Case Study

Highlands and Islands Enterprise (HIE)

Written in the fall of 2008

This case study has been produced as part of the ‘REVERSING THE TIDE: Strategies for Success Rural Revitalization’ project. The purpose of this case study, along with three others, is to provide insight into the goals, structures, and investment/program strategies that well respected, successful organizations concerned with rural regional revitalization have used to address economic and community issues in rural areas.
Highlands and Islands Enterprise (HIE)

NOTE TO READER: This paper is a compilation of written material taken from the main HIE website and other related websites. Supplemental information and a review of this document was provided by HIE staff under the direction of Alastair Nicolson, Head of Planning and Economics with HIE.

The Highlands and Islands Enterprise (HIE) of Scotland is one of the oldest regional development agencies in Europe. For more than 40 years HIE (and its predecessor organization, the Highlands and Islands Development Board) has supported regional development and invested public funds to improve the economic and social well-being of the residents of northern Scotland. In 1965, after many years of significant economic and population decline in northern Scotland, the HIDB was established to improve the economic and social conditions of the region. The HIDB evolved into the Highlands and Islands Enterprise in 1991. Since its creation, HIE has had significant success in revitalizing the economy and social fabric of the Highlands and Islands region. Today the Highlands and Islands of Scotland have a growing population, a broader and more vibrant economic base, and an unemployment level below both the Scottish and UK averages.

Click on www.hie.co.uk to access their website.

THE HIGHLANDS AND ISLANDS REGION OF SCOTLAND

The Highlands and Islands of Scotland comprise a diverse region with a spectacular natural environment, including nine out of the ten highest mountains in the UK, its deepest freshwater lochs (lakes) and world renowned iconic locations such as Loch Ness and the Isle of Skye. The region incorporates two national parks, including the UK’s biggest (Cairngorms), and has a rich cultural history. Its Norse and Celtic traditions still have a strong influence on society today. It is the home of the Scots Gaelic language which is still spoken extensively in some parts of the region, particularly in the west coast and the Hebridean islands.

The region has a coast line of over 9,000 kilometres, a total land area of just over 39,000 square kilometres and covers 51 per cent of Scotland’s landmass. With a population of only 441,000 (2006) it’s one of the most sparsely populated parts of the European Union—only 10 people per square kilometre. The corresponding figure for the rest of Scotland is approximately 130 people per square kilometre and for our nearest neighbour, England, it is almost 400. The HIE area accounts for less than 10 per cent of the Scottish population.

In addition to a very low population density, 30 per cent of residents live on one of 96 inhabited islands. Altogether, 61 per cent of Highlands and Islands residents live in rural areas or settlements of fewer than 5,000 people. The city of Inverness is the largest settlement with around 40,000 people.

The Highlands and Islands is the only part of the UK to have its own intra-regional air service; it also has a vast network of ferry services linking its inhabited islands with the rest of the country.

HISTORY OF THE FORMATION OF HIGHLANDS AND ISLANDS ENTERPRISE (HIE)

The Highlands and Islands Development Board (HIDB) was established by an Act of Parliament in 1965 and was one of the first regional development agencies in Europe. Its principal objectives were to assist the people of the Highlands and Islands
to improve their economic and social conditions and to enable the area to play a more effective part in national development. Much of the HIDB budget was devoted to discretionary grants and loans schemes, which provided financial assistance to developers wishing to start or expand commercially viable enterprises in the Highlands and Islands.

The particular problems the Board was tasked with addressing included the rapid and continuous out-migration of people from right across the region. The economy was heavily reliant on primary sectors, the transport infrastructure was outdated, and considerable parts of the region were still without basic services such as electricity and public water supplies. Income levels were very low, provision of higher education was non-existent and even secondary education was concentrated in a small number of main settlements.

During its sixteen years of existence the HIDB and other public sector partners made great strides in modernising the region, supporting new industrial development, contributing to a transformation in transport infrastructure, and helping raise confidence levels in communities right across the Highlands and Islands.

Highlands and Islands Enterprise (HIE) was created in 1991 as a successor to the HIDB. At this time it acquired additional powers to deliver training programmes to individuals as well as supporting businesses with workforce development funding. Critically, HIE retained the powers to continue the HIDB’s holistic approach to delivering economic and community development. This blend of powers remains a feature of HIE today and an important factor underpinning its success.

HIE is headquartered in Inverness, but delivery of HIE’s activities was originally achieved through a network of local enterprise companies (LECs). These subsidiary companies, with voluntary board members drawn from the communities they served, were tasked with formulating a response to the specific issues faced by the local economies within which they operated.

