

DRAFT BUDGET 2014-15

SUBMISSION FROM HIGHLANDS AND ISLANDS ENTERPRISE

Introduction

Highlands and Islands Enterprise (HIE) is pleased to present our budget plans for 2014-15. Operating across more than half of Scotland's land mass, HIE pursues a vision to help create a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest. This written evidence outlines how we are working to achieve sustainable economic growth and build community resilience throughout all areas of the Highlands and Islands, both at our own hand and in collaboration with partners.

Our priorities and ambitions

As described in our current **Operating Plan**, HIE organises its activities around four complementary priorities:

- Supporting **businesses** and **social enterprises** to shape and realise their growth aspirations
- Strengthening **communities** and **fragile areas**
- Developing **growth sectors**, particularly distinctive regional opportunities
- Creating the conditions for a **competitive and low carbon region**

By 2020, our **ambitions** are to help create a Highlands and Islands that is:

- An international centre for **marine renewables**
- A **digital** region
- Home to more growth businesses operating in **international markets**
- Recognised internationally for **digital healthcare** and **marine science** expertise
- Characterised by dynamic, sustainable **communities**
- A **globally-connected** region
- An attractive region for **young people**.

Progress

In preparing our future plans, we will seek to sustain and accelerate progress which has been made against a number of key indicators, including the following:

- Highlands and Islands **population** rose by 7.5% between 2001 and 2011, a rate well above the Scottish average (4.6%).
- In August 2013, the average claimant count **unemployment** rate in the region was 2.2% compared to 3.8% in Scotland and 3.4% across the UK.
- Levels of **business optimism** are growing – up from 70% in 2012 to 89% this year.
- HIE's portfolio of **account managed clients** has grown to 646 business, social enterprises and communities.
- Our actions to attract **inward investment** have helped create or safeguard over 1,000 jobs in the past two years, working closely with Scottish Development International (SDI). Successes include CapGemini (Inverness), BASF (Lewis), Daktari Diagnostics (Inner Moray Firth), Atos (Forres), Natural Retreats (Caithness) and Kirker Europe Ltd (Invergordon).

- A record number of Highlands and Islands businesses (156) were supported to **trade in international markets** in 2012/13 – an increase of 50% from the year before.
- The region's **creative industries** sector now supports over 8,500 jobs in 1,000 businesses and generates £286 million in turnover. HIE support in the sector generated £6 return to the regional economy for every £1 invested.
- HIE's partnership with **Massachusetts Institute of Technology (MIT)**, recently extended for a further three years, has enabled over 150 businesses and social enterprises to experience the world's best entrepreneurship training.
- HIE is leading the UK's largest and most complex **next generation broadband** project – a £146 million investment to deliver access to this crucial enabling technology across our region.
- HIE continues to invest significantly in infrastructure to develop **growth sectors**, with examples including:
 - **Energy:** Arnish (Outer Hebrides), Machrihanish (Argyll), Scrabster (Caithness), Kirkwall (Orkney), Nigg (Ross-shire)
 - **Tourism:** John O'Groats (Caithness), Campbeltown (Argyll), Lews Castle (Outer Hebrides), SailWest (Lochaber)
 - **Life sciences:** European Marine Science Park (Argyll), Inverness Campus, Alexander Graham Bell Centre (Moray), Enterprise Park Forres
 - **Creative industries:** Mareel (Shetland), Creative Industries and Media Centre (Outer Hebrides)
- HIE is leading the national delivery of the **Scottish Land Fund** and **Community Broadband Scotland**.
- HIE worked with 52 **community groups** last year to support them in delivering enhanced community benefit. We have account management relationships with 50 communities.

2014-15 budget plans

Our budget plans for 2014-15, which are indicative at this stage and subject to HIE Board approval, are outlined below. In particular, these plans reflect:

- Clear alignment with the **Government Economic Strategy (GES)**
- A measurable contribution towards Scotland's **National Outcomes** and **Purpose Targets**, as set out in GES and Scotland Performs
- A strong focus on our **four priorities**, as set out above
- The need to balance activities which address immediate economic **challenges** affecting our businesses, social enterprises and communities, with pro-active interventions that seek to capitalise on the significant **opportunities** in our region
- Increased priority given to **capital projects**
- Our continuing drive to become a more **effective and efficient organisation**
- Our longer-term **ambitions** for the Highlands and Islands.

Through the delivery of its four priorities, HIE is making a contribution to all seven Purpose Targets – with a particular emphasis on economic growth, population, productivity and cohesion – and to 13 of the 16 National Outcomes (see Appendix – HIE's contribution to National Performance Framework).

