Pre-budget scrutiny on the 2027/28 draft Scottish budget

Highlands and Islands Enterprise

1 Introduction

Established in 1965, the Highlands and Islands Development Board (HIDB) was Scotland's first economic development agency. Six decades on, its successor, Highlands and Islands Enterprise (HIE) maintains the board's distinctive blend of powers to support both businesses and communities to deliver economic growth across a large and diverse region that covers more than half of Scotland's land mass and includes all of the country's inhabited islands.

While the HIDB was set up to halt and reverse chronic depopulation, the 21st century Highlands and Islands is, in contrast, a region of perhaps unrivalled opportunity. Its offshore wind sector alone holds out the potential to attract billions of pounds in investment and make a substantial contribution to Scotland's economy in the coming years and decades.

This submission will cite evidence to highlight the scale of that opportunity, while recognising that HIE and our partners in government and other public bodies also need to address a range of challenges in order for the region's economic potential to be fulfilled. As requested, we will provide details of our current funding provision and look ahead to what will be required to continue to support economic resilience and growth across our region in 2027/28.

To assist the Committee further, we will include a summary of HIE's unaudited performance outturns for 2025/26. These are currently being reviewed by Audit Scotland for inclusion in our next annual report and accounts, which are scheduled to be laid in the Scottish Parliament by the end of October. For context, we also provide a short summary of our current five-year strategy and annual Operating Plan and outline actions to deliver best value as part of our contribution to public service reform.

We hope the Committee will find this information useful and look forward to discussing our work and answering your questions when we meet in person.

2 HIE's funding position

The Scottish Government awarded HIE a 'flat cash' settlement for capital in 2026/27 and a one percent increase of £31,000 for revenue. While this is our opening budget, it is worth noting that HIE was successful in securing £43.8 m additional funding in 2025/26, including £36.2 m through the Offshore Wind Investment Programme (OWIP).

As the table on the next page shows, between 2022/23 and 2026/27 HIE's opening revenue budget from the Scottish Government reduced by £3.43 m (10.9%) and our capital budget reduced by £4.76m (15.9%). In addition, we no longer receive a Financial Transactions budget – in 2022/23 this was £2.6m. Since 2023/24, HIE has also had to absorb within its revenue budget the operating costs of Cairngorm Mountain (Scotland) Limited (CMSL), alongside ongoing pressures from pay awards and inflation.

Any further reductions to our revenue budget, combined with pay and inflationary pressures, would move HIE towards a position where the entirety of our revenue budget would be required simply to run the organisation. This would leave us little or no capacity for important economic interventions to deliver direct support to businesses and communities as well as other work such as business case development and benefits realisation.

In short, to capitalise on the very significant economic opportunities available across the Highlands and Islands, HIE requires its capital and revenue budgets at least to be maintained at their 2026/27 baseline levels.

Summary of HIE's budget allocations from the Scottish Government, 2022 – 2026:

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Change 22/23 - 26/27**	**% change**
	£000	£000	£000	£000	£000	£000	%
Revenue (2022/23 includes £1.8m CMSL authorised overspend)	31,470	29,862	27,865	28,010	28,041	(3,429)	-10.9 %
Capital	30,000	28,430	23,200	25,245	25,245	(4,755)	-15.9%
Financial transactions	2,600	1,900				(2,600)	-100.0%
Non-cash	2,000	2,500	3,696	3,000	3,000	1,000	50.0%
Total	66,070	62,692	54,761	56,255	56,286	(9,784)	-14.8%

3 Our strategy 2023-28

HIE's current five-year strategy sets out a clear vision for the region and direction for HIE, closely aligned with national priorities and programmes. Our vision for the Highlands and Islands is supported by four interconnected pillars – People, Place, Planet and Prosperity – and delivered through an annual Operating Plan.

Embedded throughout the strategy are the cross-cutting themes of net zero, fair and inclusive growth, and regional transformational opportunities. Success will depend on

effective collaboration and partnership with government, businesses, communities and organisations across the public, private and third sectors.

Our region is at the forefront of industries that will play a critical role in Scotland's economic transformation, including renewable energy, life sciences and space. At the same time, established sectors such as tourism, food and drink, and the creative industries have significant potential to innovate, adapt and expand, ensuring they continue to make a strong contribution to the regional economy for years to come.