Changes announced by the Scottish Government in September 2007 saw the training programmes to individuals and the careers service functions formerly provided by HIE transferred to a new agency, Skills Development Scotland. At the same time, in order to reduce bureaucracy the network of subsidiary companies (LECs) was disbanded, with all staff, functions and responsibilities passing to HIE, which now operates as a single agency. The local dimension has been preserved, however, in the form of eight area teams which aim to ensure that sustainable economic growth is achieved across the whole of the Highlands and Islands (see Map 2).

Map 2: HIE Area Teams

Critically, HIE retained the powers to continue the HIDB’s holistic approach to delivering economic and community development. This blend of powers remains a feature of HIE today and an important factor underpinning its success.

Over the past forty years the structure, strategic focus and financial and human resources made available to HIE have changed on a number of occasions, as directed by the government of the day. However, the fundamental model of a body operating at arm’s length from (but clearly accountable to) government has allowed it to develop a single-mindedness of purpose and to take a long-term view of what the most important investments are that need to be made if the region is to make sustainable progress.

The economic fortunes of the region have been totally transformed in recent decades and the Highlands and Islands now have historically low unemployment levels along with a growing population. However, a series of challenges still remain which HIE and its public sector partners are focused on addressing.
These challenges include the over-reliance of the regional economy on sectors which pay relatively low wages. There is a corresponding lack of high-paying jobs in emerging sectors and indeed in established (Scottish) sectors such as financial services. As a result, average earnings are only around 90 per cent of the Scottish average and 85 per cent of the UK figure.

In addition, average earnings do not reflect the skills base within the economy. There is evidence to suggest that sections of the workforce are underemployed due to a lack of opportunity to progress and work at a higher level in their chosen career.

**HIE TODAY**

*Over the past forty years the structure, strategic focus and financial and human resources made available to HIE has changed on a number of occasions, as directed by the government of the day. However, the fundamental model of a body operating at arm’s length from (but clearly accountable to) government has allowed it to develop a single-mindedness of purpose and to take a long-term view of what the most important investments are that need to be made if the region is to make sustainable progress.*

In 2007–08 HIE introduced the largest set of changes since it was established in 1991. The publication of the Scottish Government Economic Strategy ushered in a new era as the agency reorganized to deliver the key national objective of sustainable economic growth.

The result of these changes is a slimmer, more focused organization which retains ambition, commitment, passion and confidence in the region’s future. HIE now has around 350 staff working across the region with a total annual budget of between $170 and $185M Canadian, giving it considerable firepower to achieve sustainable economic growth throughout the Highlands and Islands.

The HIE board is appointed by Government Ministers and made up of the Chair, Chief Executive and six non-executive members. Each board member is a local representative who either lives or works in the Highlands and Islands and brings a wealth of expertise and experience to the organization. It has overall responsibility for ensuring that HIE fulfils its statutory duties and meets the objectives set out by the Scottish Government. In 2008 the Board met six times; meetings are held in private, owing to the confidential nature of their decisions.

On a day-to-day basis, the organization is run by a senior management team comprising the Chief Executive and five directors, each of whom has responsibility for their respective groups which are: Strategic Planning; Operations; Regional Competitiveness; Strengthening Communities, and Finance and Corporate Services.

The Scottish Government has articulated a very clear purpose — to focus the Government and public services on creating a more successful country with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

In order to improve the region’s performance and its contribution to the economic growth of Scotland, HIE has adopted an integrated, strategic approach to development, focused under three broad headings:

- supporting high-growth businesses and sectors, thereby raising growth rates across the area
- creating the infrastructure and conditions to improve regional competitiveness
- strengthening communities, especially in fragile parts of the area

Support to high-growth businesses is vital to building sustainable growth. Successful businesses not only contribute directly to the economy, but underpin local communities. HIE focuses its resources on those industries and businesses which have the highest growth potential, and where that potential can only be realised with their assistance.

In order to increase the impact of these businesses, HIE has adopted an account management approach. Approximately 500 businesses with high growth potential have been identified by HIE. They will work closely with these businesses to help them develop growth plans which may require the provision of new infrastructure, expert advice, financial support or any combination of the three in order to make the company grow faster and achieve its full potential sooner. In addition to helping these businesses to acquire the resources necessary to implement their growth plans, HIE can assist them to develop new products and processes, identify and expand into new markets, and get the very best out of their people.

HIE also leads and works with partners to deliver transformational projects which can have a significant economic impact beyond local markets and assist local organizations to create stronger, more dynamic and sustainable communities. These include:

- aspirations for a University of the Highlands and Islands
- the Centre for Health Science (a pioneering life sciences institute) in Inverness
- renewable energy research and development
- infrastructure investment to support the growth and
diversification of economies facing structural change, and

- support for communities who have taken ownership of the land (or island) on which they live.