The table below sets out specific examples to show how HIE's activities will help Scotland deliver progress towards the seven Purpose Targets defined in the National Performance Framework:

Scottish Government Purpose Targets	HIE activities
<p>Economic Growth (GDP) To raise the GDP growth rate to the UK level</p>	<ul style="list-style-type: none"> • Support account managed clients in all parts of the region to define and achieve growth • Support businesses to increase participation in international markets • Target support towards seven growth sectors defined in Government Economic Strategy • Assist clients with access to funding • Work with SDI to attract high value mobile investment • Continue to support the development of the University of the Highlands and Islands (UHI) to improve the competitiveness of the region and create opportunities for young people • Develop physical and digital infrastructure to create conditions for growth • Pursue new sources of investment in regional infrastructure
<p>Productivity To rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017</p>	<ul style="list-style-type: none"> • Support client businesses to improve productivity with measured impact on GVA • Deliver programmes to increase levels of innovation, entrepreneurship and leadership • Invest in property and infrastructure development to support business productivity • Support Highlands and Islands businesses to benefit from workforce development • Expand research capacity underpinning knowledge-based growth sectors e.g. development of life sciences sector • Support development of UHI and the wider universities sector • Strengthen knowledge exchange between academia and business, through initiatives including Interface and Enterprise Europe • Support private sector investment in R&D projects • Roll-out and exploitation of next generation broadband
<p>Participation To maintain our position on labour market participation as the top performing country in the UK and to close the gap with the top five OECD economies by 2017</p>	<ul style="list-style-type: none"> • Support the creation of opportunities for new graduates to enter the workforce • Enable social enterprises to support those furthest from the labour market to enter the workforce • Encourage young people to pursue opportunities in science, technology, engineering and mathematics through the STEM programme
<p>Population To match average European population growth over the period from 2007 to 2017,</p>	<ul style="list-style-type: none"> • Create conditions and prospects to enable young people to realise their full potential through deployment of regional development and strengthening communities activities

<p>supported by increased healthy life expectancy in Scotland over this period</p>	<ul style="list-style-type: none"> • Support the ongoing development of UHI • Develop dynamic, creative and attractive places to achieve our ambitions for population growth e.g. Inverness Campus and European Marine Science Park, Argyll • Support and enhance arts and culture, both through investment in communities and in creative industries • Investment in innovative projects to improve healthcare provision across the Highlands and Islands including digital healthcare, Centre for Health Science, Centre for Rural Health • Support to create stronger, dynamic and sustainable communities • Development of asset-based community development to provide enhanced infrastructure, improve local amenities and enhance quality of life
<p>Solidarity To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017</p>	<ul style="list-style-type: none"> • Reduce inequality by creating opportunities in communities disadvantaged by peripherality • Focus on expansion of employment opportunities in higher-paying economic activities • Stimulate growth of social enterprises
<p>Cohesion To narrow the gap in participation between Scotland's best and worst performing regions by 2017</p>	<ul style="list-style-type: none"> • Integrate economic and community development to drive and sustain growth in all parts of the Highlands and Islands • Work with businesses and communities in fragile areas to enhance confidence and capacity to deliver prosperity • Support communities to acquire and manage land and other assets which create sustainable revenue streams, such as renewable energy projects • Deliver digital connectivity across the region, including our most remote and rural communities • Encourage projects supporting innovative and flexible working practices, such as home-based teleworking • Contribute fully to Community Planning Partnerships to achieve local and regional equity objectives
<p>Sustainability To reduce emissions over the period to 2017 To reduce emissions by 80% by 2050</p>	<ul style="list-style-type: none"> • Work with businesses and communities to deliver sustainable economic and community growth across the region • Support the development of low carbon technologies and exploit growth potential of low carbon opportunities • Development of renewable energy sector • Assessment of economic, social and environmental sustainability integral to HIE investment decisions • Support and encourage businesses, social enterprises and communities to benefit from low carbon production processes, energy efficiency and waste minimisation

HIE's four priorities

The following sections use the four priorities described in HIE's Operating Plan to set out in more detail the interventions HIE is taking and proposing to generate sustainable economic growth and support the region's contribution to Scotland's progress.

1. SUPPORTING BUSINESSES AND SOCIAL ENTERPRISES TO SHAPE AND REALISE THEIR GROWTH ASPIRATIONS

HIE recognises that greater economic prosperity will be delivered through private sector-led investments which deliver jobs and wealth. We work with ambitious businesses whose plans will lead to a measurable increase in turnover (particularly in international markets) and increased employment, especially for young people. HIE's latest pulse survey, carried out among members of our business panel in May 2013, shows signs of growing confidence. Levels of optimism among businesses increased from 70% in September 2012 to 89% this year. Among social enterprises the proportion rose less dramatically, from 79% to 81%.

In 2014-15, we will focus our support for businesses and social enterprises on three areas which are currently proving successful – account management; international trade and investment; and innovation, entrepreneurship and leadership.

Account management

HIE will continue to use account management as a prime channel to deliver support to businesses and social enterprises. Our account managers build up strong, long-term relationships with clients, developing mutual understanding and provide tailored solutions to meet their needs and ambitions. We offer services including direct financial support (in the form of grant, loan or equity), property solutions, graduate placements, and advice and information on topics ranging from business strategy and marketing to resource efficiency and opportunities in the low carbon and digital economies. We have recently entered into a new three-year contract with a leading international business consultancy to provide specialist advice and support to our clients.

Over the last five years, HIE has built up a portfolio which comprises almost 600 business and social enterprises (as well as 50 communities). However, it is important to recognise that the agency also offers one-to-many services which support non-account managed businesses as well. New programmes to support internationalisation and innovation, for example, will be open to businesses which are not account managed at present.

