The Committee will meet at 9.30 am in Committee Room 4.

1. **Decision on taking business in private:** The Committee will decide whether to take item 3 in private.

2. **Enterprise network reform and transfer of functions:** The Committee will take evidence on the reform of the enterprise networks and transfer of functions, from—

   Jack Perry, Chief Executive, Hugh Hall, Chief Financial Officer, and Stuart Patrick, Senior Commercial Director, Scottish Enterprise;

   Sandy Cumming, Chief Executive, and Sandy Brady, Director of Strategy, Highlands and Islands Enterprise;

   Councillor Alison Hay, COSLA Regeneration and Sustainable Development Spokesperson, James Fowlie, Team Development Manager, COSLA, Barbra Lindsay, Strategic Director, COSLA, and David Valentine, Head of Economic Development, Angus Council and representative of SOLACE and SLAED;

   Donald Henderson, Interim Chief Executive, Linda Ellison, Director of Finance and Corporate Affairs, and Marie Burns, Director of Skills Interventions, Skills Development Scotland.

3. **Tourism Inquiry:** The Committee will discuss the progress of the inquiry with its tourism adviser.

Stephen Imrie
Clerk to the Committee
Room T3.40
0131 348 5207
Stephen.Imrie@scottish.parliament.uk
The papers for this meeting are as follows—

**Agenda Item 2**

SPICe briefing paper – Enterprise Network Reform  
Submission from Scottish Enterprise  
Submission from Highlands and Islands Enterprise
Scottish Enterprise
Business Plan
2008–11

Scotland’s Enterprise, Innovation and Investment Agency
Chairman’s Foreword

Within the context of today’s wider global economic environment the Scottish Government’s new economic strategy has come at a critical time, as we are confronted with an ever increasing competitive challenge from both emerging as well as traditional countries.

In the current economic climate, it is essential that Scotland works harder and more efficiently to sustain economic growth.

In order to help tackle this challenge and help meet the ambition shown within the Government Economic Strategy, Scottish Enterprise has undergone arguably its most radical transformation since its inception.

In recent months, the Scottish Enterprise Board has been working closely with the Executive Board to refocus activity where it can have the biggest impact and ensure we play a clear role in making Scotland wealthier and fairer, healthier, smarter, stronger and greener.

If we are to help narrow the gap between Scotland and best in the world we must collectively focus to intensively support those industries and businesses that have the competitive potential to achieve more rapid sustainable growth and in turn make a positive impact on the Scottish economy. Without substantially increased strength in the demand side of the economy, the goals of increased value added and wealth creation will not be delivered, and in turn we will not achieve our full competitive potential.

A key part of our success will be achieved by further developing our work with Scotland’s research base to more rapidly commercialise our outstanding science and technology and help strengthen and deepen demand for product, process and service innovation. In support, we must continue to help create the best possible business infrastructure to generate new investment and employment opportunities.

Under the continued guidance and leadership of the Scottish Enterprise Board, this new organisation is ready to deliver the programme of activity outlined in this business plan to support key industries and contribute to the delivery of sustainable economic growth for Scotland.

Sir John Ward
Chairman
Scottish Enterprise
Chief Executive’s Foreword

The Scottish Government set raising sustainable economic growth as its Purpose when it launched the Government Economic Strategy last year: “Sustainable economic growth is the one central unifying purpose to which all else in Government is directed and contributes”[1].

Businesses are the generators of wealth and are fundamental to economic growth. Scottish Enterprise will support businesses, of all sizes, which have high growth potential and which are important to the Scottish economy. We will deliver programmes and services that aim to help them increase innovation, improve productivity, compete internationally and increase their contribution to Scotland’s economic growth. These programmes and services will increasingly be tailored to the needs and demands of our priority industries.

Achieving the aspirations set out in the Government Economic Strategy will require the complete alignment of strategy and resources across the public sector in Scotland. This collaborative approach – in particular with local authorities, Skills Development Scotland, the Scottish Funding Council, VisitScotland, Scottish Development International and Highlands & Islands Enterprise – will be vital to unlocking Scotland’s economic potential, particularly given the challenging economic environment in which we will be operating.

We look forward especially to working closely with the new Skills Development Scotland to deliver the Government’s “Skills in Scotland” strategy. We also welcome the commitment by local authorities to increase their involvement and investment in economic development at a local level.

During recent months we have undertaken a root and branch restructuring of Scottish Enterprise. We have simplified our governance and substantially reduced our headcount and our cost base. After transferring out activities related to Careers Scotland, skills and learning, local regeneration and Business Gateway we are now fit for the purpose of supporting our business customers. In pursuing this agenda, we will continue in all our activities to seek to share risk with the private sector.