With regard to population change, the main driver of growth has been in-migration, but the headline figures mask the fact that every year there is significant net out-migration of 15–24 year olds. Young people from across the region are leaving to pursue further / higher education and employment opportunities elsewhere in the UK and overseas. On a pro-rata basis the highlands & islands region has almost 10,000 fewer young people in this age bracket than Scotland as a whole. This loss must be addressed by providing opportunities for young people, as well as attracting new people to the area, and at the forefront of the provision must be the development of a University of the Highlands and Islands as a first-class higher education learning and research establishment.

The natural resources of this region offer scope for comparative advantage in a number of emerging industries. Nuclear decommissioning at Dounreay on the north coast of the mainland (the site of the UK's fast-breeder reactor programme), marine energy research and development at the European Marine Energy Centre in the Orkney Islands, the growth of a healthcare cluster in Inverness and marine biotechnology developments in Argyll are all sectors with the potential to create significant numbers of high, value-added employment opportunities.

In order to grow the population the region needs to tell the wider world about its advantages and hang out a big ‘welcome’ sign. Lower birth rates and an aging population are now common in almost all parts of the developed world, which means that demographic and economic growth — wherever it occurs — will be driven by in-migration. If the highlands & islands area is to continue to benefit from in-migration, it needs to let potential investors know that it has a talented and capable workforce, a spectacular natural environment offering a very high quality of life, first class ICT links, and is open to anyone who wants to come and live here to contribute to its society.

HIE’s Activities & Current Priorities

“We believe passionately that population must grow in every part of the region and that all parts of the Highlands and Islands need to enjoy sustainable economic growth.”

Sandy Cumming, HIE CEO

HIE explains its contribution towards delivery of the Scottish Government’s Government Economic Strategy in its annual Operating Plan. The HIE Operating Plan, which looks forward three years and is updated annually, is essentially an agreement between the HIE Board and the Scottish Government. (see www.hie.co.uk/operating-plan-2008-11.htm for full details.)

As stated previously, HIE’s current strategic plan focuses on:

1. Supporting high-growth businesses and sectors
2. Creating the infrastructure and conditions to improve regional competitiveness
3. Strengthening communities, especially in fragile parts of the region.

1. SUPPORTING HIGH-GROWTH BUSINESSES AND SECTORS

HIE focuses on those industries and businesses which have the highest growth potential and where that potential can only be realised with public sector assistance. To increase the economic impact of these businesses, their approach is based on an account management model, designed to support new & existing businesses and inward investment which offers the potential to contribute significantly to the growth of the economy. HIE seeks to establish around 500 account-managed relationships by 2011.

“Business Services are especially problematic in rural areas where it may be difficult to find basic accounting, marketing and management advice locally. Internet and other remote sources can partially address this gap, but they do not provide the same sort of face-to-face experience that direct consultation does. The two arms of Enterprise Scotland — Highlands and Islands Enterprise and Scottish Enterprise — have considerable in-house expertise that is made available to SMEs and this provides a vital service. Where the gaps are most evident is in services for businesses that are interested in expanding. … As a result, while there is often adequate funding for firms to start a business from owner equity and government support there tends to be problems in terms of access to working capital and to funds for expansion.”

OECD Rural Policy Reviews
Assessment and Recommendations 2008, p. 19

Upon establishing such a relationship, HIE supports the business to develop and implement a growth plan which will result in it generating considerably more wealth within the regional and national economy.

Particular attention is given to building a critical mass of activity in the six key sectors of the Scottish economy — creative industries; energy; financial and business services; food and drink; life sciences, and tourism.
For example, HIE recently provided a $1M Canadian grant to Nicolson Engineering Services Ltd to support the construction of a new fabrication workshop with associated office block and amenities. Total costs for this project have been identified as $5.4M Canadian. This project will create 69 new high quality jobs and will help mitigate the impact of the Dounreay decommissioning programme in Caithness and North Sutherland. This development will completely transform a family-run engineering company serving primarily local markets into a regionally significant employer of high-quality, high-earning workers, active in the global oil and gas engineering support sector. This transformational development will generate a sustainable increase in turnover from a little over $2M to $10M Canadian in 2011.

HIE has also approved $1.4M Canadian of financial support to Loch Duart Ltd. The company is a well established and profitable producer of sustainably farmed Scottish salmon. They currently produce around 3,600 tonnes of fresh salmon per annum equating to approximately 2.5% of total Scottish production. But they are facing a situation where demand is exceeding their capacity to supply. This assistance will allow them to implement a three-year plan to develop the company’s hatchery operations in Sutherland and establish a new salmon farming enterprise in Uist while providing up to 38 additional full time equivalent jobs.