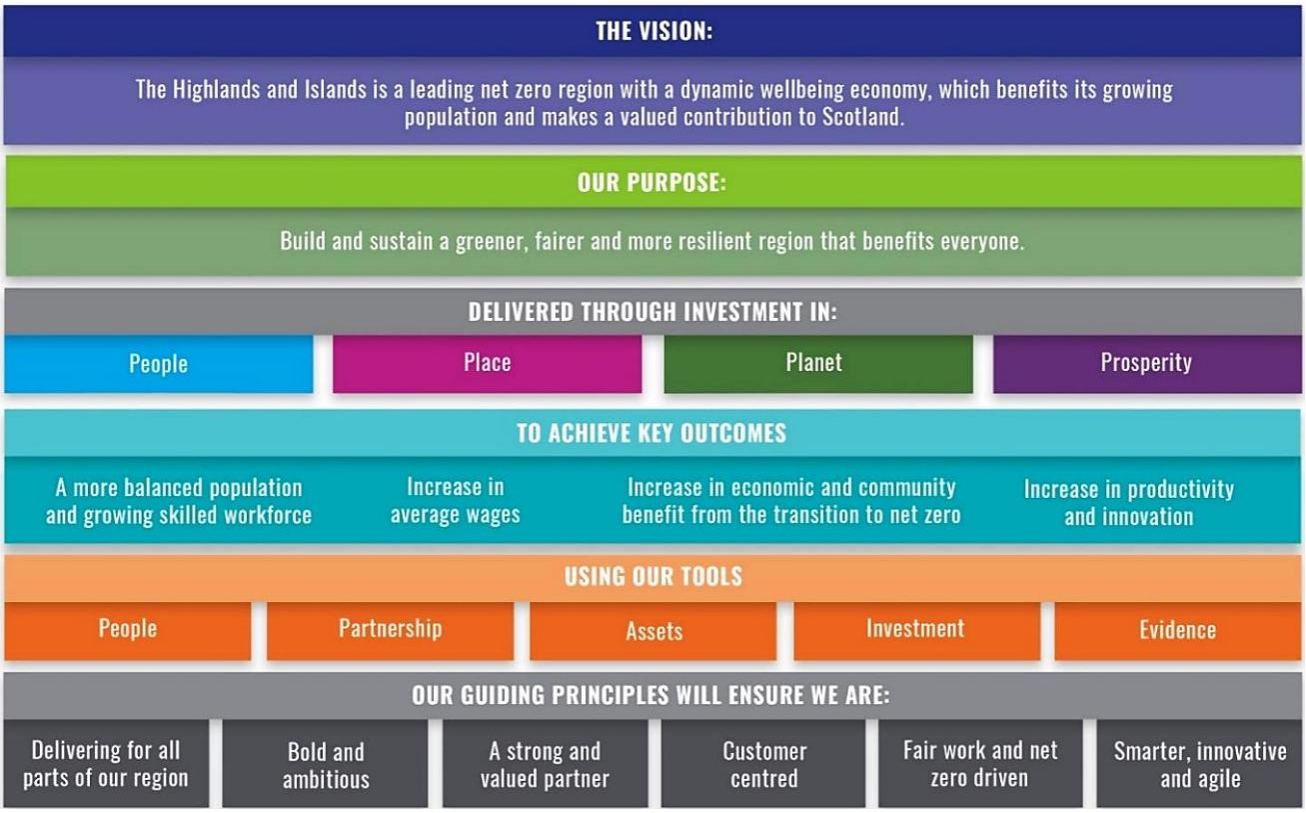
Regional transformational opportunities research published in May 2025 quantified the potential impact of our current investment pipeline, concluding that more than 250 projects were either planned or under way, with a combined total investment value of more than £100 billion.

Largely driven by the private sector, with co-investment from public bodies and through growth deals, these could have the potential to support 18,000 operational jobs throughout the Highlands and Islands by 2040 and a further 16,000 at the peak of construction. Realising these opportunities will be essential if we are to deliver sustainable prosperity across every part of the region.

Central to this ambition is tackling poverty and inequality through the development of a wellbeing economy and the acceleration of community wealth building to increase the benefits retained within local areas and create greater opportunities for communities to contribute and share in economic success.

Retaining and attracting young people to the region is another priority, requiring us to create opportunities, support young entrepreneurs, expand graduate placements and work with partners on initiatives that address population challenges and strengthen local communities.

Ongoing population challenges continue to affect our island and remote rural communities. Patterns of growth across the region remain uneven and we target support towards 'inclusive growth focus areas' that face particular disadvantage. Some of these are Gaelic heartland areas where we look to support the language and culture as an asset through investment in community projects and infrastructure such as UHI partner Sabhal Mòr Ostaig in Skye and cultural centre Cnoc Soilleir in South Uist.



Building long-term resilience and sustainability will depend on a continued commitment to innovation, including new digital technologies, the promotion of fair work and making the most of the hugely significant economic opportunities offered by a successful transition to net zero.