International trade and investment

HIE's partnership with SDI has been highly effective in recent years, both in enabling Highlands and Islands businesses to trade internationally and in attracting inward investment to Scotland. We aim to sustain this momentum in 2014-15. Last year, we enabled a record 156 businesses to develop international trade activity (an increase of almost 50%) which will generate an additional £44m of annual sales within three years. We helped 96 companies and 108 individuals to identify and evaluate new market opportunities through Smart Exporter, and are now launching a successor programme which will run until March 2015.

We will continue to focus on attracting new investment, both by supporting the expansion of foreign-owned businesses already operating in the Highlands and Islands, and by effective marketing, focused on key sectors.

Innovation, entrepreneurship and leadership

HIE will continue to develop a culture of leadership and entrepreneurship to fuel business success in our region. We will maintain our innovative strategic partnership with Massachusetts Institute of Technology, providing Highlands and Islands businesses with access to the knowledge, research, expertise, events and networking opportunities at one of the world's leading business schools. Recently, we have begun delivery of a new programme of Entrepreneurship Support 2013-15, holding masterclasses on topics ranging from marketing to business planning and financing an entrepreneurial company. This service is open to non-account managed businesses as well as HIE clients.

Successful collaborations with education-industry liaison specialist Interface, and institutions including Glasgow School of Art, which HIE supports to run the Institute of Design Innovation in Forres, have helped foster innovation among account managed clients in particular. Plans are now well advanced to broaden the scope of innovation services through a new programme which will be active later in 2013, and through 2014-15. We will also continue to support and provide access to the Scottish Manufacturing Advisory Service (SMAS) which, during 2012-13, enabled 66 organisations from the Highlands and Islands to benefit from expert advice and support.

Access to finance

Access to finance is a crucial issue for businesses across Scotland, and the Highlands and Islands is no exception. Over the past year, HIE's Chairman and Chief Executive have led a programme of high-level engagement with all the major banks, aimed at improving mutual understanding and ultimately encouraging greater investment in ambitious growth businesses across the region. To deepen relationships with banks further, secondees from two banks are joining HIE and will work directly with account managers. We will also continue to promote the development agency's own role as a potential source of funding for businesses and social enterprises, as well as a provider of information and advice.

2. STRENGTHENING COMMUNITIES AND FRAGILE AREAS

HIE's integration of community and economic development powers enables the agency to support businesses and social enterprises and strengthen community resilience in some of Scotland's most remote and fragile areas. Our area teams are effectively embedded in the communities they support, enhancing confidence and capacity, and enabling communities to achieve ambitious goals which, crucially, they have set for themselves.

Community-led development

The principle of community-led regeneration will continue to be at the heart of HIE's approach to strengthening communities across our region, with a strong focus on fragile areas. Our innovative programme of community account management (CAM), introduced in 2008-09, successfully imported the principles of business account management into a new environment, and provides both a workable model and a

strong platform for future community growth. Since 2009, investment in CAM has totalled £4.6 million, with HIE's contribution of £2.7 million attracting LEADER and other local authority funding and partnership contributions in kind. Community development requires long-term commitment, and our future plans focus on expanding our portfolio of account managed communities.

Resilient rural communities

It is important to stress that HIE's four priorities are inter-dependent and that our role in strengthening communities is fully integrated with the other aspects of our work, including supporting business growth and investing in infrastructure. We will continue to ensure that all of HIE's services, products and programmes are applied to address the challenges facing fragile communities. Over the coming years, through our ambitious Digital Highlands and Islands initiative, we will ensure that next generation broadband is rolled out to all parts of the region, and that rural communities, businesses and social enterprises are encouraged to make the most of the considerable opportunities broadband will introduce.

We will work with the community in South Uist to deliver the £10m Lochboisdale Port of Entry project, creating infrastructure to support a range of economic and social impacts in one of the most remote and fragile areas of Scotland. The construction contract includes two causeways, a new fishery pier and a 51 pontoon berths for fishermen and leisure sailors.

Arts and culture

A new policy, '*HIE: Ambitious for Culture*' outlines our strategic rationale for involvement in and support for development of our region's distinctive culture over the coming years. HIE recognises the significant potential of our cultural assets to contribute to a dynamic, sustainable region and resilient communities. We will pursue opportunities for collaborative working to attract investment in arts, culture and heritage, and seek to engage more fully with the Highlands and Islands diaspora worldwide. We will continue implementation of our far-reaching Gaelic Plan, and use the results of research which we are currently conducting into the use of Gaelic as an asset, to inform a future programme of action to maximise the benefits which Gaelic language and culture can offer to our region.

Community Broadband Scotland

HIE will lead the nationwide delivery of the £5 million Community Broadband Scotland (CBS) initiative, which forms part of the national digital strategy to deliver future-proofed digital connectivity across all of Scotland. A partnership between the Scottish Government, HIE, Scottish Enterprise, COSLA, Carnegie UK Trust and both national parks, CBS provides advice, guidance and project funding to help communities deliver improved digital connectivity in the 5% of rural areas least likely to be reached by the superfast broadband core investment programmes. Having established six pioneer projects, HIE is now working with a further 43 rural communities in some of our hardest-to-reach locations.

