



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

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Economy, Energy and Fair Work Committee
The Scottish Parliament

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Dear Convener

COVID-19 and the Enterprise Agencies

Thank you for the opportunity to provide information in support of the Economy, Energy and Fair Work Committee inquiry on COVID-19 and the enterprise agencies. The Highlands and Islands economy has been particularly hard-hit by the impact of the pandemic, given the prevalence of the most affected sectors in our region, and the areas of focus for the Committee resonate strongly.

To help inform its inquiry, the Committee has requested that Highlands and Islands Enterprise provide additional information on several areas, including an update on budget and spending; HIE's strategic plan; how HIE's work has changed due to COVID-19, and any data on COVID-19 business support offered by Highlands and Islands Enterprise.

Update on budget and spending

In our interim guidance letter of 22 April 2020, the Scottish Government advised that we should prioritise efforts to respond to the pandemic (we await further formal guidance in due course).

Our key financial interventions in respect of the Response phase came via the Supporting Communities Fund and the Pivotal Enterprise Resilience Fund and Creative, Tourism and Hospitality Enterprises Hardship Fund (see specific sections on page five below). The resources and expenditure for the former were routed directly via HIE whereas for the latter they were routed through Scottish Enterprise. In terms of repurposing our core baseline funding, we have given some examples of how we assisted local businesses as part of the Response phase on page four.



The current budget for 2020/21 totals £78.8m. This overall budget is comprised of Scottish Government funding of £74.3m and anticipated business income of £4.5m. The key categories of budget are as follows: -

- Capital *£41.2m (includes £2m of capital receipts)
- Financial Transactions £2.0m
- Resource *£35.6m (includes £2.4m of revenue receipts)

** Note that the Capital budget includes £8.6m for Wave Energy Scotland, funded by the Scottish Government.*

** Resource includes £4m grant from the Scottish Government in respect the COVID-19 Supporting Communities Fund and £0.2 for Wave Energy Scotland.*

We entered the financial year with over-commitments on both Capital and Resource budgets and the pandemic may exacerbate this situation due to potential reductions in operating income. To free up budget to enable a response to the pandemic we therefore need to remove or defer commitments that we had already made to businesses and social enterprises. This process takes time, as the consequences of any changes to plans need to be ascertained at individual project level. Ongoing engagement with businesses and communities to determine whether revision to their support will ensure projects take place is a key part of the process. We feel it is important to emphasise that many of the interventions we planned when we set our budget remain relevant in the context of COVID-19 particularly if we consider the Restart phase and therefore we would not necessarily expect release of budget at scale.

At the time of writing, this is a work in progress but we will be able to give a verbal update to the Committee when we meet on the 22 September.

HIE Strategy and Operational Planning

HIE published its three-year strategy in June 2019, aligned with the vision set out by the Enterprise and Skills Strategic Board and the Scottish Government for sustainable and inclusive economic growth for Scotland. This framework remains valid and our long-term vision of the Highlands and Islands as a *highly successful, inclusive and prosperous region in which increasing numbers of people choose to live, work, study and invest* is even more pertinent. However, we will need to reconsider the actions we will take as we take stock of the evolving impact on the region and how best we can use our resources to support recovery.



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

COVID-19 has brought our demographic challenges into even sharper focus with evidence suggesting a greater impact on young people and on some of our more remote areas. We will need to focus on recovery, building resilience in our businesses and communities so they can be sustainable and grow, retaining and creating employment and attracting new population and investment. The region has many opportunities from its unique natural, physical, human and cultural assets and a recovery built around green and blue growth will be key.

How HIE's work has changed due to COVID-19

It has been important that we have continued to closely monitor the impact on our businesses and communities along with the emerging sectoral and employment impact across the region through our research and analysis. This analysis has indicated that GDP in the region is expected to contract significantly in 2020 and is estimated to decrease by £1.5-£2.6bn. Medium term recovery forecasts for Scotland are for gradual recovery by Q4 2022. However, for the region, **recovery to pre-COVID levels is unlikely until 2023 at the earliest⁽¹⁾**.

Our recent [HIE Business Panel survey](#) gathered information from over 1,000 businesses in every part of the region in June 2020. Low levels of confidence in the economy were notable, although 75% of respondents believed their own business would be viable in six months' time.

The response has required a concerted effort with enterprise and skills agencies, Business Gateway, local authorities and business and community organisations from the start. Recognising the importance of collaboration, HIE has contributed to a variety of local, regional and national multi-agency/organisation groups. An immediate response included supporting the national coordination of advice, information and support through the [Find Business Support](#) website. This is available to all businesses alongside the enterprise agencies' local account management service which provides clients with more intensive and tailored 1-2-1 support. Our updated website, marketing and communications, including social media, ensured businesses and communities across the Highlands and Islands could access information on all the available support early on.

