

ECONOMY, ENERGY AND FAIR WORK COMMITTEE

DRAFT BUDGET 2019-20

SUBMISSION FROM Tony Mackay

Comments on Highlands and Islands Enterprise Submission

1. The Committee is considering the Scottish Government's Draft Budget 2019-20 and asked for submissions from Highlands and Islands Enterprise (HIE) and Scottish Enterprise (SE). The Committee will discuss those submissions at their meeting tomorrow (September 25).
2. I was asked to comment on both the submissions from HIE and SE. The following are my brief comments on the former.
3. Very briefly, the HIE submission is poor and a very over-optimistic account of the current state of the Highlands and Islands economy. I understand why HIE want to give the best possible picture of their work but this submission is very misleading. I believe that radical changes are required in the policies and senior management at HIE but the submission completely ignores those.
4. The Highlands and Islands economy has performed poorly in the last few years. The Scottish Government's official statistics show that the annual growth rate in economic output (GDP, gross domestic product) has only been about +1%, which has been well below the UK average and also significantly below the Scottish average.
5. Some of the reasons for the poor performance of the H&I economy have been outwith the control of HIE, notably the collapse in world oil prices, but the organisation's response to those has been poor and could have been much better.
6. There is a lot of dissatisfaction in the local business community with the recent performance of Highlands and Islands Enterprise. There were hopes that there would be an improvement after the previous chief executive left but things seem to have got worse, which is difficult to understand. I have friends who work for HIE and they are likewise very disappointed with the recent work of their organisation.
7. The HIE's submission mentions continuing problems such as geographical disparities within the region and continuing population decline in some areas. However, it ignores many others. Let me give two examples. I could give more.

8. Firstly, the offshore oil and gas industry has been a very important part of the Highlands and Islands economy for many years. At peak it employed about 10,000 people in the region but that number has fallen to less than 1,500 at the present time.
9. The fall in that employment has had huge negative impacts on the local economies involved and obviously the people who lost their jobs. However, HIE has done very little to try to reverse the decline.
10. Further, there does not seem to be a single mention in the HIE submission of the oil and gas industry, which I find almost unbelievable! The industry continues to be very important in the region, particularly in areas such as Shetland and the Cromarty Firth, but it seems to be a very low priority for HIE.
11. Secondly, I believe that there is great potential for the marine energy industry in Scotland, particularly the Highlands and Islands. Alex Salmond, the former First Minister, once described Scotland as the “Saudi Arabia of marine energy.”
12. Unfortunately, the reality has proved to be very different. One of the reasons for that has been the poor contribution of HIE. Their submission to the Committee shows no intention of changing their policies towards marine energy.
13. HIE invested and lost millions of pounds of public money in two wave energy companies which went bust – Aquamarine and Pelamis. They have also invested a lot of money in a subsidiary Wave Energy Scotland, which has a very poor reputation in the industry. Their submission makes various references to further investment in Wave Energy Scotland but none to tidal energy, which seems to have greater potential, particularly in the Pentland Firth.
14. The HIE submission mentions the proposed UK spaceport in Sutherland, which could be a very important development. However, their poor contribution to marine energy developments, particularly tidal energy, must raise doubts over this possibility.
15. I have spent the last few weeks working in Sutherland, where most of the economic indicators are poor in comparison with the UK, Scottish and H&I averages. The HIE submission mentions the particular problems of “fragile areas” but the reality is that there has been little progress in narrowing the gaps. Many people believe that HIE spends too much of its resources and time on the more prosperous areas such as Inverness and the Moray Firth, at the expense of areas such as Sutherland and the Western Isles.

16. I could give more examples of HIE's poor performance in recent years. I believe that many businesses, politicians and local people want to see radical changes and improvements in HIE's policies and management, so I hope that the Committee will do its best to encourage those.
17. Further, there seems to be no mention in the HIE submission of Brexit and its implications for the region. It will undoubtedly have a big impact over the next few years, so I expected HIE to explain what they plan to do to counter the negative impacts. However, there is nothing about that, so I hope the Committee will ask the HIE witnesses what they plan to do about Brexit and why.
18. Most of the HIE submission is descriptive. Some of it is just bureaucratic waffle...notably the various references to the new "ladders" which they are using to measure performance.
19. The submission states that HIE investments created or safeguarded 981 full-time equivalent jobs in the 2017-18 financial year, including 139 FTE in "fragile areas". My friends who work for HIE told me that these claims are "very exaggerated" and that the actual numbers are much lower. HIE used to have a good reputation for the quality of its economic research but has lost that in recent years.
20. The Scottish economy, including the Highlands and Islands, has performed poorly in recent years, and there will be serious challenges during the next few years, particularly because of Brexit. HIE and Scottish Enterprise are very important bodies in relation to the country's economic development. In my opinion, the HIE submission to the Economy Committee is a very poor account of what they plan to do in the 2019-20 financial year.
21. Unfortunately, Highlands and Islands Enterprise has performed poorly in recent years, particularly since the recession in the oil and gas industry. I believe that many businesses, politicians and local people want to see radical changes in HIE policies and management.
22. I hope that the Committee will use this opportunity to encourage such changes.

Tony Mackay
Professor of Economics
Inverness
24 September 2018