2. CREATING THE INFRASTRUCTURE AND CONDITIONS TO IMPROVE REGIONAL COMPETITIVENESS

Given the economic and infrastructure challenges facing the Highlands and Islands, HIE’s approach to regional competitiveness is primarily focused on the development and implementation of transformational projects. Such projects will make a major contribution to economic and community development given the scale, nature and sustainability of their impact, which will extend beyond the local level to the regional or national level. The HIE financial contribution to such projects will normally exceed $1M Canadian in the case of project leadership by HIE, or $2M Canadian in the case of private sector investments.

Recognising the distinct challenges of the different parts of the Highlands and Islands, HIE takes the lead or works in close partnership with other public bodies in developing and

Map 3: Transformational Projects
implementing these local, regional and nationally significant projects.

These transformational projects contribute to the region’s competitiveness and range from long-term projects which are already under way to new initiatives currently at the planning stage.

The examples shown on the preceding page, clockwise from the top left:

1) Arnish – a major new industrial facility supporting the growth of wind turbine manufacture in the Outer Hebrides. The site of a former oil fabrication yard has been modernised and designed to attract inward investors in the renewable energy sector. (Total project cost $24M Canadian)

2) EMEC – the European Marine Energy Centre is the first of its kind in the world. It provides an all-round service to the marine energy industry, encompassing wave and tidal resources; grid and data connections, as well as independent verification of test results to recognised international standards. The centre's wave test site was opened in August 2004 and saw the first delivery of offshore wave power to a national electricity grid anywhere in the world. The tidal testing facility was officially opened in September 2007 with the first tidal device generating electricity into the UK grid in June 2008. (Total project cost $30M Canadian)

3) Centre for Health Science – the first of its kind in the UK, it is a focus for excellence and plays an important role in the Highlands and Islands health sector in training, research, innovation, development and service delivery. The benefits of having this flagship research and service delivery centre go well beyond the 370 jobs it is expected to create. The three-phase Centre for Health Science should act as a catalyst for further healthcare related developments. These will benefit the economy of the area, help with the development of the health faculty for a University of the Highlands and Islands, and improve the quality of healthcare in the community. And when new courses are developed for training healthcare professionals, it will help to attract students to the Highlands and Islands and retain some who would otherwise have left to train elsewhere. Phases one and two are already open, and phase three is due for completion by the end of 2008. (Total project cost $46M Canadian)

4) SAMS (the Scottish Association for Marine Science) – Scotland’s premier marine science research organization already has an international reputation. The laboratory informs worldwide policy-making through research and data collected from the Arctic to the Tropics, contributing to the global understanding of our marine environments and climate change. Current research projects include investigating the potential for marine biofuels and a new way to monitor changes in upper ocean temperatures of the North Atlantic between Scotland and Iceland. SAMS employs 150 staff and is based at the Dunstaffnage Marine Laboratory near Oban on the west coast of Scotland. It also accommodates the European Centre for Marine Biotechnology including the provision of business incubator space, which currently houses a number of small but high-profile life science companies.

5) Fàs (which takes its name from the Gaelic word for growth) – a new centre for creative and cultural industries on the Isle of Skye. HIE made a significant and leading contribution of $7.2M Canadian to the facility, which is part of Gaelic college Sabhal Mòr Ostaig. The funding was HIE’s largest ever investment in a single creative industries project anywhere in the Highlands and Islands. The successful completion of Fàs supports high-quality jobs and a world-class business environment in a rural area. The mix of cultural and business activity at Fàs fosters a vibrant centre for creativity and provides a critical mass of activities in the fields of Gaelic arts, culture, heritage, broadcasting, film and new media. (Total project cost $16M Canadian)

3. STRENGTHENING COMMUNITIES, ESPECIALLY IN FRAGILE PARTS OF THE REGION

HIE’s Strengthening Communities strategic program stems from the statutory recognition that social and economic development are complementary (and necessary) to achieve growth in a remote, sparsely populated area. The focus is on social enterprise; the acquisition and development of income-generating assets; building community capacity, and stimulating growth in fragile communities. Fragile communities are characterised by low population levels and/or recent loss of population, remoteness from service centres, and low income levels.

Since the 1960s, the turnaround in the region’s overall fortunes has been substantial and sustained. At this point the most fragile areas (see Map 4) now lie predominantly in the islands and west coast (where approximately 13% of the total population lives).

Through HIE’s Strengthening Communities work and that of its partners, change has been achieved in a number of individual communities through, for example, supporting communities to purchase land or develop renewable energy projects.

Gigha is an excellent example of how HIE will approach the challenges faced by communities in the most remote and disadvantaged parts of the region. This integrated approach to community-led development, support for
cultural activities and support for small businesses with growth potential brings together a range of activities to enable these communities to generate economic growth and create the conditions for population retention and growth.