We gathered client insights from February (using topics consistent with our partners in other enterprise agencies) and engaged with industry locally, regionally and nationally to ensure we understood the nature and scale of the economic impact as it unfolded. We shared our intel with partners feeding into local, regional and national working groups.

Adapting and Evolving Products and Services

Whilst many of our existing products and services were still relevant, we had to adapt and evolve both the delivery and content as the pandemic hit our economy. This has included providing more digital events, refocussing some services on sectors which are hardest hit, providing guidance and information on new market opportunities, and supporting businesses to develop their online presence.

¹ HIE Analysis: Economic Impact of COVID-19 on the Highlands and Islands



As the situation evolved it was clear that an innovation response was required. Our innovation service was customised to provide “adapt and diversify” webinars; direct COVID solutions; product, service, business model or process innovation to address market changes as a result of COVID (including the manufacture of PPE); and support to apply for external funding. In Moray, for example, HIE account managed businesses that responded swiftly to the challenges include Keith textile firm Great Scot, who were able to use home workers to manufacture fabric face masks for UK and international markets. Avva Distillery in Elgin and Maclean’s Bakery in Forres used their resources to help address the rise in demand for hand sanitiser, while Makar Technologies, also in Forres, worked with other supply chain companies to provide vital components for ventilators. Funding has also been made available to businesses for “at-risk” members of staff who are redeployed into an innovation project.

Sectoral Responses

With some sectors impacted more than others, it has been important to orientate our response. Increased engagement and collaboration have been fundamental, with HIE participating in the responses through the Scottish Tourism Emergency Response Group and recently created Tourism Taskforce; supporting the refresh of Scotland’s Food and Drink strategy and collaborating in a think tank on rural food and drink sector recovery; participating in the Oil and Gas and Energy Transition Strategic Leadership Group feeding in client intel; and working with clients to understand the risks of strategic project delays in the energy sector.

The concerted efforts in relation to the creative industries, tourism and hospitality, and life sciences sectors are worth highlighting given the extent of the impact of COVID-19 on those sectors.

Our annual XpoNorth conference, programmed for June, is Scotland’s largest international business to business creative industries conference. We pivoted the physical event, to a virtual one for 2020. Developing an app to reflect the full conference ecosystem and delivering two days of seminars, interactive sessions, a screening room, music showcases and business presentations. Providing free access to sectoral knowledge, learning and networks which have been successful in generating new business models, contracts and collaborations for businesses and social enterprises alike. Post conference we continue to offer a range of digitally delivered activities including: 1-2-1 sector specialist advice; online pitching opportunities; “how to” blogs; webinars; featured businesses and sector news to support both the sector and those looking to engage with the sector

We have supported the tourism and hospitality sector to prepare for reopening and adopt new requirements for a safe and responsible restart through webinars, information on our website, and relevant signposting. Our “Tune into Tourism Road to Recovery” podcasts with international experts attracted an audience of more than 1,500. We have facilitated discussions with community groups and organisations to build confidence among residents and locals that the tourism industry and agencies are working together with places and destinations during reopening. Our Community Tourism Leaders programme is now recruiting its second cohort and will support leading community individuals to develop the leadership skills needed to influence, plan and support sustainable tourism recovery.



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Our early work with life sciences businesses focused on collaborating to understand the immediate needs of the NHS and care sectors and supporting them to respond effectively. We provided innovation grants and support to access funding to develop new PPE, health tech and testing and, helped them connect directly with decision makers in Scottish Government and NHS and National Services Scotland procurement. An example includes medical technology company ODX, which used its expertise and equipment to help set up clinical testing at Inverness Campus, and which HIE is supporting to create 60 new, skilled jobs. We are continuing to work with a range of partners on regional projects including one aimed at driving opportunities for SMEs with NHS as the target market.

Data on COVID-19 business support offered by Highlands and Islands Enterprise

Pivotal Enterprise and Resilience Fund (PERF) and Creative, Tourism & Hospitality Enterprises Hardship Fund

From April 2020, HIE worked in partnership with Scottish Enterprise, South of Scotland Enterprise, Creative Scotland and VisitScotland to create and deliver the Pivotal Enterprises Resilience Fund (PERF) and Hardship funds made available by the Scottish Government.