Community land and asset ownership

In the past decade, HIE has enabled communities to acquire 320,000 acres of land, facilitating a wave of locally-led development producing tangible benefits including rising population and school rolls, income generation and investment, and new

economic opportunities. Working with Big Lottery Scotland, we will continue to administer the Scottish Land Fund to enable more communities to own the land they live on and use it to generate sustainable economic and social growth. Community renewable energy projects have been instrumental in delivering both electricity and income to communities across our region, and will continue to play an important role. Another priority in future will be to collaborate with BIG in ensuring that opportunities for community ownership are promoted throughout the country.

3. DEVELOPING GROWTH SECTORS, PARTICULARLY DISTINCTIVE REGIONAL OPPORTUNITIES

HIE's efforts to develop growth sectors are built around three areas; support for businesses and social enterprises; interventions to create the conditions for growth; and influencing sectoral and public policy. Strategic investments by HIE are fully aligned with GES in helping develop the capacity across growth sectors of the economy that have the potential to generate significant numbers of new, high paying jobs.

In 2014-15, we will be implementing new route maps which we have designed to develop the potential of each of our growth sectors – energy; life sciences; creative industries; tourism; food and drink; financial and business services, and universities. Our focus in each of the sectors will be as follows:

Energy

We will maintain the Highlands and Islands' position as a world-leading region in marine energy, building on the global reputation of EMEC in particular, and work with the private sector to develop our offshore wind industry and a resurgent oil and gas sector. We are taking a lead role in the third stage of the National Renewables Infrastructure Plan (NRIP 3) which focuses on marine energy. Since 2010, over £80 million has been invested by the public and private sectors in ports in Orkney, Caithness, Highland, Argyll and the Outer Hebrides, placing the region in a strong competitive position to benefit from renewable energy opportunities in particular.

At the same time, we will continue to develop the supply chain within the region, both for offshore wind and marine energy, and support businesses operating in the oil and gas industry. Oil and gas continues to offer significant economic benefits to the Highlands and Islands as part of a diverse energy sector. As well as working with businesses which are active in oil and gas-related manufacturing, engineering and maintenance, we will target opportunities to establish the region as a centre for oil and gas decommissioning. Shetland in particular has a competitive advantage which we will seek to exploit.

Life sciences

Within the life sciences sector, we are targeting opportunities to exploit the Highlands and Islands' particular strengths in designing and manufacturing medical diagnostics products, exploring opportunities in digital healthcare and developing natural products. In 2014-15 we will seek to capitalise on investments in key infrastructure projects, including the European Marine Science Park in Argyll and the Alexander Graham Bell Centre in Elgin, as well as working with the 80 or so businesses now active in the regional life sciences sector.

Creative industries

HIE's focus on developing trade networks in the region's creative industries sector is already paying dividends, with a recent evaluation showing a return on investment of £6 for every £1 of public investment. We will seek to enhance this position, working with trade networks covering music; screen and broadcast; crafts, fashion and textiles, and writing/publishing. Our investment in digital connectivity will help underpin growth in the creative industries sector in particular, and we will work to identify and exploit cross-sectoral links between creative industries, tourism and digital health.

Food and drink

Export markets present prime opportunities for growing our food and drink sector, and we will ensure the Highlands and Islands is well represented at major exhibitions to showcase the region's products and win new orders. Through an expanded Access to Markets programme, we will seek to build on the momentum of an initiative which has already generated £5.3 million of new sales, both in UK markets and overseas.

Sustainable tourism

The range of national and international events taking place in Scotland during 2014, including the Commonwealth Games, Ryder Cup and Homecoming, presents opportunities for the whole country. We have created a new, senior post to direct our engagement with these events and ensure we maximise the benefits which could accrue to our businesses and economy. Through Tourism Intelligence Scotland, in collaboration with Scottish Enterprise and VisitScotland, we will provide up to date market information and support strategic planning to strengthen the sector nationwide. We will continue to pursue opportunities in marine tourism, which brings a very high spending market to remote and rural communities, supporting job creation in visitor service businesses. Support will also be targeted to other markets with strong potential, including golf and adventure tourism.

Financial and business services

We will continue to promote the region as a productive and cost effective onshore destination to global business process outsourcers in the UK, and consolidate our recent inward investment success with Capgemini, which is on course to double its Inverness workforce to 1,000 in 2014. This sector has potential to deliver a positive impact across our region, and we will seek further benefits for our remote and fragile communities through homeworking opportunities in particular.

Universities

We are developing a new approach to support economic development through universities, working more closely with the Scottish Funding Council. This includes collaboration with SFC to ensure the Highlands and Islands shares in the benefits which Innovation Centres are designed to deliver for Scotland, particularly around strengthening research and development. We will seek to increase university activity in our region, focusing on maximising access to expertise in Scottish universities and strengthening our regional knowledge base in key areas of opportunity including marine renewables, marine science, and digital health. We are continuing to work with the University of the Highlands and Islands to establish it as a high quality

learning and research institution and economic driver, particularly supporting opportunities for young people throughout the region.