A excellent example of what can be achieved is the small island of Gigha which lies off the west coast of Scotland. It was a place that missed out on much of the growth experienced elsewhere in the Highlands and Islands. Under a succession of private owners, Gigha’s fortunes declined dramatically. The island’s population had fallen to fewer than 100 people. There were just six pupils enrolled in the island’s one school and over three quarters of the houses on the island were in such a poor state of repair they were classified as ‘below tolerable standards’ by the local authority.

With support from HIE, and other partners, the community formed the Isle of Gigha Heritage Trust, raising funding from the National Lottery, HIE and other sources to buy the island for $8M Canadian. Every islander aged 18 and over can become a member of the trust, provided they’re on the electoral register and pay a nominal £1 fee. They elect eight directors who meet weekly, with the trust members having the final say in all decisions. The purchase included the vast majority of the infrastructure on the island, including most of the housing stock, three working farms and the only hotel. Since the purchase, life on the island – and the islanders’ view of their future prospects – has changed significantly. The population has grown by 50%. The number of primary school pupils has more than tripled to just over 20. Eighteen new homes have been built and the remainder of the existing housing stock is being refurbished. Several new businesses have been established, including 12 private businesses, and Britain’s first community-owned wind farm connected to the national electricity grid. With three turbines, the wind farm is powerful enough to supply all of Gigha’s electricity. It also generates a substantial surplus which is sold through the national electricity grid. Each year the turbines, known as Faith, Hope and Charity, generate a net income of around $200,000 Canadian which is then re-invested in community projects through the island trust. In addition to delivering these significant benefits to the island, the trust has raised and paid back over $2M Canadian to the national lottery – who loaned the money to assist with the purchase. That sum is equal to more than $20,000 Canadian for every adult and child on the island.

Gigha is an excellent example of how HIE approaches the challenges faced by communities in the most remote and disadvantaged parts of the region. This integrated approach to community led development, support for cultural activities and support for small businesses with growth potential brings together a range of activities to enable these communities to generate economic growth and create the conditions for population retention and growth.

The Highlands and Islands Community Energy Company (HICEC), established by HIE in 2005, was critical in helping Gigha establish the community wind farm. HICEC enjoyed growing demand for its services over the years - so much so that it has recently evolved into a new, independent organization with a national rather than regional reach, called Community Energy Scotland (CES). CES is a charity which helps communities develop sustainable energy projects across Scotland.

Another area that has benefited from HIE support is the UK’s most northerly inhabited island, Unst in Shetland. HIE established the Unst Response Team in August 2005, following an announcement from the Ministry of Defence (MOD) of their intention to close the RAF base on Unst. An economic impact study in November 2005 predicted:
• A likely fall in population from 720 to 550

• That closure of the base would lead to the loss of 119 full time equivalent jobs and $5M Canadian of gross household income

• The impact in civilian terms would be a loss of 53 full time equivalent jobs (25 per cent of Unst’s employment) and $1.5M Canadian of gross household income.

However with HIE’s investment and support, Unst today has a population of around 650 people; unemployment is negligible; the economy is now more diverse, including businesses in the tourism, food and drink and energy sectors, and anecdotally, community confidence appears to be greater than 2005.

HIE investments and impacts in Unst include:

• Direct engagement with local businesses and social enterprises, with 36 projects receiving advice and 41 projects receiving financial assistance totalling $2.6M Canadian.

• Twenty-three business growth projects receiving $1.8M Canadian in funding, which created nine full-time and six part-time jobs, and safeguarded a further two jobs.

• Seven new business start-ups receiving $160,000 Canadian in funding, which created six full-time and three part-time jobs.

• Eleven community projects receiving $460,000 Canadian in funding, which created six new/enhanced community assets and up to seven FTE jobs.

• Unst businesses looking to global markets, with four receiving international advice and one successfully exporting salmon eggs to Chile.

Total spending on the running of the Unst Response Team is estimated at $450,000 Canadian, representing significant value for money.

Beyond the fragile areas, there are many rural communities where similar (though less intensive) approaches are required to sustain the progress of recent decades. In these communities, HIE focuses on stimulating a variety of forms of social enterprise. HIE’s activities in developing the social economy also include working with third sector organizations to encourage social innovation in service delivery, while improving the attractiveness of communities and retaining/growing the population.

Some areas in the Highlands and Islands face particular problems due to an employment deficit (see Map 4). These relatively large settlements anticipate, or have experienced, a significant structural change in their economy. This is often related to the loss of a major employer or sector of employment. The three such areas currently identified by HIE are; Caithness and North Sutherland, Elgin and Forres in Moray, and South Kintyre in Argyll.

The Caithness and North Sutherland Regeneration Partnership was formed in November 2006 to implement a strategy to counter the rundown in the Dounreay nuclear facility. The economy is heavily dependent on the facility where approximately 2,000 people are currently employed. Salaries are among the highest in the area. The challenge is to change the structure of the economy, providing opportunities in new sectors to make it sustainable beyond the planned closure of the facility in 2024.

