

OPERATING PLAN 2009/12



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

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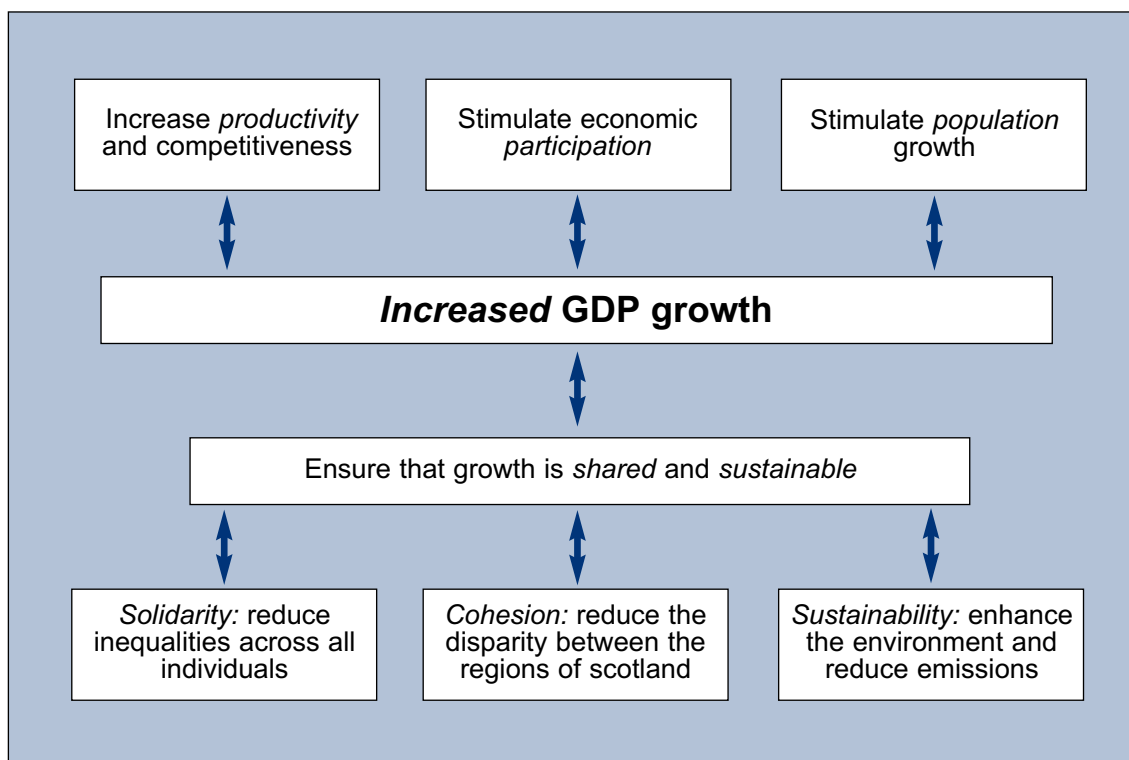
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INTRODUCTION

The Government Economic Strategy (GES) sets out the purpose of the Scottish Government:

To create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

The table below from GES highlights the key components of increased growth – increased *productivity*, *participation* and *population*. It also illustrates the desired characteristics of *solidarity*, *cohesion* and *sustainability*.



It is HIE's role to implement GES, building sustainable growth in all parts of the Highlands and Islands. Our focus lies in three broad areas of activity:

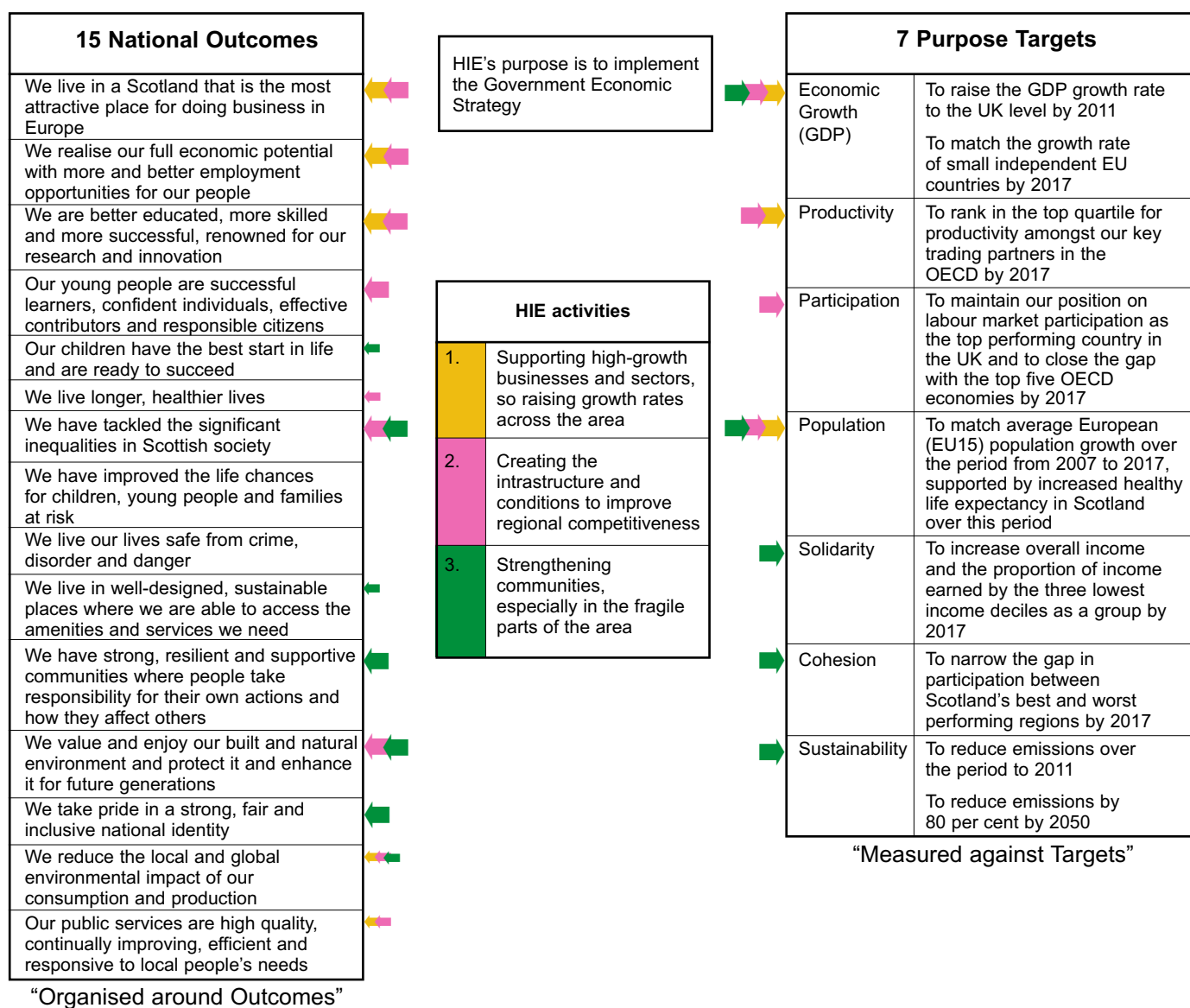
- Supporting significant and high-growth businesses and sectors, so raising regional and local growth rates.
- Strengthening communities, especially in the fragile parts of the area.
- Creating the infrastructure and conditions to improve regional competitiveness.

The diagram overleaf (page 4) shows how our range of activities contributes widely to the seven Purpose Targets and fifteen National Outcomes. This Operating Plan summarises the activities and our investment priorities for the three-year period from April 2009 to March 2012.

The Plan has been prepared against a background of global economic downturn, which is affecting every business and community in the Highlands and Islands. It therefore outlines the seven-point recovery plan which we have put in place as part of the Government's overall response. Across Scotland, the alignment of the efforts of the public sector is focused on achieving a collaborative approach to action and HIE is working with Government, local authorities and public bodies to ensure successful emergence from the current difficulties.

HIE activities - links to targets and outcomes

-  Major contribution
 Support contribution



SECTION 1

Implementing GES in the Highlands and Islands

Economic growth

The GES targets for economic growth are:

- **to raise Scotland's GDP growth rate to the UK level by 2011.**
- **to match the GDP growth rate of the small independent EU countries by 2017.**

The key drivers of regional competitiveness and economic growth in the Highlands and Islands have been developed at the Convention of the Highlands and Islands:

- **Population:** a growing population across all parts of the area, with bustling towns and villages and thickly-settled rural parts.
- **Economy:** a widened employment base, with higher economic activity rates and rising income levels.
- **Linkages:** improved physical communications with neighbouring city regions and high-speed digital connectivity, universally and cheaply available.
- **Universities:** higher education provision in the area, including an attractive, expanding University of the Highlands and Islands.
- **Services:** good quality public and private services throughout the region, developed to match the needs and cost profiles of rural communities.
- **Communities:** local communities having greater involvement in the shaping of their own futures and a pride in what their area has to offer.
- **Prospects:** continuing confidence in the future of the region and its constituent local economies and an open-arms approach to attracting people.