4. CREATING THE CONDITIONS FOR A COMPETITIVE AND LOW CARBON REGION

HIE's four priorities are closely inter-related, and much of the success which we aim to support our businesses, social enterprises and communities to achieve will be underpinned and accelerated by strategic and regionally-significant investments which HIE will undertake at our own hand, or in collaboration with partners, across our region. Examples which we will be progressing in 2014-15 include:

Digital connectivity

The rollout of next generation broadband (NGB) to all parts of the Highlands and Islands is the largest, most complex and technically challenging project which HIE has ever managed. Working with BT, we are delivering a £146 million project to extend the reach of this vital enabling service well beyond those areas where it is commercially viable to do so. Our aim is to deliver NGB access to everyone in the region by 2020, with the first phase covering 84% of premises by 2016. The project is being closely aligned with HIE's national delivery of Community Broadband Scotland, finding innovative solutions to ensure affordable coverage can be provided even in the most challenging locations. At the same time, we will promote and deliver advice and information to stimulate demand and enable businesses and communities across our region to realise the potential which digital connectivity can deliver.

Inverness Campus

The first occupiers of Inverness Campus, a 185-acre site which HIE is developing as a location for business, learning, research and community activity, will open for business in 2015. HIE's investment of up to £25 million over five years is delivering infrastructure to enable the Campus to become a major engine of growth for the Highland economy over the coming years. Inverness College UHI is relocating and currently constructing new premises which will open in summer 2015. HIE itself is in discussion with the University of the Highlands and Islands to share a new building which is being proposed as a showcase for the region's key economic assets, as well as providing office and research space. Plans are also being developed for an advance life sciences building. International marketing will be stepped up following the Campus official opening in November 2013.

Strategic property and business infrastructure

The range of HIE regionally significant investments across the Highlands and Islands reflects the organisation's commitment to ensure that the benefits of economic progress extend to all parts of the region.

We are preparing a new development plan to attract further private investment to Arnish Business Park, Lewis, a key Enterprise Area location, capitalising on substantial HIE investment to improve the site, including £2 million Scottish Government shovel ready funding.

At the European Marine Science Park in Argyll, we will focus on marketing Malin House as a prime location for businesses commercialising life science opportunities, and develop our links with the Scottish Association for Marine Science.

Enterprise Park Forres will continue to play a part in attracting investment to Moray as part of HIE's contribution to the Moray Economic Partnership, following recent successes with Atos, AccuNostics and EFC. Enterprise Area benefits for life sciences will feature in our promotional work.

Collaborative working

Working with strategic partners in central and local government and other public agencies on a Team Scotland basis will continue to be a priority. HIE makes effective contributions to Community Planning Partnerships across our region, and is involved in many pan-Scotland initiatives which will be active in 2014-15, including the Scottish Land Fund, Community Broadband Scotland, and the Scottish Business Portal.

We have established close working relationship with Business Gateway in each of the local authority areas we cover, including co-location in many cases, and will continue to foster collaboration for the benefit of Highland and Islands businesses. We are currently working with Skills Development Scotland to develop and implement a regional skills strategy for the Highlands and Islands, and with the Scottish Funding Council to maximise the value to the region of the growing number of Innovation Centres in Scotland.

Financial overview

Highlands and Islands Enterprise's financial position, as currently projected, is outlined below. This highlights the current actual budget for 2013/14 compared with the original Operating Plan projections, and a draft budget for 2014/15. It should be noted that this remains indicative and subject to change depending upon the nature and the timing of the investment demand which HIE has to react to, from both private and social enterprises, in fulfilling its ambitions to deliver economic growth across the Highlands and Islands.

DB – draft budget
 AB – actual budget
 OPB – Op plan Budget

	2014/15 DB	2013/14 AB	2013/14 OPB
	£m	£m	£m
Income			
Grant-in-aid - baseline	58.6	48.4	48.4
Grant-in-aid – in-year allocation		5.9	
Release of reserves		2.7	
EU income	5.0	5.0	5.0
Capital receipts	4.5	3.3	4.0
Revenue receipts	5.6	5.8	5.8
Total cash resources	73.7	71.1	63.2
Non-cash allocation			
Annually-managed expenditure	10.5	10.5	-
Ring-fenced DEL	12.7	12.7	12.7
TOTAL BUDGET INCOME	96.9	94.3	75.9

Expenditure

Businesses and social enterprises	12.0	13.0	10.0
Strengthening communities	8.0	8.0	7.5
Developing growth sectors	15.0	13.0	12.0
Competitive region	16.6	15.0	14.3
Development support	4.4	5.2	4.5
Operating costs	14.5	14.9	14.9
Strategic Forum savings	3.2	2.0	-
Total	73.7	71.1	63.2

Non-cash allocation

Annually-managed expenditure	10.5	10.5	-
Ring-fenced DEL	12.7	12.7	12.7

TOTAL BUDGET EXPENDITURE **96.9** **94.3** **75.9**

Key points to note are as follows:

