create the conditions for growth and investment. To continue to close the productivity gap and meet the objectives for inclusive economic growth there is a need to increase focus on supporting businesses to scale, export and innovate across the region. Whilst growth sectors remain important and provide a useful approach to categorise policy and support, HIE support is more flexible and many programmes are available to any business in the region. We are especially concerned with businesses which have the ambition and potential to grow, continuing to work with Business Gateway to identify these clients.

We are refreshing our approach to account management and will focus on the needs of businesses at different stages of the business lifecycle and develop more tailored, specific, and impactful support to help accelerate growth for businesses at specific stages of development, from start-up to scaling. This approach, some of which will be more timebound and intensive, will give us the opportunity to increase the number of clients within account management and have a greater degree of churn across the portfolio, with an increased emphasis on our remote and island communities.

Access to better client data should inform the response we take and support we offer. Our introduction of 5 ladders (Internationalisation; Innovation; Digital Maturity; Business Values; and Social Enterprise Growth) will help track incremental progress more effectively and provide more meaningful and qualitative information than more static measurements.

Inward investment remains a key priority, building on previous success which has seen FDIs located across the region spanning a number of sectors. Four of the 6 inward investment projects secured in 2017/18 were from new investors to Scotland including the establishment of a software development centre in Elgin, creating 17 FTEs, by OpCapita. Working with SDI, HIE will continue proactively to target opportunities where we have regionally distinctive and globally compelling selling messages alongside investing in appropriate high-quality infrastructure such as Inverness Campus.

Alongside the above we will:

- Lead on the development of the UK's first spaceport, a vertical launch facility for small satellites in Sutherland, working with key stakeholders to maximise the employment, business and community benefits
- Continue to work with Scottish Government to implement the Reaching 100% (R100) programme to deliver superfast broadband to 100% of premises by 2021
- Provide financial investment in the form of grant, loan or equity funding to support business growth and work to raise awareness of the benefits and different forms of investment support, principally the Scottish Growth Scheme
- Collaborate closely with key partners such as Scottish Government, Highland Council, HITRANS and the Chambers of Commerce to plan effectively and capitalise on the opportunities presented by the highly ambitious Liberty British Aluminium development in Fort William
- Use our new ladders framework and our high-quality research to improve our knowledge and understanding of our businesses, and inform policy and delivery

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Innovation and internationalisation

Increasing innovation and exporting are central to driving up productivity and improving sustainability and resilience. A streamlined approach to innovation has been developed: businesses can access a variety of broad and bespoke support, from product and process development to workplace innovation, through one “Innovate Your Business” portal. HIE will enhance this offering through wider developments such as the Northern Innovation Hub, created as part of the Inverness and Highland City-Region Deal, which will deliver support, ranging in intensity, to Life Sciences, Tourism, Food and Drink, and the Creative Industries.

Increasing both the number of exporters and the value of exports are key targets contributing directly to our ambitions to create and accelerate business growth. We will continue to support our businesses through *International Highlands and Islands* and deliver international support in partnership with Scottish Development International (SDI). Our new ladders framework will enable more effective monitoring of our clients’ innovation.

Underlining our intention to increase collaboration - and capitalising on the region’s natural and innovation assets - we will develop infrastructure with key partners across the region, including a life sciences innovation centre with NHS/UHI on Inverness Campus and the Orkney Research and Innovation Campus (ORIC) in Stromness with Orkney Islands Council. In similar collaboration, HIE is leading a consortium which has undertaken a science and innovation audit of the unique marine economy of the Highlands and Islands – MAXiMAR – presenting significant aquaculture, bioscience and tourism opportunities for the region, particularly across some of our most fragile areas.

HIE will:

- Work closely with other agencies to simplify the innovation support offering and access including improved use of digital tools
- Develop a world-leading renewable energy research and innovation centre in an innovative joint venture with Orkney Islands Council
- Work with key partners to exploit the potential of MAXiMAR through the development of a marine strategy for the region
- Develop a new Coding Academy to train and develop a future generation of software engineers as part of the Inverness and Highland City-Region deal

CONCLUSION

HIE remains committed to driving sustainable economic and inclusive growth, utilising our own resources and working in collaboration to maximise the potential that our businesses, communities and population offer towards a stronger, more inclusive Scotland.

Highlands and Islands Enterprise
September 2018