Productivity

The GES target for productivity is:

- **to rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017.**

Raising productivity levels is a key part of our work with account-managed businesses, helping to raise incomes and profits and increase employment. With difficult trading conditions facing individual enterprises and sectors, this is challenging, but Highlands and Islands businesses are characterised by adaptability. For the area to make an increasing return to Scotland, output per worker will have to rise and for significant and high-growth businesses this will require planned investment, product development and expansion into new markets. Inward investment also has a major part to play in bringing new, higher value-added economic activity to the region. Improving the skills base of the workforce and better utilisation of existing skills also form important parts of our response to the productivity challenge. More skilled workers produce higher value-added products and as a result can command more competitive salaries.

Participation

The GES target for participation is:

- **to maintain our position on labour market participation as the top performing country in the UK and close the gap with the top 5 OECD economies by 2017.**

Labour market participation rates in the Highlands and Islands are amongst the highest in the UK with over 80% of the working-age population in employment and with unemployment rates at a historic low. Some sectors are constrained by labour shortages and the out-migration of young people seeking employment opportunities elsewhere. The incidence of long-term unemployment varies considerably between different parts of the region and is exacerbated by problems of remoteness and access to opportunity. Social enterprises play an important part in the economic vitality of the Highlands and Islands and provide opportunities for individuals to achieve increased economic participation and improved quality of life.

Population

The GES target for population is:

- **to match average European (EU-15) population growth over the period 2007 to 2017, supported by increased healthy life expectancy in Scotland over this period.**

If the Highlands and Islands is to achieve the aspirations in GES, we need to encourage population growth in every part of the region so that, overall, the population rises to around half a million over the next 20 years or so. We will need to sustain the demographic trends of the last few years over a long period and redouble our efforts to stem population loss from the more fragile areas. Vital will be the ability to attract new residents and to retain young people through the provision of higher education opportunities, high-value jobs and affordable housing. Success in attracting population will be equally dependent on the creation of dynamic, creative communities offering enhanced quality of life, services and infrastructure.

Solidarity, cohesion and sustainability

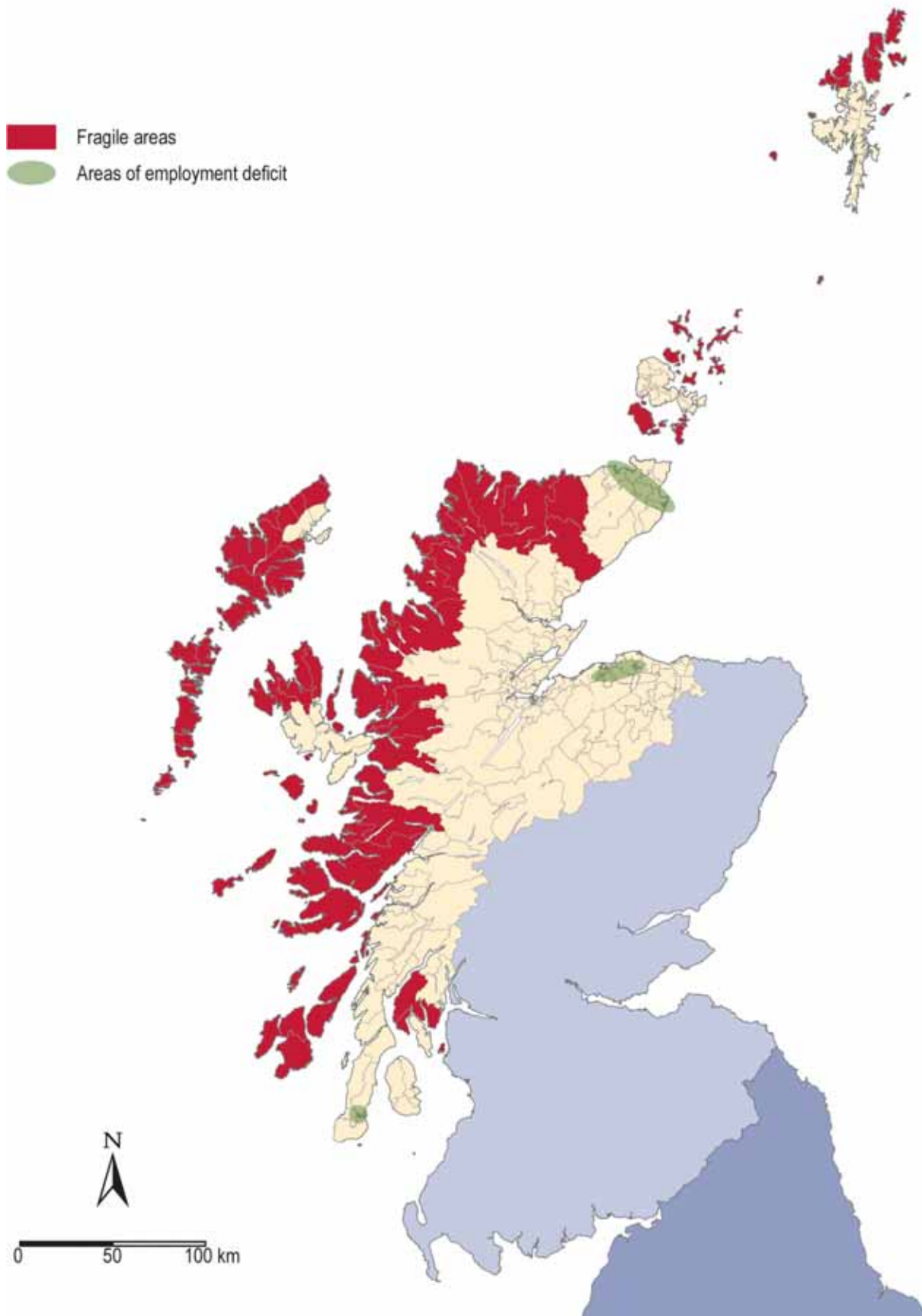
The GES targets for solidarity, cohesion and sustainability are:

- **to increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017**
- **to narrow the gap in participation between Scotland's best and worst performing regions by 2017**
- **to reduce emissions over the period to 2011**
- **to reduce emissions by 80 per cent by 2050.**

To improve **solidarity**, we will work to reduce inequality in the Highlands and Islands by promoting our services to the most disadvantaged and peripheral communities. There is no single answer to the low earnings challenge facing many parts of the area, but we will focus on expansion of employment in higher-paying economic activities, for example, through building the knowledge economy and establishing the University of the Highlands and Islands.

To improve **cohesion**, we will continue to support projects in the less prosperous parts of the area to ensure balanced development across the entire Highlands and Islands. Our approach to cohesion recognises greater difficulties encountered in bringing forward projects in remote areas and the additional costs which living and operating in remote locations involve. Area targeting aids the process of resource allocation and provides broad operational guidance on priorities for area business units. Within the development requirements of the HIE area as a whole, we recognise two types of areas facing particular challenges: **fragile areas** and **areas of employment deficit** (see Figure 1).

Figure 1: Area challenges



Over 56,000 residents (or 13% of the Highlands and Islands population) are domiciled within the fragile areas. They are characterised by weakening of communities through loss of people, low incomes, sparsity of population and remoteness. HIE gives these areas priority, with support targeted at projects that will grow the economy and contribute to the long-term strengthening of these communities. Areas of employment deficit have suffered, or are at risk of, significant job losses resulting from major closures and/or persistent long-term unemployment caused by structural change. The areas currently designated encompass five settlements and are home to around 58,000 people (again around 13% of the region's population).

To improve **sustainability**, we will work to ensure this region has a successful economy where production is decoupled from greenhouse gas emissions and where resource efficiency is maximised. Energy will increasingly be supplied by a mixture of large and small scale, onshore and offshore renewable projects. New business opportunities will emerge in developing products to support this transition. To help meet these opportunities, HIE will target intervention at new growth business opportunities supplying regional, national and international markets. New investment will be encouraged to exploit these opportunities. In turn, this activity will help encourage the development of businesses that provide economic returns in a way that recognises corporate social responsibility and minimises the use of non-renewable resources.

The three challenges of increasing **productivity**, **participation** and **population** are mutually reinforcing and together will underpin the delivery of sustainable growth across the region. HIE has a continued commitment to delivering this aim in the Highlands and Islands, taking due cognisance of the ever changing economic environment.

Impact of the economic downturn

The causes of the global economic downturn have been widely analysed and documented. The Highlands and Islands is not immune from national and international trends, but it is important to remember that many businesses in the region are accustomed to surviving in conditions which others would regard as adverse, making them more resourceful and innovative. Prevalent issues for the Highlands and Islands stemming from the downturn include:

- a slowdown in the housing market and a substantial reduction in new private house building activity.
- reductions in businesses and households obtaining credit from banks and holding back from making key investment decisions.
- major industrial or commercial developments depending on a private housing element being jeopardised or delayed.
- businesses reporting reductions in spending on their goods and services.

A significant outcome of the banking crisis which could have far reaching implications for the wider economy is the increase in the cost of money, particularly for overdraft or unsecured borrowing, plus the uncertainty surrounding availability of future funding. A squeeze on the availability of working capital will have a negative impact on the performance of the many small businesses operating in the area.