- **Grant-in-aid (GIA) income** HIE has been successful in attracting an additional capital allocation of £5.9 million in 2013/14 with a further budget uplift of £10.2 million in 2014/15 from the original operating plan budget. This additional capital funding will support developments such as Enterprise Park Forres, Inverness Campus, EMEC, life sciences, renewable energy investments and other business infrastructure.
- **Broadband** Funding and expenditure for broadband has not been included in the above figures. Current estimates for 2014/15 suggest a £55 million investment programme following on from the £20 million spend during 2013/14. Broadband funding has been secured separately from the Scottish Government.
- **Energy funds** It is anticipated that HIE will seek additional funding from the Scottish Government's Energy Team during 2013/14 and beyond to support a number of developments in the renewable energy sector across the Highlands and Islands. These funds however have not been shown in the attached budget.
- **Release of reserves** The release of reserves relates to shovel-ready funds previously provided in 2012/13 for a project affected by unforeseen delays. These funds, with Scottish Government agreement, were applied to working capital to accelerate creditor payments, creating a financial underspend with a corresponding increase in reserves in 2012/13. This project will commence in 2013/14 and will be funded by the release of these reserves.
- **Capital receipts** These comprise mainly property sales which, in the current financial market, are increasingly challenging, with access to finance being a key issue for prospective purchasers. The target for 2014/15 will require to be reviewed ahead of finalising the actual budget in April 2014.
- **Operating costs** Since 2009/10, operating costs have reduced from £17.5 million to £14.9 million for 2013/14, representing a reduction of 15% whilst also absorbing inflationary pressures. HIE plans to reduce these further in 2014/15 to £14.5 million. Savings in the current year have been achieved through a rationalisation of accommodation and associated administration costs.
- **Annual managed expenditure (AME), non cash, allocation** The absence of this budget in 2013/14 reflects the fact that HIE had not moved to an AME

allocation at the time the Operating Plan was originally developed and this was prepared under the previous resource-based accounting basis

- **Capital and revenue virement** The Committee has previously expressed a specific interest in capital spend and revenue to capital virements in particular. It is useful to recall that HIE's Block A budget is discretionary and therefore virement from revenue to capital does not carry the same impact that it may do in other public sector organisations. Indeed, it is important that HIE retains the flexibility and discretion in these budget headings to meet the financial needs of our clients which can be either capital or revenue in nature. In order to do this successfully, the HIE Operating Plan established a revenue to capital virement range as part of its plan.

Conclusion

The Highlands and Islands continues to provide Scotland with significant opportunities to achieve sustainable economic growth in challenging times. Among other strengths, the region has particular potential in vital national sectors, including energy, life sciences, financial and business services, and creative industries.

Highlands and Islands Enterprise's unique combination of economic and community development powers enables the agency to support ambitious businesses, social enterprises and communities to generate jobs and prosperity across the region, including its most fragile areas.

HIE's budget is also geared towards maximising sustainable growth through far-reaching infrastructure investments, which will improve the region's competitive position over many years to come. Inverness Campus and HIE's collaboration with BT to deliver superfast broadband to underpin growth in parts of the region provide standout examples of how HIE is helping the region not only develop its own potential, but also make a serious contribution to national outcomes. HIE is leading efforts, working in close alignment with national and regional bodies, to capitalise on these opportunities and ensure the Highlands and Islands make a lasting impact on growth and prosperity for Scotland.

Appendix: HIE's contribution to National Performance Framework

The Scottish Government sets out high-level targets for increasing sustainable economic growth. These targets, along with the 16 national outcomes, have informed the development of desired outcomes for the region and, in turn, the choice of regionally significant investments and enterprise programmes that HIE delivers. The diagram which follows highlights the areas where HIE's interventions contribute to the national outcomes and purpose targets as set out in the National Performance Framework.



Highlands and Islands Enterprise

Financial Summary by Priority 2011-12 - 2013-14

	Actual 2011- 12	Actual 2012- 13	Published Plan 2013-14	Current Budget 2013- 14	Change	Change	Explanation of policy changes - detailed explanation in written submission
Budget line	£m	£m	£m	£m	£m	%	
Business & Social Enterprises	10.0	14.8	10.0	13.0	3.0	30.0%	Barmuckity Business Park
Strengthening Communities	7.5	7.5	7.5	8.0	0.5	6.7%	
Developing Growing Sectors	11.5	13.5	12.0	13.0	1.0	8.3%	
Competitive Region	14.1	21.8	14.3	15.0	0.7	4.9%	
Development Support	4.5	5.2	4.5	5.2	0.7	15.6%	
Total Frontline Investment	47.6	62.8	48.3	54.2	5.9	12.2%	
Operating Costs							
Staff Costs							
Front Line			7.3	7.3	-	-	
Support			3.0	3.0	-	-	
Staff Costs			10.3	10.3	-	-	
Travel & Subsistence			0.7	0.7	-	-	
Premises			1.6	1.6	-	-	
ICT			1.2	1.2	-	-	
Administration			1.1	1.1	-	-	
Total Operating costs	15.2	15.1	14.9	14.9	-	-	
Total Cash Investment	62.7	77.9	63.2	69.1	5.9	9.3%	

Financial Summary by Priority 2014-15

	Published Plan 2014-15	Current Budget 2014-15	Change £m	Change %	Explanation of policy changes - detailed explanation in written submission
Budget line	£m	£m	£m	%	
Business & Social Enterprises	10.0	12.0	2.0	20.0%	
Strengthening Communities	7.5	8.0	0.5	6.7%	
Developing Growing Sectors	12.5	15.0	2.5	20.0%	
Competitive Region	14.6	16.6	2.0	13.7%	
Development Support	4.4	4.4	-	-	
Total Frontline Investment	49.0	56.0	7.0	14.3%	
Operating Costs					
Staff Costs					
Front Line	7.3	7.3	-	-	
Support	3.0	3.0	-	-	
Staff Costs	10.3	10.3	-	-	
Travel & Subsistence	0.7	0.7	-	-	
Premises	1.3	1.3	-	-	
ICT	1.2	1.2	-	-	
Administration	1.0	1.0	-	-	
Total Operating costs	14.5	14.5	-	-	
Total Cash Investment	63.5	70.5	7.0	11.0%	