Over the past year, new inward investment has been attracted to the area. A number of current enquiries for service and energy jobs are in the pipeline that could lead to the creation of over 100 further jobs. Support has also been provided to local engineering companies both in helping them to diversify out of the nuclear industry in the long term, and also to work collaboratively to attract larger and more lucrative contracts related to the decommissioning process. Nicolson Engineering Services mentioned earlier is a prime example of this.

The economies of Elgin and Forres (the two main towns in Moray) are heavily dependent on two large RAF bases. The potential impact of the run-down or closure of one of these bases was regarded as a significant concern to the local community, so a strategy (Moray 2020) was developed by local partners to diversify the local economy and offer alternative employment opportunities for RAF leavers and other newcomers to the area.

New industrial facilities have been built and inward investment has been attracted to the area capitalising on the highly skilled local labour pool.

The third area of employment deficit is the peninsula of south Kintyre. This area currently looks set to lose its major employer, a wind turbine manufacturing plant. Local agencies are working on a regeneration plan to address the significant impact this change will have on the economy to try and mitigate the potential for population loss from the area.

SCALE OF HIE RESOURCES & PROGRAM EXPENDITURES

As noted earlier, HIE currently has around 350 full-time staff working across the region, operating on an annual budget of between $170 and $185M Canadian.

The organization’s staff resources are dispersed across the region. About a third of the staff are based in Inverness while the majority are based in twelve offices located across the region from Lerwick in Shetland to Lochgilphead in Argyll. Staff resources are divided amongst the groups as follows:
The table below summarises the breakdown of income, investment priorities and operating costs over the three-year life of the current HIE operating plan for 2008–11.

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<tr>
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<th>2008–09 Budget C$,000</th>
<th>2009–10 Forecast C$,000</th>
<th>2010–11 Forecast C$,000</th>
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<td>Grant in Aid Baseline</td>
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<td>TOTAL INCOME</td>
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<td>169,000</td>
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<td><strong>TOTAL EXPENDITURE</strong></td>
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<td>169,000</td>
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</tbody>
</table>

Note: Currency conversion assumes C$1=£0.50

The main source of income HIE receives is in the form of grant in aid from the Scottish Government. However, a further significant proportion of the total is earned through income streams generated from its property portfolio and from loan / equity investments made in projects in previous years. In addition, HIE is a flexible and responsive organization and often acts as the administering body for other Government programmes or initiatives in the Highlands and Islands region. HIE also runs grant programmes for other bodies, including the UK National Lottery.

Given the changes that the organization has gone through over the past year, comparing the current budget and programme priorities with those of previous years is not particularly informative. The new organization has a different remit and focus which will mean that resources will not be targeted in the same way as they were historically.

Investment priorities are broken down under three headings. The figures shown indicate the balance of effort applied to the various aspects of work led by the organization.

High growth businesses receive the largest proportion of funding – accelerating the expansion of businesses with growth potential, creating new, high-paying jobs and encouraging research and development to ensure businesses within the area remain competitive.

Regional Competitiveness funding will be directed at increasing the capacity of the economy through provision of new infrastructure and new industrial facilities. It is also used to expand the horizons of businesses through supporting participation in international trade.

Strengthening Communities activity includes assisting communities to buy revenue-generating assets, or to develop income streams from, for example, renewable energy projects and supporting capacity building to help these groups to be more enterprising.

The organization’s operating costs are kept under close scrutiny. While it is recognised that the cost of travel across the region will always be a significant one, extensive use is made of electronic communication and video conferencing facilities.

The Scottish Government undertakes a strategic spending review every three years, therefore HIE has a clear indication of budget into the medium term, allowing the agency to look relatively far into the future when planning its resource allocation priorities. In addition, HIE has the discretion to amend these priorities in response to changes in circumstances or to capitalise on opportunities that may arise during the course of the year.

HIE invests around $40M Canadian per year in its own property portfolio. These investments are usually bespoke premises for new or expanding businesses, and they generate an income stream for the organization. Over time we work to dispose of this property, either to the tenants or to other investors, and seek to recycle the funds into new development projects. Most of the rest of the funds are in the form of grant support to business and community projects. While HIE has powers to make equity investments and provide loans, this has not formed a significant part of our activity in recent years.

**MEASURING HIE’S SUCCESS AND ACHIEVEMENTS**

HIE uses a thorough internal performance measurement and management system and completes and circulates semi-annual internal evaluations and publishes a publicly distributed annual
accomplishments report. HIE is also subject to periodic program and government evaluations and its financial reports and governance systems are reviewed annually by the Office of Audit Scotland.