The current economic situation in the Highlands and Islands is variable, with some businesses and key sectors performing well and others experiencing difficulties:

- **Creative industries:** high-end products serving international markets continue to prosper, however, micro-businesses (of which there are many in the region) which are dependent on domestic demand, are performing less well.
- **Energy:** as the oil price continues to fluctuate, the long-term trend towards non-oil energy supplies will continue, with development of the sector remaining a key long-term opportunity for the region.
- **Financial and business services:** this sector is not large, but the products and services offered are important in several local economies.

- **Food and drink:** experiences are mixed in the domestic market, but some export-focused industries (such as whisky) continue to grow strongly.
- **Life sciences:** majority of players are small and may find raising capital more difficult in the current climate of tightened lending criteria.
- **Tourism:** activity appears to have declined faster in more remote and rural areas than in the main centres, but this sector remains one of the dominant industries in the region, with Homecoming 2009 of crucial importance.
- **Universities:** investment in this sector remains a high priority for public agencies, to ensure a steady stream of highly skilled workers enter the labour market to help propel the economy out of its current difficulties. However, it will also be important to increase the current levels of knowledge transfer from the university sector into Scottish businesses and to stimulate increased demand for science and technology within the business community.

The construction sector is a good barometer of confidence and investment levels in other parts of the economy. As this sector had been booming in previous years, some reduction in the short-term can be accommodated, but businesses dependent on new builds have been experiencing difficulties. Limited availability of credit has reduced effective demand for housing across the region.

When economic conditions deteriorate, it is the more diversified economies which survive better. Hence, Inverness and the Inner Moray Firth will be likely to suffer less than more remote localities through these harsher economic times. However, island economies tend to be more robust than expected, simply because they are resourceful, more self-sufficient and with multi-activity, more likely to survive partial unemployment or under-employment better. The strength of the regional economy is underpinned by sustained low and stable unemployment. However, it is likely that the area will witness an increase in the level of unemployment as impacts from the economic downturn take effect.

Economic growth forecasts for the UK and Scottish economies have been revised downwards. A focus on maintaining growth and business confidence in the economy will enable the region to be more resilient and better placed for achieving strong, sustainable growth over the longer-term. Regional competitiveness is essential to achieving this aim, coupled with diversifying the economy into higher value-added sectors and turning around the fortunes of the most fragile communities.

HIE's response to the current economic situation

From 1st April 2009, the Business Gateway service, administered by local authorities across the Highlands and Islands, will take responsibility from HIE for much of its early response to the downturn in the economy, including the business helpline, one-to-one advice sessions and the delivery of local business clinics. HIE's contribution as part of the public sector response to the recession will focus on the following areas:

Advisory services

HIE will provide specialist advice to significant businesses and those with growth potential in addition to access to national support bodies such as the Scottish Manufacturing Advisory Service and Scottish Development International.

Economic and business reviews

HIE will commission independent research and work closely with the business community, banks and representative bodies in the Highlands and Islands to collate good quality business intelligence to improve our understanding of the impact the global recession is having on the Highlands and Islands.

Business masterclass/virtual conference programme

High profile keynote speakers will address business people on issues identified by the business community as being of particular relevance in the current climate. The events will be webcast live and can be accessed worldwide. Early conferences covered business survival through a recession and financial management in recession with future events covering motivating staff, lean business processes, sales and marketing and energy use and waste minimisation.

Business mentoring programme

HIE, in partnership with the Scottish Chambers of Commerce, will provide a support mechanism for business to business mentoring. The programme will provide practical support for new and growing businesses. Additional support is also available through the Institute of Directors Development Programme.

Investment

In selected cases HIE will consider the use of De Minimis or Interest Relief Grant (IRG) support to complement lending from other sources. Any business which is of significant importance to the local or regional economy which can demonstrate it has a sustainable future may be considered for support.

Investor readiness programme

HIE will provide support to growth businesses seeking to prepare an investment portfolio. Support will include assistance with the cost of engaging professionals to prepare projections, undertaking sensitivity analysis, market research etc. and assistance with the professional presentation of such information.

Development opportunities for social enterprises

HIE will work with Business Gateway and community interest company HISEZ to provide support to social enterprises to enable them to identify potential opportunities to ensure lifeline facilities and services in rural communities which may be at risk as a result of the current economic climate.

Enhanced PACE arrangements

HIE is working with key partners to ensure the delivery of an enhanced PACE (Partnership Action for Continuing Employment) service across the Highlands and Islands aimed at proactively engaging with businesses to avoid or minimise potential job losses in addition to the delivery of a reactive service to individuals affected by redundancy.

Ten day invoice payment

HIE is committed to the payment of uncontested invoices within 10 working days of receipt.

SECTION 2

Budgets and targets

Budgets 2009/12

	2009/10 Budget £000	2010/11 Forecast £000	2011/12 Estimate* £000
INCOME			
Grant in Aid Baseline	59,079	59,229	59,229
Resource Cover	13,992	13,992	13,992
Total GIA Income	73,071	73,221	73,221
EU Funds	5,000	7,000	8,000
Revenue Receipts	6,207	5,310	5,310
Capital Receipts	1,100	2,100	3,100
Total Other Income	12,307	14,410	16,410
TOTAL INCOME	85,378	87,631	89,631
EXPENDITURE			
Regional Competitiveness			
Infrastructure	11,500	12,500	13,800
Employment Deficit Actions	4,200	4,000	4,000
Regional R&D	1,500	2,250	2,250
Account Managed Businesses			
Investment	11,000	11,500	12,000
Specialist Advice	1,500	1,500	1,500
Property	7,150	8,500	8,500
Key Sectors	3,000	3,500	3,500
Strengthening Communities			
Growth at the Edge	2,250	2,750	3,250
Investment	2,450	3,000	3,000
Community Asset Management	2,400	2,500	2,500
Arts and Culture	1,500	1,500	1,500
Intelligence, Planning and Communications	936	939	939
Total Investment	49,386	54,439	56,739
Business Gateway - Transfer	2,000	2,000	2,000
Resource Costs	13,992	13,992	13,992
Operating Costs	17,500	17,200	16,900
Pension Deficit Recovery	2,500		
TOTAL EXPENDITURE	85,378	87,631	89,631

*The allocations for 2011/12 are dependent on the outcome of the next Scottish Government Spending Review

The 09/10 budget is a very challenging one. Other income will be much lower than originally planned due to the inability to realise 'normal' amounts of capital receipts from property disposals due to the depressed market. It will therefore be highly important to maximise income from EU funding and revenue receipts. Total investment expenditure has been set at £49.386m, and this budget is already heavily committed with little capacity to fund major new investment opportunities. HIE's capital target for 09/10 has been set at £8.2m.

Targets 2009/12

The Government Economic Strategy sets out high-level targets for increasing sustainable economic growth:

- To match the GDP growth rate of the small independent EU countries by 2017.
- To raise Scotland's GDP growth rate to the UK level by 2011.
- To rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017.
- To maintain our position on labour market participation as the top performing country in the UK and close the gap with the top five OECD economies by 2017.
- To match average European (EU-15) population growth over the period from 2007 to 2017, supported by increased healthy life expectancy in Scotland over this period.
- To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017.
- To narrow the gap in participation between Scotland's best and worst performing regions by 2017.
- To reduce emissions by 80 per cent by 2050 and reduce emissions over the period to 2011.

HIE has a central role in ensuring that the Highlands and Islands makes a strong contribution towards the achievement of the national targets. These targets have informed the development of desired outcomes for the region and, in turn, the choice of transformational projects and enterprise programmes that HIE delivers.

HIE's contribution to the GES targets – regional level

HIE harnesses its resources to maximise the contributions the Highlands and Islands make towards the GES challenges. The contributions summarised in the following table represent realistic aspirations:

Challenge	Highlands and Islands contribution	HIE role
Economic growth	GVA growth rate in the Highlands and Islands to match Scottish growth rate by 2011	Major
Productivity	Raise productivity in assisted growth businesses by 20% by 2011	Major
Population	Average annual population growth rate of 0.7% 2008-17	Major
Participation	Economic activity rate of the working-age population of 85%	Support
Solidarity	Raise median income levels in real terms	Major
Cohesion	Achieve population growth and increased income levels in the most challenging parts of our area	Major
Sustainability	Reduce Highlands and Islands emissions levels	Support

As the table makes clear, HIE plays a major role in achieving the target for five of the seven challenges, while fulfilling a support role in achieving the remaining two. A key partner in realising economic growth is the private sector and HIE is working to ensure that the ambition of the targets is fully shared with individual businesses and their representative bodies.

Though limitations in availability and robustness of regional statistics constrain the extent to which measurement can take place at the Highlands and Islands level, HIE is monitoring progress towards the above targets on an annual basis to give an overview of the contribution which the area is making to the GES targets.

HIE's contribution to the GES targets – project level

A key part of HIE's work lies in the **transformational projects** which it undertakes. These have been selected on the basis of their strategic importance to the area and the level of HIE resources involved. The following tables list those transformational projects which are (a) in implementation or have funds committed and (b) which are at planning or initial appraisal stages. The main contributions of each project to the GES strategic challenges are shown, together with the principal outcomes. The locations of the projects are illustrated on the map at the end of this section (page 16). Work is underway to quantify the GVA impacts these projects and programmes are expected to generate. While this work forms an important element in articulating the benefits that will be delivered to the region, given the complexity and varying timescales associated with these investments and given that some are nationally as well as regionally significant, it is important to use a range of indicators to assess the impact they will have on the targets set out in the Government Economic Strategy.