2013-14 Current Budget v Draft Budget 2014-15

	Current Budget 2013-14	Draft Budget 2014-15	Change £m	Change %	Explanation of policy changes - detailed explanation in written submission
Budget line	£m	£m	£m	%	
Business & Social Enterprises	13.0	12.0	(1.0)	(7.7)%	
Strengthening Communities	8.0	8.0	-	-	
Developing Growing Sectors	13.0	15.0	2.0	15.4%	
Competitive Region	15.0	16.6	1.6	10.7%	
Development Support	5.2	4.4	(0.8)	(15.4)%	
Total Frontline Investment	54.2	56.0	1.8	3.3%	
Operating Costs					
Staff Costs					
Front Line	7.3	7.3	-	-	
Support	3.0	3.0	-	-	
Staff Costs	10.3	10.3	-	-	
Travel & Subsistence	0.7	0.7	-	-	CH Sub Lease
Premises	1.6	1.3	(0.3)	(18.8)%	
ICT	1.2	1.2	-	-	
Administration	1.1	1.0	(0.1)	(9.1)%	
Total Operating costs	14.9	14.5	(0.4)	(2.7)%	
Total Cash Investment	69.1	70.5	1.4	2.0%	

Financial Summary for Spending Review Period

	Actual Outturn 2011/12	Actual Outturn 2012/13	Current Budget 2013/14	Draft Forecast 2014/15	Draft Forecast 2015/16
Budget Line	£m	£m	£m	£m	£m
Business & Social Enterprises	20.1	13.4	13.0	12.0	12.5
Strengthening Communities	5.1	8.0	8.0	8.0	8.1
Developing Growing Sectors	10.6	14.2	13.0	15.0	15.4
Competitive Region	8.9	24.1	15.0	16.6	16.5
Development Support	5	4.7	5.2	4.4	4.4
Total Frontline Investment	49.7	64.4	54.2	56.0	56.9
Operating Costs					
Staff Costs					
Front Line	7.2	7.3	7.3	7.3	7.3
Support	2.9	2.9	3.0	3.0	3.0
Staff Costs	10.1	10.2	10.3	10.3	10.3
Pension recovery plan					
Travel & Subsistence	0.7	0.7	0.7	0.7	0.7
Premises	1.7	1.7	1.6	1.3	1.3
ICT	1.6	1.4	1.2	1.2	1.2
Administration	1.3	1.1	1.1	1.0	1.0
Efficiency savings to be identified					
Total Operating costs	15.4	15.1	14.9	14.5	14.5
Total Cash Investment	65.1	79.5	69.1	70.5	71.4

Reconciliation to Grant in Aid

	Current Budget 2013/14	Draft Forecast 2014/15	Draft Forecast 2015/16	Change	Change	Explanation of policy changes - detailed explanation in written submission
Income	£m	£m	£m	£m	%	
Grant in aid (base line)	48.4	58.6	59.5	(10.2)	(21.1)%	Shovel ready Funding & SMO
Grant in aid (in year award)	5.9	-	-	5.9	100.0%	
EU Income	5.0	5.0	5.0	-	-	
Capital Receipts	3.3	4.5	4.5	(1.2)	(36.4)%	
Revenue Receipts	5.8	5.6	5.6	0.2	3.4%	
Total	68.4	73.7	74.6	(5.3)	46.0%	

NB

The table excludes any potential GIA award in respect of energy team or other allocations which are yet to be formally confirmed

Capital & Resource Plans 2011-12 to 2014-15

	Actual Outturn 2011/12 Total	Actual Outturn 2011/12 Capital	Actual Outturn 2011/12 Resource	Actual Outturn 2012/13 Total	Actual Outturn 2012/13 Capital	Actual Outturn 2012/13 Resource	Draft Forecast 2013/14 Total	Draft Forecast 2013/14 Capital	Draft Forecast 2013/14 Resource	Draft Forecast 2014/15 Total	Draft Forecast 2014/15 Capital	Draft Forecast 2014/15 Resource	Draft Forecast 2015/16 Total	Draft Forecast 2015/16 Capital	Draft Forecast 2015/16 Resource
Budget Line	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Business & Social Enterprises	20.1	10.6	9.5	13.4	9.3	4.1	13.0	8.9	4.1	12.0	9.2	2.8	12.5	11.0	1.5
Strengthening Communities	5.1	2.5	2.6	8.0	2.2	5.8	8.0	4.3	3.7	8.0	6.3	1.7	8.1	3.5	4.6
Developing Growing Sectors	10.6	7.1	3.5	14.2	11.6	2.6	13.0	9.0	4.0	15.0	5.9	9.1	15.4	5.5	9.9
Competitive Region	8.9	3.5	5.4	24.1	18.8	5.3	15.0	12.6	2.4	16.6	6.9	9.7	16.5	12.0	4.5
Development Support	5.0	-	5.0	4.7	-	4.7	5.2	-	5.2	4.4	-	4.4	4.4	-	4.4
	49.7	23.7	26.0	64.4	41.9	22.5	54.2	34.8	19.4	56.0	28.3	27.7	56.9	32.0	24.9
Operating Costs															
Staff Costs															
Front Line	7.2	-	7.2	7.3	-	7.3	7.3	-	7.3	7.3	-	7.3	7.3	-	7.3
Support	2.9	-	2.9	2.9	-	2.9	3.0	-	3.0	3.0	-	3.0	3.0	-	3.0
Staff Costs	10.1	-	10.1	10.2	-	10.2	10.3	-	10.3	10.3	-	10.3	10.3	-	10.3

