



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Gordon Lindhurst MSP
Convener
Economy, Energy and Fair Work Committee
The Scottish Parliament

Email: economyenergyandfairwork@parliament.scot

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Dear Convener

Thank you for your letter of 31 August requesting information in response to our letter to you on the timetable for laying the Highlands and Islands Enterprise 2019/20 Annual Report and Accounts in Parliament. Charlotte Wright is currently on annual leave and I am responding on her behalf.

Your letter asked for information on a number of aspects of HIE's work and I have set out our response below.

- **Key performance measures (achieved and targets) – 2018/19, 2019/20, 2020/21 (to date and an indication of whether KPIs for 2020/21 have been modified due to the pandemic)**

Further detail on our key performance measures can be found in Appendix One. In 2019-20, regional economic performance was mixed with continued uncertainty over Brexit impacting business confidence and levels of private sector investment. This had an effect on new exporters and international sales - where out-turns for the year were just short of the target range. You will note that there were two other measures that did not meet the targets set and these relate to fair work and community capacity. Data contributing towards these measures are drawn from records and discussions with clients which are updated in March, as they measure progress rather than capture data at the time of a single investment. The targets were therefore impacted by the decision to pause these data requests, as it was not felt appropriate to ask for these when clients and staff were focussing on the emerging impact of COVID-19.

For the current financial year, HIE agreed with the Scottish Government that the focus was on resilience, restart and recovery support, and planning and targets were not set. We are currently continuing to monitor against a combination of the key measures we reported last year and will consider targets on further advice from the Scottish Government.

- **Finances for 2018/19, 2019/20 (and estimates for current year 2020/21)**

In Charlotte Wright's letter to you of 20 August, she explained the reasons for the delay in laying our accounts in the Scottish Parliament. The figures quoted below are therefore subject to any final changes arising from the audit process and should be regarded as draft outturns.



FINANCES FOR 2018/19 – 2020/21

	2018/19 [1] £'000	2019/20 [2] £'000	2020/21 [3] £'000
Income:			
Scottish Government Grant-in-Aid	63,967	67,442	73,281
European Funding	3,534	3,344	1,966
Other Match Funding	10,226	7,993	6,542
Income Receipts	6,518	15,340	4,628
Financial Transactions	0	875	2,000
Total Income	84,245	94,994	88,417
Expenditure:			
Business	39,075	46,672	43,059
Communities	10,334	7,225	10,080
Infrastructure	36,652	39,208	35,278
Total Expenditure	86,061	93,105	88,417
(Over)/Underspend	-1,816	1,889	0

Notes

[1] 2018/19 outturn includes £2m Authorised Overspend in respect of Cairngorm Mountain (Scotland) Ltd

[2] 2019/20 outturn figures subject to final adjustments in the external audit process

[3] 2020/21 includes anticipated GIA, income and forecast expenditure

Figures exclude Annually Managed Expenditure and Ring-Fenced DEL

- **Commitment on RDEL and CDEL budget for 2019/20**

The overcommitments on both RDEL and CDEL for 2019/20 were successfully managed down and the final draft outturn (summarised in the table above) shows that HIE met its financial targets, subject to any final audit adjustments.



- **Financial risks**

Further details were requested on a number of financial risks and I have responded on each point below:

Funicular – HIE developed a detailed options appraisal relating to the funicular during the course of 2019/20, which culminated in a Full Business Case being presented to the HIE Board and Scottish Government in August 2020. It is expected that an announcement will be made on the decision shortly.

VAT – We worked closely with Scottish Government officials to resolve this issue and, following detailed discussions, SG made available an in-year RDEL allocation of £4.5m to cover the anticipated impact of the backdated settlement to 2014. Following months of very detailed analysis and negotiation with HMRC, the liability is substantially settled and we expect the final settlement to be well within the resources made available.