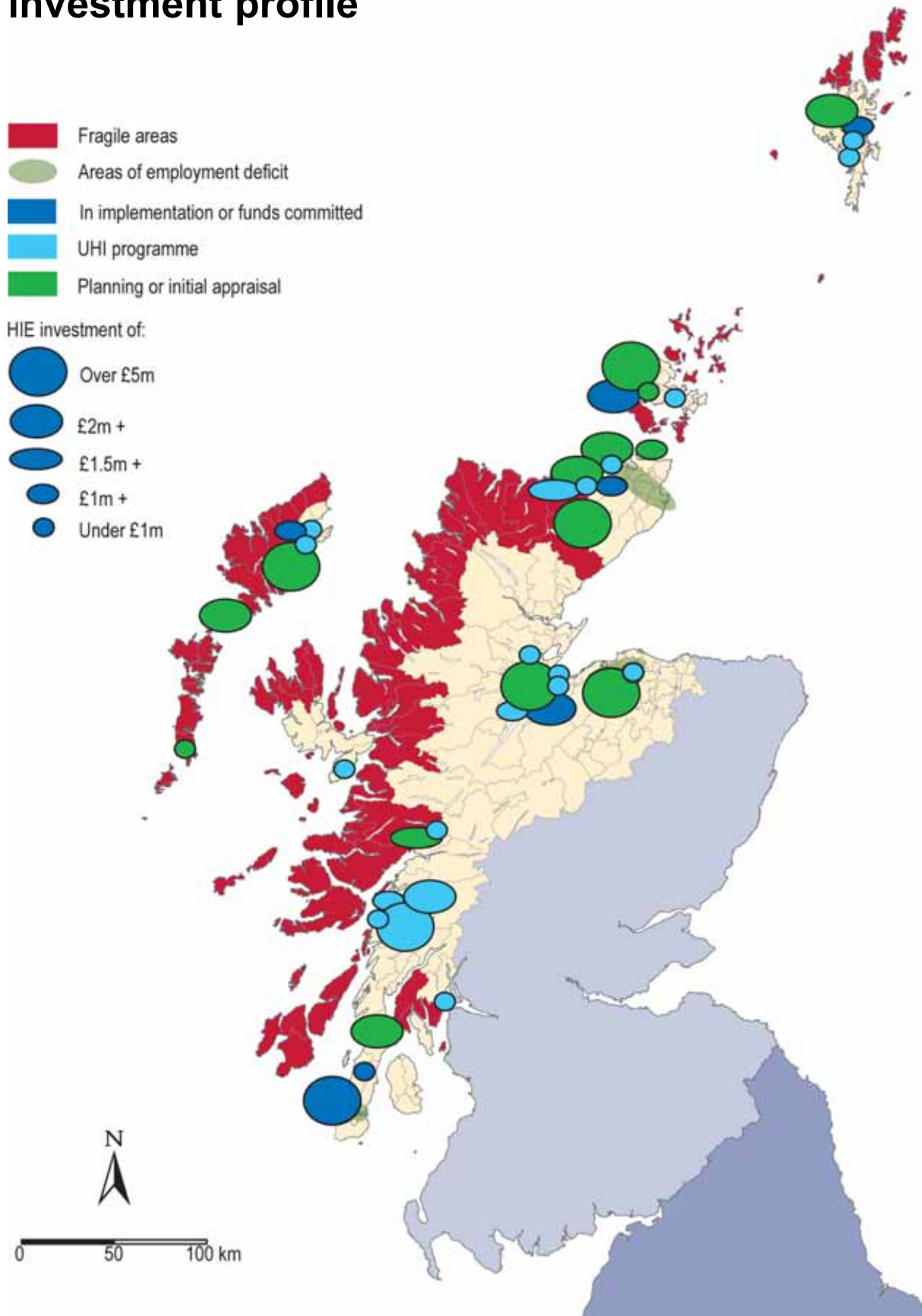
Transformational projects – in implementation (estimated figures at March 2009)

Project	GVA Impact	Other GES Impacts	Key Outcomes	HIE input (£m)	2009/10 (£m)	2010/11 (£m)	2011/12 (£m)
University of the Highlands and Islands	High, Long-term	Productivity Population Cohesion	- A vibrant, multi-site university attracting students from the UK and beyond - A supply of graduates contributing to the regional economy - A strong research capacity underpinning knowledge-based growth sectors	5.3	3.1	2.0	0.2
European Marine Energy Centre (EMEC)	Medium, Long-term	Sustainability	A world-class marine energy research facility, supporting the marine renewables sector and generating significant economic benefits for Scotland	2.1	1.9	0.2	
Caithness and North Sutherland Action Plan	Medium/High, Medium/Long-term	Productivity Population Cohesion	A diversified growing economy following the decommissioning of the Dounreay nuclear facility	0.9	0.6	0.2	0.1
Inverness Campus Development	Medium/High, Long-term	Population	A contemporary university campus in Inverness, attracting high-calibre staff and significant numbers of students, with particular linkages to the healthcare sector	3.1	2.8	0.2	0.1
Argyll Marine Science Initiative	Medium, Long-term	Productivity Population Sustainability	An international centre of excellence for marine science, incorporating research and development, education and commercial activity	1.0	1.0		
Kintyre Action Plan	Medium, Medium/Long-term	Productivity Participation Population Cohesion	A more diversified and re-energised economy, based on renewables fabrication and re-establishment of the ferry link with Northern Ireland	0.16	0.06	0.06	0.04
Mareel, Shetland	Medium, Medium/Long-term	Population	An internationally renowned creative industries centre, acting as a hub for the growth and development of the sector in Shetland and beyond	1.0	0.7	0.3	
UHI Clinical Research Facility	Medium, Long-term	Population	A facility for healthcare research and development activity in the Highlands and Islands, with collaborative opportunities and potential for high-value business spin-outs	1.4	0.7	0.7	
Greenspace Research, Stornoway	Medium, Long-term	Productivity Population Sustainability	An expanded research unit in Stornoway, focusing on energy efficiency and green building design to reduce reliance on non-renewable forms of energy	0.5	0.1	0.3	0.1
Creative Industries and Media Centre, Stornoway	Medium, Long-term	Productivity Population	A vibrant facility which acts as a catalyst for the development of successful creative industries activity, including the expansion of Gaelic media broadcasting	0.8	0.3	0.5	
Inward Investment, Machrihanish	Medium/High, Medium/Long-term	Productivity	A successful wind turbine tower manufacturing operation, which offers high-value employment and supply-chain opportunities	5.6	5.6		
Total				21.86	16.86	4.46	0.54

Transformational projects – pipeline (estimated figures at March 2009)

Project	GVA Impact	Other GES Impacts	Key Outcomes	HIE input (£m)	2009/10 (£m)	2010/11 (£m)	2011/12 (£m)
Shetland Decommissioning Infrastructure	Medium, Long-term	Productivity Population	• A North Sea oil platform decommissioning facility which offers high-value employment and supply-chain opportunities	2.6	0.1	0.5	2.0
Inverness Campus Development	Medium/High, Long-term	Population	• A contemporary university campus in Inverness, attracting high-calibre staff and significant numbers of students, with particular linkages to the healthcare sector	24.6	3.8	8.2	12.6
Scapa Flow Container Trans-shipment Hub	Medium, Long-term	Productivity Population	• A major sea transport facility linked to international shipping routes which generates significant economic benefits for the Scottish economy	0.4	0.2	0.2	
EMEC Marine Energy Park, Orkney	Medium, Medium/Long-term	Sustainability	• A sustainable research and commercial facility which focuses on the marine renewables sector	5.0		2.5	2.5
Pentland Firth Marine Energy Project	Medium/High, Long-term	Sustainability	• A globally-significant marine energy industry in the Pentland Firth, bringing significant benefits to the local and national economies	2.0	0.6	0.9	0.5
Major private sector-led investments	Medium, Medium/Long-term	Productivity	• Large scale business expansion projects in at least three locations across the region.	8.0	1.4	3.6	3.0
Centre for Energy and Environment, Thurso	Medium, Long-term	Productivity Sustainability	• A purpose-built R&D and commercial centre, specialising in energy and environmental issues and offering incubation space for business spin-out opportunities	3.0	0.3	1.8	0.9
Arnish, Lewis Marine Assembly Facilities Steel Fabrication Plant Infrastructure Upgrade Inward Investment	High	Productivity	• A competitive, sustainable renewable energy manufacturing industry, with associated high-value employment and supply-chain opportunities	4.0 2.5 2.0 3.0	0.2 1.5 1.5 1.5	3.5 1.0 0.5 1.5	0.3
Harris Tweed Industry Development Strategy	Medium, Medium-term	Productivity Population	• A market-led, revitalised and profitable Harris Tweed industry which contributes to the viability of remote communities in the Western Isles	2.5	0.7	0.8	1.0
Moray 2020 Programme Buckie Business Park Life Science Building, Forres Horizon Scotland Expansion	Medium/High, Medium/Long-term	Productivity Population	• A thriving local economy with increased GVA generated through growth and diversification and associated employment opportunities	1.6 2.2 1.6	0.3 2.2	0.5 0.8	0.8 0.8
Caithness and North Sutherland Action Plan	Medium/High, Medium/Long-Term	Productivity Population Cohesion	• A diversified growing economy following the decommissioning of the Dounreay nuclear facility	5.4	2.3	2.1	1.0
UHI Research and Learning Infrastructure Development	Medium/High, Medium/Long-term	Productivity Population Cohesion	• An established research capacity within UHI recognised for marine, environmental, rural health and lipidomics research activity	6.0	0.9	3.1	2.0
Kintyre Action Plan	Medium, Medium/Long-Term	Productivity Participation Population Cohesion	• A more diversified and re-energised economy, based on renewables fabrication and re-establishment of the ferry link with Northern Ireland	4.0	1.3	1.8	0.9
Argyll Marine Science Initiative	Medium, Long-term	Productivity Population Sustainability	• An international centre of excellence for marine science, incorporating research and development, education and commercial activity	10.8	2.4	5.4	3.0
Storas Uibhist	Medium Medium/Long-term	Population Solidarity Cohesion	• An economically, socially and culturally vibrant and sustainable community	0.8	0.3	0.5	
Total				92.0	21.5	39.2	31.3