	Actual Outturn 2011/12 Total	Actual Outturn 2011/12 Capital	Actual Outturn 2011/12 Resource	Actual Outturn 2012/13 Total	Actual Outturn 2012/13 Capital	Actual Outturn 2012/13 Resource	Draft Forecast 2013/14 Total	Draft Forecast 2013/14 Capital	Draft Forecast 2013/14 Resource	Draft Forecast 2014/15 Total	Draft Forecast 2014/15 Capital	Draft Forecast 2014/15 Resource	Draft Forecast 2015/16 Total	Draft Forecast 2015/16 Capital	Draft Forecast 2015/16 Resource
Budget Line	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Pension recovery plan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Travel & Subsistence	0.7	-	0.7	0.7	-	0.7	0.7	-	0.7	0.7	-	0.7	0.7	-	0.7
Premises	1.7	-	1.7	1.7	-	1.7	1.6	-	1.6	1.3	-	1.3	1.3	-	1.3
ICT	1.6	-	1.6	1.4	-	1.4	1.2	-	1.2	1.2	-	1.2	1.2	-	1.2
Administration	1.3	-	1.3	1.1	-	1.1	1.1	-	1.1	1.0	-	1.0	1.0	-	1.0
Efficiency savings to be identified	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating costs	15.4	-	15.4	15.1	-	15.1	14.9	-	14.9	14.5	-	14.5	14.5	-	14.5
Total Cash Investment	65.1	23.7	41.4	79.5	41.9	37.6	69.1	34.8	34.3	70.5	28.3	42.2	71.4	32.0	39.4

Planned Capital Expenditure 2013-14 to 2015-16

Highlands & Islands Enterprise Planned Capital Expenditure	Actual Outturn 2011/12	Actual Outturn 2012/13	Current Budget 2013/14	Draft Forecast 2014/15	Draft Forecast 2015/16
Capital Expenditure	£m	£m	£m	£m	£m
Competitive and Low Carbon Region					
Inverness Campus - Infrastructure	2.2	11.7	4.5	0.5	
Inverness Campus - Sports Facilities					6.0
Inverness Campus - UHI/HIE Centre				7.0	
Renewables Campus Stromness			-	-	5.0
Enterprise Park Forres infrastructure	0.2	1.6	0.8	-	-
Scrabster Harbour		4.5	1.0	1.4	-
Other projects	1.1	1.0	2.6	0.3	-
Total	3.5	18.8	8.9	9.2	11.0
Developing Growth Sectors					
Moray Life Science Centre		0.6	0.5	0.3	2.5
European Marine Science Park, Argyll	2.0	4.0	0.3	1.1	-
EMEC Test Facility Expansion			2.4	0.6	
Nigg - Site Development		2.4	0.4	0.5	-
Arnish	2.4	0.9	1.6	-	-
Lews Castle			0.3	0.7	0.1
Other projects	2.7	3.7	3.5	2.7	2.9
Total	7.1	11.6	9.0	5.9	5.5
Strengthening Communities and Fragile Areas					
Connected Communities		0.2	0.3	-	-
Lochboisdale Development	0.2		3.0	1.6	-
BSW Expansion and Development of Site	1.0		-	0.5	-
Kishorn Port Upgrade			0.8	-	-
Kilbeg Community Campus (SMO)			-	1.2	-

St Kilda Visitor Centre				-	-	1.5
Other projects	1.3	2.0	0.2	3.0	2.0	
Total	2.5	2.2	4.3	6.3	3.5	
Supporting Businesses and Social Enterprises						
New Buildings Enterprise Park Forres		0.5	2.4	0.1	2.5	
Unit 6 Enterprise Park Forres	0.1	3.2	0.4	-	-	
Scottish Loan Fund			2.0	1.0	-	
CairnGorm Mountain Limited			1.5	1.5	2.0	
Barmuckilty Business Park			2.7		-	
Creed Business Park					-	
Rothsay Business Park					2.0	
Broadford Industrial Estate			0.2	-	2.0	
Life Science & Manufacturing Developments					3.0	
Machrihanish & WindTowers	5.9					
Baxters Food Group		1.5				
Other projects	4.6	4.1	3.4	4.3	0.5	
Total	10.6	9.3	12.6	6.9	12.0	
Total	23.7	41.9	34.8	28.3	32.0	

Note

1 The above figures are indicative and liable to change as project phasing develops

2 Not included in the above Capital Programmes are anticipated Energy Funded projects in relation to sites in the Inner Moray Firth, Arnish, Kishorn, Orkney, Scrabster and Macrihannish.

3 The above also excludes investment in Broadband Infrastructure where funds are provided through Scottish Government