Achieving our ambitions will also require effective partnership working to plan and deliver the skills and training needed for the future workforce and address infrastructure challenges across issues such as housing, transport, education, workforce skills and digital connectivity.

4 Measuring our performance

HIE's strategy sets out clear outcomes for each strategic pillar, along with long-term indicators of success and a performance framework that measures progress. Annual measures and targets, refreshed through the Operating Plan, are used alongside tracking data to monitor client progress and identify opportunities to support productivity, sustainability, resilience and growth.

We evaluate the performance of our business and community support programmes annually and use longer-term tracking to assess the impact of infrastructure and community investments. HIE has also developed tools and approaches to better understand and demonstrate our contribution to regional development and national outcomes. These include an inclusive growth model that informs geographic targeting and is now embedded within our planning and performance measurement.

In 2025/26, HIE directly supported 1,999 organisations – approving investment of £81.4m in 1,339 interventions with a combined total cost of £176.4m.

As shown below, our activities supported 642 jobs – 54% of which were in disadvantaged areas – and created 1,690 additional employment opportunities. We approved investment of £81.4m in 1,339 projects with a combined total cost of £176.4m. More than 275 community-led projects were supported, spanning the development of community-owned assets, housing investment, creating commercial space and improving resilience and leadership.

PRIMARY MEASURES	TARGET 2025/26	FORECAST OUTTURN 2025/26	FORECAST OUTTURN 2024/25
No. of organisations supported to increase productivity	60	54 🟡	40
Average increase in productivity	15%	30% 🟢	54%
No. of organisations supported to innovate	200	347 🟢	415
No. organisations increasing innovation maturity	55	8 🔴	
No. of new products, processes or services developed	80	163 🟢	263
Innovation investment in supported organisations (£m)	£30m	£50.7m 🟢	£32m
No. of organisations supported to engage in just transition to net zero	50	112 🟢	
No. of organisations baselining their CO_2e emissions	25	98 🟢	
No. of organisations supported to develop or implement a net zero action plan	50	99 🟢	79
No. of community-led projects supported	120	277 🟢	271
No. of new / improved income generating community assets	30	52 🟢	
No. of jobs supported (FTEs)	600	642 🟢	765
Green jobs supported (FTEs)	70	260 🟢	242
No. of jobs supported in inclusive growth focus areas (FTE)	200	348 🟢	293
Average wage of jobs supported (£/FTE)	£34,000	£35,223 🟢	£31,105
Average wage of jobs supported in inclusive growth focus areas (£/FTE)	£32,000	£34,396 🟢	£30,647

External investment secured (£m)	£55m	£81.3m ●	£81.6m
External green investment secured (£m)	£25m	£48.8m ●	£24.2m
External investment secured in inclusive growth focus areas (£m)	£20m	£65.3m ●	£23.7m
External Investment secured in supported community orgs/social enterprises (£m)	£12m	£12.3m ●	£28.4m
Capital asset investment (£m)	£80m	£167.4m ●	£152.8m
Green capital asset investment (£m)	£40m	£88.6m ●	£73.1m
Capital asset investment in supported inclusive growth focus areas (£m)	£40m	£125.8m ●	£48.3m
Capital asset investment in supported community orgs / social enterprises (£m)	£20m	£15.2m ●	£40.2m

5 Public service reform – Best Value

HIE believes in a culture of continuous improvement and we have taken significant steps to achieve greater efficiency through an annually-refreshed Best Value Plan, delivering both savings and additional income and contributing to the national public service reform programme.

2025/26 was the fourth year of capturing and measuring our performance against delivery of the plan and progress was significant. We achieved £1.6m in savings and generated £1.2m income to offset running costs through a range of activities, including co-location with other organisations.

Some of these benefits are recurring, such as reductions in pension recovery costs, while others are realised annually through measures such as vacancy management. We have reduced our average headcount by 15% over six years, from 282 in 2019/20 to 240 in 2025/26, while continuing to deal with budget pressures through a comprehensive financial management strategy

6 Looking ahead

Against a challenging backdrop of global uncertainty, higher energy prices and subdued national growth, we expect the Highlands and Islands to experience modest economic growth. While the offshore wind sector faces commercial and delivery pressures, our region remains well positioned to benefit from major renewable energy investment and emerging opportunities, including those linked to AI, digital infrastructure and data-intensive industries,

The extent to which the region can capitalise on these opportunities will depend heavily on overcoming long-standing constraints. Realising the potential of the regional transformational opportunities cited above will require investment in critical enablers including grid infrastructure, housing, transport, ports, digital connectivity

and workforce skills, alongside access to finance, planning reform and securing community support for development.

Highlands and Islands Enterprise
30 September 2026