Centre for Health Science (CfHS) - The sale of CfHS to the University of the Highlands and Islands was agreed to offer the best outcome for the wider public sector and was considered vital in the context of nurse training in the region. The sale will also allow HIE to make a significant contribution (£8.5m) to the capital cost of the reinstatement of the funicular railway at Cairngorm. Nevertheless, the loss of the rental income is significant (£1.5m per annum, equivalent to around 44% of total rental income). This impact was mitigated in 2019/20 by the profit on disposal of the asset, which gave us time to plan for the impact in setting the 2020/21 budget. We are now in the process of developing a strategic approach to property, which will focus on our core economic development role (rather than a narrow income generation lens) but income generation will continue to be a consideration.

Space Hub Sutherland - HIE is working actively alongside key partners in the private sector and in the Scottish and UK Governments to deliver vertical launch capability as part of the UK's aspiration to grow the UK Space sector to 10% of the global market. Good progress has been made with the achievement of planning permission for the Sutherland site in June 2020. COVID19 has had some impact on timescales, estimated at 3 months to date. The overall risk across the project is monitored regularly and reported to the HIE Board and Risk and Assurance Committee for consideration.

Brexit and EU Funding - HIE has been a significant contributor to the development and delivery of EU funding support in Scotland over the past 26 years and access to this funding was fundamental in delivering some of the HIE led, major partnership investments in the region. These include innovation infrastructure, such as the Centre for Health Science and the European Marine Science Park, and the development of UHI, along with key business and community support. It has been critical to the wider ambitions of HIE for a thriving region through investment in wider digital, business and transport enabling infrastructure, and education and skills development.

The implications of Brexit are not yet clear; whilst it seems inevitable that the UK's transition period will end on 31 December 2020, the terms of this are not known i.e. will it be a no-deal/WTO or some form of trade agreement.



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The UK Government is planning a Shared Prosperity Fund (SPF) to ameliorate any loss of access to EU funding. Full details of the SPF are not known, with the UK Government indicating that more information will be made available as part of the Comprehensive Spending Review in October / November 2020.

The Scottish Government has established a Future Funds Team, sitting alongside the existing Structural Funds team in the Business Directorate. Working with a Steering Group (including HIE), they undertook a consultation early in 2020, to understand stakeholder views on future funds. This indicated support for a regional approach to governance and delivery.

HIE is working with regional partners through the Highlands and Islands European Partnership (involving HIE, local authorities and the University of the Highlands and Islands) to consider regional priorities. Key aspects of our priorities will include supporting businesses and communities to build resilience and agility, enabling them to address challenges and grasp opportunities arising from a turbulent and fast changing environment (resulting from COVID, Brexit, Net Zero, etc); and taking forward specific place based developments in areas of opportunity, such as marine sector(s), green growth, and population attraction as working patterns and practices change. HIE's view is that the SPF should take a medium / long term view and be regionally focused with ring-fenced allocations.

- **Measuring value of our investments**

In the past year, HIE has concluded two pilot studies which assessed the long-term impact from investment in infrastructure. The approach taken builds upon, and incorporates, the requirements of the Scottish Government's Public Finance Model. It aimed to provide an approach which considers the value of strategic infrastructure and community assets within the context of place, wellbeing and climate change rather than the standard metrics which can undervalue the wider and longer-term impact especially in the rural economy. The case studies reflected the diversity of HIE's infrastructure activity and underlying rationale for intervention, and involved quantitative evidence on each case study, desk-based research and stakeholder interviews to update and enhance understanding of the outcomes. The study concluded a very positive return to society from the investments for HIE and its public sector partners. The next phase is to operationalise this model as part of new system development.

The first phase of the inclusive growth pilot work has progressed with HIE working on the project, Towards Inclusive Growth (TWiG), alongside researchers from the James Hutton Institute and Biomathematics and Statistics Scotland (BioSS) to understand the characteristics of inclusive growth within the Highlands and Islands. The aim of the TWiG project is to identify area typologies; areas that share a similar profile in terms of need and opportunity across a range of indicators. Subsequently, the intention of the next phase is that the area characteristics will be used to deliver a decision support tool that provides indicative but credible quantification of variation in the 'value' of output in relation to inclusivity for different investments in different locations. In recognition of the value of this initiative to Enterprise and Skills partners, they are considering it as a potential partnership project.