The Scottish Government has set a number of measurable economic targets, articulated in the Government Economic Strategy, for its economic development efforts. Understanding these high level targets has helped HIE to determine the best way of using its resources to deliver its objectives. The table below sets out the challenges identified within the strategy, the associated target for the Highlands and Islands, and expresses the extent to which HIE can influence the ultimate outcome.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Highlands &amp; Islands Target</th>
<th>HIE role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic growth</td>
<td>GVA growth rate in the H &amp; I to match Scottish growth rate by 2011</td>
<td>Major</td>
</tr>
<tr>
<td>Productivity</td>
<td>Raise productivity in high-growth businesses by 20% by 2011</td>
<td>Major</td>
</tr>
<tr>
<td>Population</td>
<td>Average annual population growth rate of 0.7% 2008-17</td>
<td>Major</td>
</tr>
<tr>
<td>Participation</td>
<td>Economic activity rate of the working-age population of 85%</td>
<td>Support</td>
</tr>
<tr>
<td>Solidarity</td>
<td>Raise median income levels in real terms</td>
<td>Major</td>
</tr>
<tr>
<td>Cohesion</td>
<td>Achieve population growth and increased income levels in the most challenging parts of the area</td>
<td>Major</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Reduce H &amp; I emissions levels</td>
<td>Support</td>
</tr>
</tbody>
</table>

However, the targets shown in this table relate to the region as a whole, rather than to the specific activities HIE undertakes or contributes towards. Incorporated within HIE’s annual operating plan are targets set by the Government and against which HIE must report at the end of the year. Progress achieved against the targets is presented to the Board prior to a formal press release being issued to the local and national media. In addition, an annual report and accounts are published each year by the agency.

The targets are set each year to measure the progress HIE has made against the aspirations set out in the Government Economic Strategy. HIE has a critical role to play in ensuring that the Highlands and Islands region makes a strong contribution towards the achievement of the national targets set out in the strategy. The national targets have informed the development of desired outcomes for this region which in turn has informed the choice of transformational projects and enterprise programmes which HIE will deliver.

A key part of HIE’s work lies in the transformational projects it undertakes. These projects are selected based on their importance to the economy and the level of resource that HIE has committed to them. In the current year, fourteen such projects have been identified, and HIE’s success will be measured on how effectively they are delivered and the extent to which they contribute to the growth of the economy.

A second major component of HIE’s work lies in the enterprise programmes which it undertakes. These are particularly important under the High-Growth Businesses and Strengthening Communities headings. The following table shows the set of growth measures for the main programmes over the three-year planning period.

<table>
<thead>
<tr>
<th>Growth Measures</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High-Growth Businesses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of account managed businesses with growth plans</td>
<td>100</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Cumulative total of account managed businesses</td>
<td>100</td>
<td>250</td>
<td>400</td>
</tr>
<tr>
<td>Added value to national growth through account managed businesses (£m)</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Increase in productivity in HIE assisted businesses (%)</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>No of businesses deepening engagement in international business activity</td>
<td>100</td>
<td>110</td>
<td>120</td>
</tr>
<tr>
<td>Private Sector Earnings Index</td>
<td>120</td>
<td>125</td>
<td>130</td>
</tr>
<tr>
<td><strong>Strengthening Communities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of account managed social enterprises with growth plans</td>
<td>40</td>
<td>50</td>
<td>60</td>
</tr>
<tr>
<td>Increase in turnover in the social economy (£m)</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>No of community groups supported to invest in renewable energy</td>
<td>20</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Decrease in carbon dioxide emissions (tonnes)</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

*Targets under development

Each measure is based on a clear definition and data for each individual assistance package is gathered by staff in a systematic and transparent way through the HIE Management System (HMS).

The first two targets marked with asterisks relate to the most significant change in the way in which HIE measures its impact. When working with businesses (or community groups), an assessment is made of the current performance of the business, its anticipated performance assuming no support from HIE, and the likely increase in performance if support is provided. (Data captured includes sales income,
HAS HIE BEEN SUCCESSFUL?

“The Highlands have been subject to special measures intervention, notably the creation of the H&I Development Board (now H & I Enterprise, HIE). The special attention provided to H&I has paid off. Following more than a century of decline, the fortunes of the region began to turn around and the 1971 census saw the population rise for the first time in over 100 years. In fact the H&I experienced a 15% increase in population during the 40 year period from 1961 to 2001, with a further 1.7% increase in 2001–2005. Also, unemployment is now lower (2.4%) than in Scotland (2.8%).”

OECD Rural Policy Reviews — Scotland Assessment and Recommendations 2008, page 14

HIE is ultimately judged on how effectively it implements economically transformational projects, and on the extent to which it contributes to an accelerated growth of the regional economy. As demonstrated by the quote above, evaluations and reviews to date have noted that HIE is indeed making a significant contribution to the economic and social revitalization of the Highlands and Islands area.