An estimated 30% of HIE staff supported the administration, appraisal, monitoring and delivery of the funds over three months. The level of oversubscription for PERF funding in the Highlands and Islands was consistently much higher compared to the other two areas in Scotland since the launch of the fund.

Over £18m of PERF grants were awarded in the Highlands and Islands, c70% of which was to businesses in either the creative industries, tourism and hospitality or food and drink sectors - illustrating the importance of these sectors in many parts of the region. Around 26% of the number and 33% of the value of these awards were to account managed businesses.

Awards have ranged from food and drink firms, such as the Black Isle Brewery, Mull-based Island Bakery Organics and Ardgay Game in Caithness, to tourism businesses like Central Skye Hotels, West Highland Hotel, Lochaber, and Langass Lodge on North Uist. Beneficiaries in other sectors include marine engineering company Malakoff in Shetland, social enterprise Moray Waste Builders, Bute-based Flexible Technology and creative industries organisations including Eden Court Theatre, Inverness.

Community support

HIE delivers the Supporting Communities Fund for the Highlands and Islands as part of the Scottish Government welfare and wellbeing support package. The fund supports grassroots responses and is delivered through community anchor organisations (CAOs) and focussed on local priorities. Some £16.6m has been committed to date across Scotland of which c£3.7m has been awarded to 155 Highlands and Islands CAOs across the region.



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Among many examples, Development Coll supported volunteers with provision of PPE and expenses incurred whilst delivering groceries and prescriptions, working with the island's only shop, This ensured that supplies continued to arrive on the island and that prices of remained affordable. A dedicated [COVID-19 third sector](#) web page provides latest information and case studies from organisations supported.

HIE has also led on developing a proposition for support for the third sector that looks beyond the immediate crisis and proposes a collaborative enterprise agency approach to support social and community enterprises that will be important to the recovery phase of the COVID19 response. The proposal builds on an existing strength in Scotland, that of a thriving social enterprise sector which can place wellbeing at the heart of local, inclusive communities, services and economic growth.

There is significant potential for the social enterprise sector to be a major contributor to the economic recovery, particularly supporting wellbeing and the transition to net zero in the future, including working with Zero Waste Scotland. Existing programmes, including Community-led in Tourism, support for social entrepreneurs (SUNSE) and the Rural Leadership Programme, have been redeveloped to ensure that content and delivery is fit for purpose, and with increased digital provision.

It is hoped that this update will be helpful, and I look forward to discussing more fully with the Committee at our forthcoming session on the 22 September.

Yours sincerely

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Chief Executive

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Annex - Economic Impact of COVID-19 on the Highlands and Islands Region

IMPACT ON BUSINESSES AND WORKERS AS LOCKDOWN EASES

Highlands and Islands Context

The **Highlands and Islands region has been disproportionately impacted by the COVID-19** pandemic mainly due to:

- a greater share of employment in the sectors most affected (68% versus 65% nationally)
- a higher proportion of self-employed workers (11% of those aged 16-64 are self-employed versus 9% nationally)
- the dominance of SMEs (accounting for 99.8% of the business base and employing 67% of the region's workforce compared to 99.6% and 60% respectively nationally)
- a higher proportion of micro businesses (89% versus 88% nationally)

Given these factors, **GDP in the region is expected to contract significantly in 2020** and is estimated to decrease by £1.5-£2.6bn. Medium-term recovery forecasts for Scotland are for gradual recovery by Q4 2022 – for the region, **recovery to pre-COVID levels is unlikely until 2023 at the earliest (2).**

The **COVID-19 impact on the Highlands and Islands is compounded by the region's vulnerability to Brexit** five of the six local authority areas most vulnerable to Brexit are in the Highlands and Islands (3). The end of the transition period represents additional risk to the sectors already exposed to COVID-19, especially those with EU supply and demand chains or whose labour supply will be affected by the removal of freedom of movement for workers.

Unemployment, Furlough and Self-Employment Income Support Scheme

There was a **greater increase in the number of unemployed (claimant count) people in the Highlands and Islands (111%) than across Scotland overall (88%) between March and June 2020(4)**

- The rate both regionally and national increased by 2.9 percentage points over this period (from 2.6% to 5.5% regionally and 3.3% to 6.2% nationally).

There were **68,700 furloughed employments in the Highlands and Islands** (local authority based) at the end of June 2020. This equates to **31% of all eligible employments, slightly above the Scottish average of 30%(5)**

- At 34%, Highland had the highest proportion of eligible employment furloughed across all local authorities in Scotland
- Furloughed jobs are at greater risk than non-furloughed jobs given the economic uncertainties across sectors, particularly as the furlough scheme begins to wind down by October.