Figure 2: Transformational projects investment profile



HIE's contribution to the GES targets – programme level

A second major component of HIE's work lies in the **enterprise programmes** which it undertakes. These are particularly important under the Account Managed Businesses and Strengthening Communities headings (see Section 3). The following table shows the set of growth measures for the main programmes over the three-year planning period. It includes targets for the activities to be undertaken during each year and the anticipated outcome at year three as a result of those activities. Each measure is based on a clear definition and data for each individual assistance package are gathered in a systematic and transparent way through the HIE Management System (HMS):

Growth Measures	2009/10	2010/11	2011/12
Account Managed Businesses			
Account managed businesses with growth plans	150	150	100
Cumulative total of account managed businesses	250	400	500
Added value to national growth through account managed businesses (£m)	£85m	£85m	£85m
Private Sector Earnings Index	125	130	135
Strengthening Communities			
Account managed social enterprises with growth plans	40	30	20
Cumulative total of account managed social enterprises	80	110	130
Increase in turnover in the social economy	£2m	£2m	£2m
Account managed communities with growth plans	18	12	12

Monitoring and reporting

Progress towards the achievements of the targets for transformational projects and enterprise programmes will be monitored on a quarterly basis by the HIE Management Team, with comprehensive half-year and year-end reports being submitted to the HIE Board and the Scottish Government.

SECTION 3

Developing sustainable economic growth in the Highlands and Islands

Faced with the current economic conditions, HIE continues to work closely with the businesses and communities of the area to help them adapt. It is worth stressing that the picture is mixed – sector-by-sector and area-by-area – and there remain market opportunities for some, as well as the need to deal with falling demand for others. HIE will ensure a flexible and adaptable approach in the delivery of business support services to reflect the changing economic situation.

This section of the plan therefore sets out how HIE is addressing the challenges under its three areas of focus:

- Supporting significant and high-growth businesses, so raising regional and local growth rates.
- Strengthening communities, especially in the fragile parts of the area.
- Creating the infrastructure and conditions to improve regional competitiveness.

Investment in account managed businesses will increase the productivity and competitiveness of firms across the region and have an impact on the rate of economic growth in the short term, thereby contributing towards the GES strategic target 'to raise the GDP growth rate to the UK level by 2011'. These investments will also capitalise on the comparative advantages Scotland has in its key sectors.

Strengthening Communities investments will make a contribution towards the **solidarity, cohesion** and **sustainability** targets within GES. Projects and initiatives that increase the turnover of the social economy will provide opportunities and support to people on the fringes of society thereby increasing participation in the labour market and help generate new capacity and economic activity in the most fragile parts of the region. Strengthening Communities projects that are transformational in nature and scale will require sustained leadership and investment from HIE over a long period of time, aligned closely to local authorities and other key public sector agencies.

The types of interventions required to deliver our Regional Competitiveness aspirations will include strategic alignment of priorities with partner agencies and investment in a series of transformational projects. The programmes and projects articulated under this heading often require a very long lead-in time prior to investment and a considerable degree of strategic leadership afterwards to ensure the full benefits to the wider economy are capitalised upon. In many cases, the impact on economic growth rates will not be felt for five to ten years so the return on these investments will make a contribution to the long term GES strategic target 'to match the growth rate of small independent EU countries by 2017.'

Implicit within HIE's approach to implementing GES is the importance of meeting the golden rules – ensuring the growth generated through our investments is shared and sustainable. This will involve capitalising on opportunities in the more prosperous parts of the region while also addressing issues of need in the fragile areas and areas of employment deficit.

Account managed businesses

HIE recognises the pivotal role of significant and high growth businesses in fuelling the economic growth required to meet GES targets and has refocused its support around stimulating this critical area of activity. Underpinning this support is HIE's account management approach. During 2008, a portfolio of c.500 key customers was identified to provide the basis of a deepening engagement with business to focus on targeting intervention where it can have the greatest impact. The profile of a HIE account managed business is characterised by an ambition and ability to grow. During 2009, we will continue to work with account managed businesses to deliver and implement growth plans and support businesses that are important to the regional economy to identify opportunities during a time of considerable economic change. This will provide the Highlands and Islands contribution to GES in the following terms:

- Acceleration of private sector led business investment.
- Wealth creation through increased quality of jobs, as well as increased employment in real terms.
- Improved productivity and efficiency.
- A measured impact on GVA.

A programme of staff development is underway to ensure that HIE's account managers acquire the skills and knowledge to provide this service and area teams have realigned their staff resource to this key area of activity. Where existing programmes and tools used by partner agencies such as Scottish Enterprise and Scottish Development International are appropriate for Highlands and Islands businesses, these are actively promoted as business solutions. This also builds on the success of developing joint account management teams for key clients with a presence in the Highlands and Islands and Scottish Enterprise areas. The account management model will also be adopted when working with social enterprises and HIE support to this sector will be provided through its Strengthening Communities function.

A key outcome of the engagement of HIE's account managers with businesses is access to real time market intelligence, which will inform the work our Key Sectors teams are doing in stimulating sectoral growth. These specialist teams also offer an additional resource to account management teams. Across the organisation, cross team working is seen as integral to providing the responsive, tailored solutions required by significant and high growth businesses and this approach is monitored through the internal Account Management Project Board.

Our approach recognises the need to support and strengthen each of the key elements which combine to make high growth a reality:

Entrepreneurs

Talented people, with bright ideas and the motivation to deliver, are the fundamental building block for high growth businesses. The development of UHI, our links with Massachusetts Institute of Technology (MIT) and the focus on research and development are essential to creating the environment to foster entrepreneurial spirit. Networks are an important part of the eco-system and HIE will continue to develop methods of fostering these links. Support to social entrepreneurs will be provided through our Strengthening Communities function (see p.21).

Finance

Growth capital and support for research and development are at the heart of developing growth. HIE has redefined its capital assistance to target growth, with intervention levels set at minimum thresholds of £25k (reduced to £5k in fragile areas). Importantly, however, access to funds to stimulate innovation, R&D, researching new markets and investing in leadership will be appraised as part of the overall agreed growth plan for a company and will not be constrained by financial limits but by the impact of the intervention on company growth.

A key part of HIE's role will also be to make connections for businesses with other sources of growth capital, through developments with venture capitalists and business angels. This is an under-developed sector within the Highlands and Islands and as such provides potential to expand to meet increased demand from

the right type of business activity. HIE will be reviewing its approach to taking equity in a business and potential for its existing portfolio to reflect the emphasis on high growth.

Achieving high levels of leverage and ensuring effective use of EU funds, including the £20m of structural funds for which HIE is responsible through its role as a Strategic Delivery Body, will be important in achieving best use of resources. In addition, HIE will work to lever in funds from other Government investment programmes, such as Regional Selective Assistance.

Advice

Provision of high quality, tailored advisory support is a further element of the high growth business support system. We have seen the success of the introduction of SMAS to manufacturing businesses and will be reviewing the suite of specialist advice required to support account managed businesses and putting arrangements in place for procurement.

Growing the market

Growth businesses must have access to a significant market place and for the majority of businesses in the Highlands and Islands, this means a substantial alteration to the level and range of international engagements. Key in delivering an enhanced global perspective will be a range of support mechanisms to introduce businesses to trading successfully. Joint working with SDI will aid efforts with internationalisation.

Infrastructure

Traditionally, a high growth start up will develop out of an existing business or spin out from a university. Facilities such as incubators are vital to encouraging business development. HIE will continue to examine the potential for developing incubators, particularly where they can add to an existing cluster such as the Centre for Health Science in Inverness or the Marine Science Park adjacent to the Scottish Association of Marine Science in Dunstaffnage.

From April 2009, Business Gateway, led by the local authorities, will provide general business advice and information, which will further support HIE's focus. Protocols will be established to ensure a good flow of information between Business Gateway and HIE, to ensure that businesses which have high growth potential are referred for HIE support. A transition plan was agreed to ensure a smooth introduction of the new service and HIE staff will provide ongoing support to the local authorities during the initial period so that clients do not experience any disruption or minimisation of service.