The economic fortunes of the region have changed remarkably since the mid-1960s following more than a century of decline. Many factors have contributed to the recovery process, including the establishment of the Highlands and Islands Development Board (the precursor to Highlands and Islands Enterprise), the arrival of oil fabrication yards and the upgrading of the A9 trunk road linking the north mainland of Scotland to the central belt cities of Glasgow and Edinburgh. In addition, diversification of the economic base through the expansion of the tourism sector, the growth of fish farming and processing and the arrival of information and communications technology (ICT) industries have all helped to reverse the long-term trend of out-migration.

These structural developments have been augmented by a change in the perception of rural areas, which has led to more people viewing the region as an attractive place to live and work. People are now more conscious of striking a better work-life balance and the clean environment and outdoor lifestyle offered by the Highlands and Islands appeal to an ever increasing number of people. HIE has played, and continues to play, a critical role in building community capacity and increasing economic growth and diversification.

The population of the Highlands and Islands has increased at every census since a low of 378,000 in 1961, with the main growth being found around the Inner Moray Firth, centred on the region’s capital of Inverness. Achieving population growth for five consecutive decades is a prodigious achievement for a remote, sparsely populated region. In fact, if the population growth of the last 30 years were to continue for the next 30, then the population would be back to 500,000, the level it was last at in 1851 — although the settlement pattern would be considerably different. The unemployment rate for the region is currently at its lowest level since records began, and lower than both the Scottish and UK averages. Low unemployment is acting as a magnet for in-migration, attracting new workers and families into the area.

The recent report on rural Scotland undertaken by the Organization for Economic Co-operation and Development (OECD) concluded that many aspects of the changes that have taken place in the Highlands and Islands are profoundly beneficial for the region’s residents and the country as a whole. These include population growth, the quality of education provision, reach and uptake of broadband and key sectors such as renewable energy offering huge growth potential. HIE has been instrumental in leading the development of renewable energy development in the Highlands and Islands. These HIE investments create not only economic and employment activity immediately but in many cases create a revenue source for a community and region thereby creating an on-going economic resource and legacy.

Over the past forty years, HIE and its predecessor, the HIDB, have contributed significantly to the long-term transformation and modernisation of the most peripheral and sparsely populated region of the UK. Through the provision of strategic leadership and investment in infrastructure, businesses and communities HIE has helped instigate a turnaround in fortune from a region with a declining population, narrow economic base, high unemployment and low confidence. Today the Highlands and Islands of Scotland has a growing population, a much broader economic base, low unemployment and high confidence. Today the Highlands and Islands of Scotland has a growing population, a much broader economic base, low unemployment and high confidence. Today the Highlands and Islands of Scotland has a growing population, a much broader economic base, low unemployment and high confidence. Today the Highlands and Islands of Scotland has a growing population, a much broader economic base, low unemployment and high confidence. Today the Highlands and Islands of Scotland has a growing population, a much broader economic base, low unemployment and high confidence.

SUMMARY

Highlands and Islands Enterprise’s forty plus years of experience of provide several important lessons and conclusions:

1. The economic and social decline of economically depressed rural areas has often been occurring for decades before government intervention occurs.

2. Initiatives to revitalize rural economies must be adequately resourced over a significant period of time to affect change.
3. With proper government support for community and economic development even chronically depressed and remote rural areas can experience significant economic transformation.

4. There must be recognition that there is a “failure of the market system” in struggling rural areas. However, with strategic government investment it is possible to stimulate and increase business development and expansion in economically depressed rural areas.

5. Government economic investment can play a critical role in encouraging and leveraging private sector investment in rural areas.

6. A holistic approach that integrates community, social, cultural, business, workforce and sectoral development at both the local and regional scale is important. Such an approach recognizes and builds on the strengths of both place based development and regional competitive and comparative advantage.

7. It is important to act at all scales of development from very small to very large projects in order to truly transform struggling rural economies.

8. It is possible to structure successful regional economic development and revitalization efforts in a manner than creates much needed on-going revenue for rural communities.

Further information:

- Highlands and Islands website: [www.hie.co.uk](http://www.hie.co.uk)

- Scottish Government website: [www.scotland.gov.uk](http://www.scotland.gov.uk)

- Community Energy Scotland: [www.communityenergyscotland.org.uk](http://www.communityenergyscotland.org.uk)

- Skills Development Scotland: [www.skillsdevelopmentscotland.co.uk](http://www.skillsdevelopmentscotland.co.uk)

- OECD Rural Policy Review: [www.scotland.gov.uk/Publications/2008/02/14143544/0](http://www.scotland.gov.uk/Publications/2008/02/14143544/0)