² HIE Analysis: Economic Impact of COVID-19 on the Highlands and Islands

³ <https://www.gov.scot/publications/local-level-brexit-vulnerabilities-scotland-brexit-vulnerabilities-index-bvi/pages/1/>

⁴ NOMIS Claimant Count, March and June 2020

⁵ [Coronavirus Job Retention Scheme statistics: July 2020](#)



Take-up of the Self-Employment income support scheme at end June was lower in the Highlands and Islands (73%) than nationally (75%), despite the region having a higher proportion of self-employed individuals (11% of all employees versus 9% nationally) (6)

Findings from the HIE Business Panel Survey (Undertaken in June 2020)(7):

Confidence in the Scottish economy was at the lowest level ever recorded in HIE's panel survey, with 79% of businesses in the Highlands and Islands saying their confidence had decreased in the last six months. Findings included:

- **Nearly half of firms (49%) had continued trading during lockdown** and a further 12% had restarted after closing initially. Just under two-fifths (37%) were temporarily closed or paused trading;
- **Almost all businesses (85%) had seen reduced (61%) or no sales (24%) as a result of COVID-19 and most had placed staff on furlough** (70% of those temporarily closed and 64% of those who had continued or restarted trading);
- Of those who had plans to recruit, 82% had postponed or cancelled recruitment plans, 11% recruited as expected and 4% recruited more staff than expected;
- **Just under two-thirds (65%) of businesses who had continued, or restarted trading were doing so below the pre-COVID level**, 26% at much the same level and 8% above;
- Of those temporarily closed, **in addition to loss of income, having to use cash reserves (81%), loss of domestic and/or UK markets (75%) and put investment plans on hold (74%) were key impacts;**
- Businesses who had continued to trade, or restarted trading were taking actions to adapt to the new working environment, most commonly making processes more efficient (50%) and looking for new opportunities in domestic and/or UK markets (48%). Challenges to doing so included general uncertainty of the current operating environment (69%), having to put investment or growth plans on hold (59%) or having to use cash reserves (52%). Just under half (47%) reported difficulties sourcing equipment and materials;
- Despite these impacts, **75% of respondents believed their own business will be viable in six months' time**, 71% were confident they could access the financial resources they required to get through the crisis and 87% that they'd be able to adhere to government guidelines when emerging from lockdown;
- Economic downturn and future waves of coronavirus were **key risks** identified.

IMPACT ON YOUNG PEOPLE

Analysis by the Institute of Fiscal Studies (IFS)(8) found that lockdown will hit **young people the hardest with employees under 25 about 2.5 times as likely to work in a sector that shut down** as other employees. Across the UK, sectors shut down as a result of social distancing measures employed nearly a third (30%) of all employees under the age of 25 compared to just 13% of workers aged 25 and over. The region has a higher share of employment in these sectors.

⁶ [Self-Employment Income Support Scheme statistics: July 2020](#)

⁷ www.hie.co.uk/businesspanel

⁸ <https://www.ifs.org.uk/publications/14791>



Without government action, youth unemployment is expected will rise sharply in the coming months, with the Resolution Foundation (9). **forecasting a 6.1 percentage point rise in youth unemployment.** A rise such as this at the point of leaving full-time education would **result in a 13 percent lower likelihood of a graduate being in employment three years after having left education.** **Pay for young people is expected to be depressed:** two years on from leaving education, real hourly graduate pay is forecast to be, on average, 7% lower. For leavers with mid and low-level qualifications, average hourly pay is forecast to be 9% and 19% lower than it would have been had unemployment not risen.

Youth unemployment and furloughed workers

Based on claimant count data, **there was a greater increase in youth (18-24) unemployment in the Highlands and Islands than Scotland** between March and June 2020 (up 131%, 1,755 people, compared to 99% across Scotland) (10)

- *Over this period the **youth (18-24) unemployment rate increased from 4.0% to 9.4%**, greater than the Scottish increase (9.0%, up from 4.5%)*

Across the UK, **those aged 16 to 24 account for 19% of all furloughed employments but only 13% of eligible employments.** Take-up rates are also higher at 44% compared to 31% overall (11).

- *Applying this rate to the total number of furloughed employments in the Highlands and Islands (local authority based) suggests that **around 13,000 young people are on furlough in the region.***

⁹ [Class of 2020 Resolution Foundation](#)

¹⁰ NOMIS Claimant Count

¹¹ Analysis based on [Coronavirus Job Retention Scheme statistics: July 2020](#)