Management and leadership

Excellent management and leadership skills are a pre-requisite to improving business performance. HIE will work to develop business leaders who are: confident, forward thinking, ambitious, visionary and inspirational. Working with key partners such as the Institute of Directors and Scottish Chamber of Commerce, we will put in place a range of support measures to create exceptional business leaders in our area. Innovative delivery methods such as virtual conferencing, will ensure access for businesses across the region.

Workforce development

Workforce development and the effective use of employee skills are important drivers of productivity. We will work with key partners such as Skills Development Scotland to encourage better demand for skills - collating and articulating employer's needs both now and in the future and assisting employees to make the best use of their workforce skills through effective job and organisational development.

Strengthening Communities

HIE's Strengthening Communities remit stems from the statutory recognition that social and economic development are necessarily complementary in achieving growth in a remote, sparsely-populated area. In such communities, market failure, limited commercial opportunities and restricted provision of local services can lead to a release of the natural entrepreneurship and energy of communities in developing their own economic and social projects.

Creating stronger, more dynamic and sustainable communities is thus integral to the work of HIE and is totally aligned with the objectives of the Government Economic Strategy and its policies on community empowerment. Since the 1960s, the turnaround in the region's overall fortunes has been substantial and sustained. Carefully targeted HIE programmes and those of other public bodies have resulted in more confident communities taking on more responsibility for their own development.

However, challenges remain in many rural parts of the Highlands and Islands, especially away from the main settlements and particularly in times of significant economic downturn and the environmental challenge arising from climatic change. These challenges are greatest in the fragile areas (shown in Figure 1, page 7) and the area challenges map indicates that the fragile areas now lie predominantly in the islands and west coast (covering around 13% of the total population). These areas remain economically and socially disadvantaged and continue to exhibit symptoms of decline. They are characterised by sparsity of settlement, remoteness, low income levels, poor infrastructure and recent loss of population.

Through HIE's Strengthening Communities work and that of partners, progress has been made in many individual communities. This will be enhanced by a focus on three main areas of activity.

Social enterprise

HIE will focus on stimulating the growth of the social enterprise sector across the Highlands and Islands. Social enterprise is the part of the third sector that aligns most clearly with HIE's GES objectives. They contribute to economic and population growth and enhance solidarity by offering opportunities for those more distant from the workforce. Social enterprises, which come in many forms and provide an extensive range of services, are predominantly community-based businesses that intentionally trade for profit that can be re-invested in further community growth. Through a process of more intensive account management, HIE will focus on those social enterprises which appear to have clear promise of both economic and social growth.

Support services to the social enterprise sector will be provided through the contract with Highlands and Islands Social Enterprise Zone Community Interest Company (HISEZ CIC) which will both provide expert one-to-one advice to area office clients and whole-sector activity including conferences, newsletters, training and networking events. Promotional and support work will be closely aligned to the Scottish Government's policies and funding programmes such as the Scottish Investment Fund.

National and international experience has shown that social enterprise flourishes where highly motivated and energetic individuals are able to develop their ideas. HIE will work with HISEZ, the Social Enterprise Academy and other partners, including the Scottish Government, to support social entrepreneurs. In its Third Sector Action Plan, the Scottish Government is putting in place a Social Entrepreneurs Fund and HIE will work with a cohort of outstanding social entrepreneurs to garner the benefits of their skills for community benefit.

As part of HIE's business engagement activities, we will set up a Social Enterprise Panel to encourage interaction between growth social enterprises and to ensure HIE activities are aligned with sectoral needs.

Community key sectors

There are many sectors within the strengthening community field and some of these exhibit outstanding potential for growth. HIE will treat these as community key sectors, complementing the work undertaken on economic sectors by the Regional Competitiveness and Operations groups. HIE will provide sectoral account management through its core teams and the sectoral contractors through which HIE delivers its programmes.

- **Community land and asset management:** HIE's Community Land Unit will complete its extended contract with the Big Lottery Fund for delivering support for the Growing Community Assets fund in 2010. HIE's asset-based community development approach will continue to be supported by the Community Land Unit and we will explore private funding opportunities to enhance our work. CLU will also maintain close involvement with the Scottish Government, local authorities and other agencies to promote transfer of publicly owned assets to communities. In partnership with Forestry Commission Scotland, CLU will promote and support development of woodland crofts and the National Forest Land Scheme. CLU will continue to support community bodies who wish to take advantage of the Community Rights to Buy, maximising the potential of these schemes to increase the supply of affordable rural housing. CLU will increase its support for development of the community land owning sector through capacity building events, international exchange and targeted development support.
- **Community renewable energy:** Community Energy Scotland (CES) is now established as an independent social enterprise which evolved from HIE's wholly owned subsidiary, HICEC. CES is now able to tender for national contracts and to take equity in community-owned renewable energy schemes. The Scottish Government is procuring national delivery of its Scottish Community and Householder Renewables Initiative (SCHRI) from a single provider. HIE will procure complementary services which will enhance the level of support available to communities in the HIE area, particularly those wishing to develop income-generating commercial schemes for community benefit.
- **Arts and culture:** Investment in community-based arts and cultural activity has contributed to the growth of the Highlands and Islands as an attractive and distinctive region and HIE will continue to assist communities to develop dynamic, creative places, utilising the area's unique environmental and cultural assets. This will involve focus on both the community and enterprise aspects of arts, culture and heritage and we will work closely with our Creative Industries team to grow this sector.
- **Gaelic language:** HIE will procure a contractor to deliver Gaelic development services (currently delivered by Comunn na Gàidhlig) and will work with Bòrd na Gàidhlig to take forward the further development of the Gaelic language. The continuing resurgence of interest and usage of Gaelic has been a major feature of the historic improvement of the prospects of communities throughout the Gaelic-speaking areas and beyond, Gaelic's distinctiveness now being more universally valued. HIE will work with its partners to establish energy centres that will bring forward new Gaelic developments which contribute to the National Gaelic Plan targets. HIE will implement its Gaelic Plan in liaison with Bòrd na Gàidhlig, with an emphasis on realising the potential commercial and business elements of the language and a focus on the fragile areas and crofting communities. HIE will set up a Gaelic Development Panel, specifically to encourage business initiatives in the Gaelic sector.

Growth at the Edge/Fas aig an Oir

HIE's Strengthening Communities effort will particularly focus on fragile areas. This is strongly aligned to the Scottish Government's cohesion objective, ensuring that such areas contribute to and benefit from economic growth. HIE will achieve this through an enhanced Growth at the Edge approach. This will deliver stronger demographic structures, increased community capacity, sustainable community revenue streams, enhanced participation in development, employment, social, Gaelic language and cultural activity as well as business development that enhances the community.

Through its Growth at the Edge approach, HIE will work with three client groups.

- **Social enterprises:** These will include established social enterprises, which will be account-managed to develop growth plans and aspiring social enterprises who will be supported to develop their capacity.
- **Whole communities:** Communities will be selected, in conjunction with Community Planning Partnerships, to be community account-managed to develop and deliver community growth plans with the support of a local development officer hosted in anchor organisations. HIE will work closely with other public agencies, aligned with the objectives of Single Outcome Agreements with local authorities and funding programmes such as the Scottish Rural Development Plan, to implement community growth plans.

An important part of such community plans will be the development of crofting. The Scottish Government has asked HIE to take on the crofting development function as part of the restructuring of agency involvement in crofting. HIE will assist with the development of crofting community development plans and work closely with the Crofters Commission to ensure alignment with its regulatory powers.

- **Support to small businesses:** In fragile areas, HIE will selectively assist small businesses to implement development projects which demonstrate sufficient benefit to the client business, whilst making a contribution to wider community wellbeing.

Regional Competitiveness

Develop our key sectors

A key focus for HIE is the stimulation of key sectors: creative industries; energy; financial and business services; life sciences; food and drink and tourism, as well as significant and high growth companies. A critical component of sectoral development will be joined-up working between the public agencies and in particular HIE, Scottish Enterprise, SDI and, in the case of tourism, VisitScotland. HIE will work with the Government and Scottish Enterprise to support the Industry Advisory Boards in the development of sectoral plans for Scotland and use these to guide sectoral implementation within the Highlands and Islands. Cross sectoral opportunities, particularly in the areas of supply chain management, energy intensive data centres and life science informatics will also be pursued.

Creative industries

HIE is pursuing work designed to address structural issues and market failure in the creative industry sectors. This focuses on creating the conditions for business growth through networking and effective distribution, as well as an aggressive internationalism strategy. At an operational level, as well as supporting company development, HIE will focus on three key areas: idea development including finance and training for R&D, with the aim to improve the standard of idea and support better development; distribution, how to get the product to market, including marketing, attendance at trade events/showcasing; and networking and creating profile at a national and international level.

HIE is also concentrating on supply chain and sectoral development activities that are important to the development of creative industries in the region. In supporting the sector, HIE will work closely with Creative Scotland.

Energy

Working in partnership with industry, the Scottish Government, Scottish Enterprise and the Scottish Funding Council, HIE will deliver economic benefits through research, demonstration and deployment initiatives such as the Saltire Prize, the Energy Technology Partnership and the Scottish European Green Energy Centre.