- **How HIE is providing opportunities to young people, especially in the non-Inverness HIE area.**

The population of young people living in the Highlands and Islands is a key issue for economic growth. Net out-migration of young people pursuing education or employment opportunities is a significant challenge and has become even more prominent due to the effects of COVID and Brexit. Talent attraction, retention and return is a key focus of policy and is a core part of ongoing efforts to rebalance the region's population. Central to this is maximising the opportunities for young people to stay in, return or move to the Highlands and Islands to live, work and study. To address this issue, we have developed a number of initiatives and programmes (see Appendix Two).

Through the emerging labour market and economic data and evidence, and as the furlough scheme ends, we are becoming increasingly aware of the potential scale of challenge ahead for youth employment. We continue to work through the local community planning partnerships and Developing Young Workforce frameworks, and we remain close to our agency partners to align others' products and programmes to target support as required and where labour market can be matched to areas of need and opportunity. Through these partnership relationships and our third-party client engagement, we can aid the generation of uptake and draw down of national and regional programmes like the Youth Job Guarantee Scheme, Kickstart and others.

HIE is also involved in a wide range of skills working groups and is at the forefront of conversations around skills provision. The principles behind our activity in the skills system is to support locally, operate regionally and collaborate nationally. Within that context, we are involved in key and sub sector skills planning activities at a national and regional level. Youth employment features significantly across all skills plans at a sectoral and geographical level and we are connected directly with the other agencies, local authorities and all parts of the University of the Highlands and Islands.

- **How HIE is using its budget to support social enterprises, given the impact of COVID-19 on social enterprises**

Social enterprises play a crucial role in the economy of the Highlands and Islands. HIE currently provides account management support to 155 social enterprises, of which 37 are considered as social enterprise (anchor) organisations, i.e. they offer support and services within distinct geographical communities.

In 2019/2020, we supported 62 projects delivered by account managed social enterprises, with total HIE Grant-in-Aid awarded amounting to approximately £1.82m. We also supported 31 projects being delivered by non-account managed social enterprise to the amount of approximately £890k; this funding supported one-off project activity considered significant in aiding a social enterprise's or community's development.

HIE financial support resulted in an expected increase of turnover in the social economy of £5.3m and the expected creation of 80.5 FTE jobs, 44 of which are anticipated in fragile areas. 35 community-owned assets were also created or improved.



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Although fewer projects have been approved to date in 2020/2021, expected increase in turnover in the social economy is currently £5m, with 48 FTE jobs expected.

To date in 2020/2021, we have supported 23 projects being delivered by account managed social enterprises, with total HIE Grant-in-Aid awarded amounting to approximately £1.7m. HIE has also supported 11 projects being delivered by non-account managed social enterprises to the amount of approximately £483k.

HIE has been instrumental in delivering the Scottish Government's COVID-19 Supporting Communities Fund across the Highlands and Islands. Since early April, 210 approvals have been made, totalling just over £3.7m. This funding, channelled through 155 community anchor organisations (CAOs), has supported communities' responses to the COVID-19 emergency at grassroots community level. 141 of the approvals that were made have been channelled through non-account managed CAOs, many of which HIE has never worked with before. We hope that relationships can be developed with a number of these organisations in the future to assist in broadening the range of place-based activity being delivered across the Highlands and Islands.

I would also like to take the opportunity to highlight a specific project that is an exciting and ambitious collaboration. The Support Network for Social Entrepreneurs (SuNSE) is a 3-year Interreg project, aiming to support, nurture and grow social entrepreneurship across North West Europe. Under the programme, HIE is establishing four Start-Up Schools across our region. The Start-Up School is for anyone who has a business idea that could positively impact their local community or environment and may need some support to turn the idea into a business.

As a result of Covid19, the SuNSE project converted from delivering face to face business support through the Start Up Schools to supporting clients digitally, offering online classes and learning. This has allowed 27 new and existing social entrepreneurs to receive ongoing one to one and peer support since May 2020 and enabled 4 new social businesses starts (12 new business starts in total). These include an environmentally sustainable cleaning company in Tain, an underfloor heating company and a cultural arts organisation, both from Ullapool, and a company in Wester Ross making and selling items from waste bed linen.