HIE will continue to accelerate the development and deployment of renewable energy and in doing so, will secure high levels of economic growth throughout the region. Real opportunities exist in developing intellectual property, securing long-term local business benefit and potential inward investment in the marine energy sector (including wave, tidal and offshore wind). For this reason, HIE will prioritise its activities around development of the marine energy sector, including further development of EMEC capability both on and off-site, taking forward appropriate development of the Pentland Firth, and exploring opportunities for communities and businesses throughout the Highlands and Islands to participate in the marine energy industry.

Financial and business services

HIE will support a number of key companies in the region who offer growth opportunities, particularly in high value business process outsourcing and in supply chain development. We will also work on a number of areas that need to be addressed to help the sectors to grow. Therefore, HIE will collect more accurate baseline data, work with the sector in developing team leader and coaching skills projects, define future common research themes with academic researchers and develop key senior relationships with main players. Given the current flux within the industry, there will be niche opportunities to be explored. HIE will focus on new models of shared service centres and distributed outsourcing centres will be explored and the potential for energy intensive, green data centres will also be pursued.

Food and drink

Food and drink is intrinsically linked to the economy of the region, is a significant employer and contributes over £1bn in exports. The sector comprises over 1,900 businesses operating in the value adding processing and primary producing sectors which include aquaculture, fisheries and agriculture. HIE is fully engaged in taking forward a national strategy for food and drink and works closely with industry bodies on business

engagement and growth. However, there are emerging concerns on the effects of the global economic downturn and possible threats to employment levels in the sector. HIE will work closely to ameliorate these threats where possible.

Our efforts to support growth will focus on business leadership, collaborative supply chains, industry communication and sustainability. HIE will play a key role in taking this work forward at a national level with partners including Scotland Food and Drink. In addition, HIE will support the account management process with expert knowledge, market intelligence, advice and networks.

Life sciences

The life science sector in the region has a twin geographic focus – Inverness for medical and health sciences and Oban for marine bio-science. There are also important research nodes in Caithness and specific companies based in the Western Isles. While the Highlands and Islands have one dominant business in this emerging sector, Inverness-based Lifescan, the region also has a growing number of small businesses and spinouts with high growth potential. Key stakeholders active in this sector include those undertaking academic and/or commercial research and development, manufacturing organisations, contract research organisations and the NHS. HIE will support company growth and explore opportunities in marine bio-discovery, bio-infomatics, natural products, mental health, diagnostics, medical devices plus remote and rural health.

Tourism

Tourism remains a key sector for HIE and one that can make a significant contribution to a competitive region. Working with partners, especially VisitScotland, HIE is a key player in meeting national ambitions of a 50% growth in the value of the sector equating to an additional £600m expenditure into the region. The drivers of this growth will be developing world class destinations, accelerating targeted inward investment propositions and developing support mechanisms to enhance business leadership and productivity. HIE will also be working on a select number of larger, strategic projects that offer significant growth opportunities at the regional level, such as the development of the marine tourism product and the cruise ships market.

Universities

The growth and development of a university sector in the Highlands and Islands is critical to the long term success of the regional economy. In addition to its high priority of developing UHI, HIE will work to attract further investment and engagement in the region with other institutions including Heriot Watt University, the University of Stirling and the Massachusetts Institute of Technology.

Improve our infrastructure

Connectivity and technology

Ubiquitous and affordable access to modern high quality fixed and wireless telecommunications services are an essential element of creating a competitive region. In many ways, the more rural and remote the region, the greater the part electronic communications can play in boosting the local economy and enabling cost-effective provision of services. To become truly connected, we must understand developing trends and through a programme of research and pilot projects, demand stimulation measures and other activities to maximise the benefits of the region's existing electronic connectivity and make a compelling case for improving our connectivity to match the best available elsewhere. We must ensure that our levels of connectivity support emerging opportunities such as green data centres or cloud computing. Connectivity is one component of a wider adoption and utilisation of technology which can impact on business competitiveness, and learning accessibility. With partners, HIE will develop an ICT/Technology Plan to meet the region's short and long-term needs.

Transport

Efficient, affordable and comprehensive transport services are fundamental to a successful competitive region. HIE will continue to engage with Government and Transport Scotland to maximise the benefits of key regional road and rail priorities identified in the Strategic Transport Projects Review and contribute to

the outcome of the Scottish Ferries Review. We shall also work closely with public and private transport organisations and the Regional Transport Partnerships, to drive forward enhancements to other elements of transport, including non-trunk roads, regional and international air links and freight services and to maximise the benefits of initiatives such as the Road Equivalent Tariff pilot. Looking forward, HIE will seek workable solutions for issues such as the road fuel supply and the use of renewable energy in transport.

Grid connections

The future development of the renewable energy sector in the Highlands and Islands is significantly constrained by connection issues relating to the electricity transmission and distribution system, with even small developments (less than 1mw) struggling to connect. There are a number of important announcements and developments expected during the next 12 months (Beaully-Denny upgrade, SSE's North of Scotland Loop) which, if approved by the relevant authorities, will start to free capacity for overall planned capacity. This still leaves new projects looking at post 2018 for connection dates.

HIE will continue to actively work with government, stakeholders and the National Grid to recognise the critical nature of the distribution networks in stimulating the development of the sector, both in its physical capacity and in the charging and connection structures that surround it. HIE will also actively promote the region to energy-intensive industries, stimulating industry development in advance of grid connectivity.

University of the Highlands and Islands

The establishment of a university in the region is one of the most important projects in the Highlands and Islands. It is integral to the successful development of the region and HIE will continue to work with UHI primarily in three areas; progress to achievement of university title, further development of research capacity and capability linked to HIE priorities, building on the Addressing Research Capacity (ARC) programme and campus developments to provide appropriate learning environments. In taking forward these priorities, HIE will work in partnership with the Scottish Government and the Scottish Funding Council.

Enterprise education

The European Commission considers entrepreneurial development an important part of achieving economic growth. The quality of a region's learning infrastructure is central to achieving this aim. HIE will therefore work with the Scottish Government and other key partners to secure strong commitment for entrepreneurship to be embedded into the education system. We will develop a regional strategy for entrepreneurship education and encourage the use of best practice pedagogical tools to ensure all learners have a solid understanding of entrepreneurship as a career option or as a way of enhancing employability and promoting an understanding and respect for the region's entrepreneurs.

STEM

Science, technology, engineering and maths (STEM) skills play an important role in our local economy and will be a vital component of aspirations to grow knowledge-based sectors such as life sciences and energy. Enrolment in STEM subjects is falling at higher education level. HIE is taking forward an initiative to reverse this trend through a STEM Partnership (comprising all Highlands and Islands local authorities, Skills Development Scotland, UHI and four Sector Skills Councils) which aims to achieve a sustainable increase in the number of people attaining high levels of mathematics, science and ICT qualifications. HIE will also work with the Scottish Government to increase public appreciation of the role of science in society, with a particular focus on school children and those that influence them.

Unlock our creativity

Innovation

The GES highlighted the importance of all forms of innovation in delivering its purpose. Innovation is a fundamental driver of business competitiveness and the successful exploitation of all forms of innovation including the development of new technologies, goods, processes and efficiency improvements can all contribute to increased productivity. We will work in partnership to implement the Government's Science for Scotland framework and Innovation Framework.

Our focus will be on encouraging and supporting innovation in individual businesses, across our key sectors and regionally through an effective innovation system.

Working with partners, we will stimulate and increase business demand for innovation support by putting in place solutions which will change the aspirations of businesses and develop a culture of entrepreneurship. We will build on our success in working with the Massachusetts Institute of Technology (MIT) to put in place a programme of activity.

We will aim to stimulate business growth through the adoption and innovative use of technology and software and access to the science base, ensuring that businesses across the region are in a position to exploit new opportunities. HIE will also work with partners regionally, nationally and internationally to examine ways of increasing levels of business participation in research and development.

Knowledge transfer

HIE will assist UHI, FE colleges and academic institutions throughout Scotland in identifying transferable knowledge and encourage use of HI-Links with the aim of dramatically improving knowledge transfer between the research and enterprise base, by increasing outputs of economically relevant knowledge, know-how and patents from further and higher education institutions into businesses based in the Highlands and Islands. In doing so, we will work along with the Scottish Funding Council.

Expand our horizons

Internationalism

Success in international markets continues to be a key driver in the growth of businesses across the region. We will support the international aspirations of our growth businesses, delivering a comprehensive package of services to help them develop profitable international markets and build productive international collaborations. We will work in partnership with SDI to research and identify international business opportunities in our key sectors.

Inward investment

Foreign direct investment is a significant driver of a highly competitive Highlands and Islands economy, fostering highly productive businesses with a global perspective. The Highlands and Islands has world-class strength in key sectors such as renewable energy and tourism. Working in partnership with SDI, we will look to exploit our sector strengths, proactively identifying and pursuing inward investment opportunities to accelerate sector growth. We will identify and exploit synergies between sectors, targeting opportunities such as green data centres.

We will seek to understand the impact of changing economic conditions on inward investment and identify opportunities for the Highlands and Islands as businesses seek to rationalise their operations to meet new economic realities.

The Highlands and Islands has a significant number of foreign-owned businesses and we will build on our good relationships with them, encouraging new investment where it will increase scale and drive productivity in their operations.

In all of this, we will work in close partnership with SDI's global office network.

External marketing

As well as knowing where we must improve, we need to understand where we excel. We must recognise the region's strengths and market these effectively to our chosen target groups. We shall develop, in conjunction with our partners and stakeholders, an external marketing strategy to raise the profile of the Highlands and Islands, in order to attract high growth businesses and dynamic individuals.

SECTION 4

Effective delivery

HIE will operate as a single organisation with its functions dispersed and delivered across the eight local areas that make up the region as a whole. Central support functions will primarily be located in Inverness, Dingwall and Benbecula, but discrete elements (including a number of senior management positions) will be located in other offices around the region.

In order to operate effectively as a single organisation, we will take a collaborative approach to our work, based on clarity of functions and shared objectives.

Structure

Delivery will be corralled around five groups, namely:

- Strategic Planning
- Regional Competitiveness
- Strengthening Communities
- Operations
- Finance and Corporate Services

In addition to the five groups, a separate Internal Audit team will report directly to the Chief Executive.

People

The prevailing theme of our 2009/10 People Strategy is on maximising performance. In 2008/09, we laid much of the groundwork for success. We slimmed down the organisation, implemented a new organisational structure, defined new roles, engaged in significant recruitment and promotional activity and developed a training framework to ensure that our staff have the necessary skills to carry the agenda forward. Our staff are prepared, positioned and are actively engaging with clients on growing high-potential businesses in our region and strengthening fragile communities. With the infrastructure now in place, our focus in 2009/10 is on delivery of meaningful results.

We anticipate a staffing complement of around 300 FTEs, with a continuing strong presence across the Highlands and Islands region. Given our geographic spread, our drive to deliver more impactful results with fewer staff and the fact that many staff are stretching into new roles, it is essential that we focus on best-in-class strategies to support, continually develop, engage and retain our staff.

In this context, supporting our staff is largely about ensuring that they have the resources needed to deliver the results we are seeking. It is incumbent upon us to leverage technology in all ways possible to facilitate communication, knowledge sharing, streamline business processes and connect HIE staff to our clients and to each other.

Staff development in 2009 and going forward is about more than training. While traditional training programmes will continue to be an important cornerstone of our development framework, these will be supplemented with shadowing programmes, online forums for information sharing and on the job training, guided by line managers in all areas. Plans are in place for supplementing our leadership training programmes and our account management training programmes with a broader suite of learning strategies. We will also explore and identify opportunities to partner with other NDPBs in the development and delivery of training for our staff.

Pursuit of GES has presented many exciting new opportunities for staff at HIE to learn, grow and advance. We have asked staff to extend themselves, taking on new tasks or responsibilities in some cases or learning new ways of working in others. As we go forward, it will be ever more important for HIE's

continuing success that we retain our staff, giving us an opportunity to realise the full benefits of the investment we are making in their growth and development. Our aim is to distinguish HIE as a great place to work in the Highlands and Islands. To this end, we will aim to adopt at least two new engagement strategies in 2009/10.

Financial resource

Striking the balance between need and opportunity, and comparing the value of short-term and long-term benefits from investment are continuing challenges for HIE. In order to ensure maximum impact across the challenges set out in GES, HIE will continue to prioritise financial support for a select number of projects where implementation will have a transformational effect on the economy at the regional or national level. These investments shall augment HIE's core enterprise programme activity which provides support to significant and high-growth businesses and strengthening communities.

HIE is committed to achieving the Scottish Government public sector efficiency saving of two per cent cash per annum.

Internal audit and compliance

The Internal Audit and Compliance Team provides an independent assurance to the HIE Chief Executive on the effectiveness of HIE's internal controls. The work of this team also makes a significant contribution to HIE's continuous improvement activities.

Working with key partners

In order to maximise the effectiveness of public sector activity, we will work closely with partner organisations such as Scottish Enterprise, Scottish Funding Council, Skills Development Scotland and VisitScotland on areas where strategic engagement will deliver mutually beneficial outcomes and we will play an active role in the Strategic Forum. Within the region, we will work through the Convention of the Highlands and Islands to establish regional consensus around issues of strategic importance to regional development. We will also work through the framework of Community Planning, an engagement which is a fundamental principle of our operation and one which cuts across all areas of activity.

In addition, we will maintain a responsive relationship with the Scottish Government, local government, Scottish Parliament, UK Parliament and the European Union. The management of these relationships requires commitment to planned pro-active engagement and will also provide us with the opportunity to contribute to local, national and European policy development which affects the economic and social development of the Highlands and Islands.

Partnership with local authorities

HIE will contribute to the development of single outcome agreements in each local authority area across the Highlands and Islands. We will ensure that the agreements reflect accurately the aspirations we have for every part of the region. This stage of the process is about taking ownership of the strategic outcomes contained within the Single Outcome Agreements (SOAs) and ensuring that they are delivered. In addition to reporting directly to the Scottish Government through our sponsor team, we will produce regular reports on our activity at local authority level in a format consistent with the National Performance Framework to allow the formulation of local area reports from across the public sector.

We anticipate that the Business Gateway service delivered by the local authorities will become operational from April 2009. HIE will provide support to the local authorities over a transitional period to ensure that customers seeking business advice do not experience any disruption. Close partnership working between the Business Gateway and HIE's area offices will be vital to maintaining a pipeline of referrals for HIE's high growth business support.

Engagement with businesses and communities

HIE has adopted a structured approach to ensure meaningful engagement with businesses and community groups in the Highlands and Islands. The framework adopted will ensure that existing relationships with key public sector stakeholders, private sector representatives and other groups are developed to ensure an ongoing process of relationship development, intelligence gathering and analysis. This will in turn assist with delivery of GES through consistent and regular promotion of GES aims, objectives and targets and a more informed approach, through increased awareness of issues at a regional, local and sectoral level.

The framework adopted will ensure regular scheduled meetings with local authorities in the HIE area, adding to the growing effectiveness of the more broadly based Community Planning Partnerships in each local authority area. The extended scope of Single Outcome Agreements will further enhance outputs from these arrangements. Additionally, relationship development involving business representative groups including Chambers of Commerce and the Federation of Small Businesses, will assist in a deeper understanding of business issues.

Each of HIE's eight area teams is in the process of establishing an area panel which is intended to meet twice yearly. Panel members will comprise local businesses and other stakeholders and the panels are intended as an information exchange opportunity to benefit all participants. All area panel members, together with all account managed businesses, will be invited to participate in an online Highlands and Islands wide forum, generating a database of sectoral and area interest and assisting with assessment, consultation and analysis throughout the area.

Equality and diversity

To ensure that we take into account the diverse needs of those who access or could access our functions and that we seek continual improvement in HIE's employment practices, we will continue to co-ordinate equality activity within our Best Value approach. We will continue to review and revise our equality action planning to reflect the changing political, legislative and demographic environment in which we operate.

As well as developing our equality schemes on race, disability and gender, our focus on equality extends to other equality strands covered by legislation – age, sexual orientation and religion or belief, as well as consideration of the implications of rurality and of use of the Gaelic language in some of our areas. Much of our work reaches across all equality strands, affecting not just men and women or people of different races, but achieving positive outcomes for people of diverse gender, race, age, ability and identity throughout the Highlands and Islands.

Carbon footprint

HIE has increased its understanding of and capacity to measure and manage carbon/greenhouse gas emissions. As our knowledge and understanding grows, we are moving from undertaking historical reviews of our spend to monitoring and analysis which will allow us to undertake real time management of our emissions. This has helped grow our capacity and confidence and for the first time we have recently been able to include some emission analysis in office relocation decisions. We are also taking early steps to identify how we can appraise the emissions impacts of our annual investment spend.

These are early steps that will help the organisation contribute to the Scottish Government's target of emissions reduction. To complement this activity, we will use staff travel information to investigate how we can operate with less commuting and business travel. We will be undertaking a review of how our prolific use of video and audio conferencing not only reduces travel emissions but saves staff travel time and HIE the cost of this travel and examining how we can increase this use.

Business improvement

HIE is committed to continually reviewing its operations to ensure that we are delivering Best Value. A continuous improvement group has been established to identify and implement business improvement opportunities across the organisation. A number of workstreams are currently underway, including a review of HIE's project appraisal and project management process and the development of a proposed new corporate reporting framework.

The group is developing a programme of business improvement activities to implement over the next three years. Priorities include the facilitation of knowledge sharing across the organisation, particularly with regard to lessons learned and also a review of our approach to benefits realisation and risk management.

Business systems

Implemented in early 2007, the HIE Management System (HMS) has undergone a period of stabilisation and consolidation. Emerging from this period, with the system fully embedded, the full value of the investment can begin to be realised. Alignment of the system with GES and with the new organisation structure and continual enhancement of its ability to deliver business intelligence will yield significant benefits. Benefits will be realised particularly in terms of operational and strategic decision support and demonstration of HIE's impact in adding value to national growth. Its inherent flexibility will be continually exploited to ensure organisational efficiency and responsiveness.



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