I trust this information will be helpful for the committee in advance of the evidence session on 22 September.

Yours sincerely

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APPENDIX ONE – PERFORMANCE MEASUREMENT

Primary Output Measure	2018-19 Target Range	2018-19 out-turn	2019-20 Target Range	2019-20 out-turn	2020-21 out-turn to date
Increase in business turnover (£m)	£80-£100m	£117.9m	£90-£110m	£95.7m	£44.5m
Increase in international sales (£m)	£30-£40m	£46.3m	£35-£45m	£33.1m	£9.5m
Increase in turnover in the social economy (£m)	£3-£4m	£4.8m	£2.5m-£3m	£4.5m	£5.0m
No. of new international exporters			25-30	13	
No. of jobs supported (FTEs)	700-900	1,051	400-500	646.75	414.5
No. of jobs supported in Fragile Areas (FTEs)	125-175	166.75	80-100	80.5	19.5
Average wage of jobs supported (FTEs)	£25,000	£26,487	£26,000	£28,058	£26,730
Capital asset investment (£m)			£14m-£18m	£46m*	£33.8m
Turnover generated in social economy by community owned assets	£1.5-£2m	£3.0m			
Funding raised by supported enterprises/community organisations (£m)			£16m-£20m	£28.9m**	
No. of clients newly engaged in fair work practices			35-40	21	
No. of community organisations with increased capacity			20-25	17	
New/improved income-generating community assets	25-30	25	16-20	30	11
* Excludes Scrabster Harbour Trust (£17m) and Stornoway Port Authority (£49.1m)					
** Excludes Scrabster Harbour Trust (£14m); Stornoway Port Authority (£39.1m) and Twelve Ness Walk Ltd (£7.1m)					



APPENDIX TWO – OPPORTUNITIES FOR YOUNG PEOPLE

- The **Scotgrad programme** supports an increase in business competitiveness and innovation through the employment of a graduate or a student. This helps to retain and attract knowledge within/to the Highlands and Islands region. Although there is not an age limit on participation in the programme, most of the placements are filled by young people.
 - From April 2019 to date, total number of graduate placements – 20 (15 outwith the Inner Moray Firth area)
 - From April 2019 to date, total number of student placements - 15 (11 outwith the Inner Moray Firth area)
- The **Emerging Leader's** course is part of a leadership development programme which is aimed at individuals new into a leadership role or individuals with leadership potential. As with Scotgrad, there is no specific age criteria, although most participants are younger employees. The average course has 12 participants.
 - Since April 2019, total number of courses - 6 (4 held outside Inner Moray Firth)

As well as a programme of major infrastructure investments to unlock employment and economic growth, the Inverness and Highland City Region Deal is delivering projects such as the **Northern Innovation Hub** and **Science Skills Academy**. These aim to develop education and career development opportunities for young people in the Highland region. Similar projects are contained within growth deals elsewhere in the Highlands and Islands, namely Argyll and Bute, Moray and the Islands Deal.

- **IMPACT 30** is a programme of support for people aged 35 or under who are in a leading role in a business that has been operating for 3 years or less. The 12-month programme provides one-to-one and one-to many support, including business coaching, mentoring, master classes and networking / collaboration opportunities.
 - Total number of young people on the programme to date – 51
 - Total number of young people outside the Inverness area – 26
- We have contracted with Code Clan to deliver a Highlands **Coding Academy** which provides a fast-track full-stack web developer course. This is designed to assist young people from the region to develop new digital skills and to gain local jobs in coding/web development to help our businesses to grow.
 - Total number of young people on the programme to date – 6
 - Total number of young people outside the Inverness area – 1
- The **Technology Placements programme** provides opportunities for SMEs to employ a student or graduate to work on a specific project that focuses on technology. The



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programme supports young people into employment and businesses to bring new skills into the organisation.

- 12-month Graduate placements with young people – 2 (one from Inverness, the other from East Ross)
- 3-month Student Placement – 2 (one outwith Inverness)
- We have another 5 placements approved which will employ a further 5 graduates over the next 12 months (4 of these are from outside Inverness)