Jack Perry
Chief Executive, Scottish Enterprise

[1] Foreward to the Government Economic Strategy by the First Minister
Scotland has some real strengths that should give it competitive advantage in the global economy, including:

- **Capability** – though its people, with a relatively high employment rate (77%) and a high proportion of our young people entering higher and further education (53%) and an expatriate community, many of whom would be tempted to return with the onset of higher growth;

- **Creativity** – securing 21% of the Research & Development inward investment projects that come to the UK and our higher education institutions responsible for 15% of patents filed in the UK;

- **Natural Resources** – for example with its wind, tidal and subsea capacities and with its history, culture and natural beauty.

However, despite these valuable assets, the country still lags behind its competitors in some vital areas including:

- Low investment in business R&D which, at 0.6% of GDP, is less than a quarter of the value invested by some competitor countries;

- Low levels of entrepreneurial activity with only 5% of the population creating businesses;

[3] IBM research
A small number of companies of scale with just 115 generating a turnover of more than £100 million a year⁷;

- Low productivity, with output per hour around 15% less than the top performing OECD economies⁸.

These issues are highlighted in the Government Economic Strategy which, amongst other things, recognises the importance of having a **supportive business environment**, and in particular the need to deliver:

- Responsive and focused enterprise support to increase the number of highly successful, competitive businesses;
- Targeted support to business in pursuit of opportunities outside of Scotland and the development of internationally competitive firms;
- Broader approach to business innovation in Scotland that moves beyond viewing innovation as the domain of science and technology alone;
- Clear focus on strengthening the link between Scotland’s research base and business innovation and addressing low levels of business R&D;
- Projects and programmes concentrated on a number of key sectors with high-growth potential and the capacity to boost productivity.

This Business Plan sets out how Scottish Enterprise will work collaboratively with industry and the rest of the public sector, to help address these challenges and thereby make a valuable contribution to increasing sustainable economic growth for Scotland.

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⁷ Scottish Government
⁸ OECD, ONS
The Government Economic Strategy

The Government Economic Strategy – Priorities

Overall Purpose

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

Raise the GDP growth rate to the UK level; and reduce emissions over the period to 2011.

Strategic Priorities

- **Learning, Skills and Well-Being**
  - Match GDP growth rate of small EU countries (2017)
  - Top quartile for productivity amongst trading partners (2017)
- **Supportive Business Environment**
  - Maintain labour market participation / close gap with top 5 OECD economies (2017)
- **Infrastructure Development & Place**
  - Match ave European population growth (2007 to 2017)
  - Increase overall income and proportion of income earned by the three lowest income deciles (2017)
- **Effective Government**
  - Narrow gap in participation between Scotland’s best and worst performing regions (2017)
- **Equity**
  - Reduce emissions by 80% (2050)
Scottish Enterprise can make an important contribution to the full range of the Scottish Government’s strategic priorities for the economy and we have set out in appendix 1 the ways in which we will do that. However, in line with the outcome of the Enterprise Networks Review, our main focus will be in “developing a supportive business environment”.

Review of the Enterprise Networks

The reforms to the Enterprise Networks were announced by the Cabinet Secretary for Finance and Sustainable Growth in September 2007. The main changes were:

- Scottish Enterprise to focus on supporting high growth businesses and improving the business environment in Scotland;
- Scottish Enterprise’s infrastructure activities to focus on projects of regional or national importance;
- A continuing focus on industries with the potential to thrive in a global economic context;
- Both Careers Scotland and lead responsibility for skills to transfer to Skills Development Scotland;
- Business Gateway and local regeneration activities to transfer to local authorities.
Spending Review Outcome

The recent Scottish Government spending review will mean reduced cash resources being available to Scottish Enterprise for the next three years until 2010/11. Following transfer of responsibilities to other organisations, the forecast resources available for 2008/11 are as follows:

<table>
<thead>
<tr>
<th>Total Forecast Income (£m)</th>
<th>2007/8 Rebased</th>
<th>2008/9</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/8 Rebased</td>
<td>329</td>
<td>297</td>
<td>289</td>
<td>283</td>
</tr>
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</table>

As a result, we have a real challenge in delivering our growing pipeline of projects, and we will be prioritising activities that generate the biggest economic return on our investment. We will continue to seek greater leverage from the private sector while driving efficiency and effectiveness in our own operations. Tough decisions will have to be made in the full knowledge that not all of these decisions will be popular. For example we intend to reduced our salary costs by at least £10m per annum (14%)*. 

* These savings are net of staff transferring to other organisations following the review of the Enterprise Networks.
Helping to increase sustainable economic growth

As the economic development agency for lowland Scotland, Scottish Enterprise can play a catalytic role in contributing to the Government’s overall target of raising GDP to the UK level by 2011, and other purpose targets, alongside private and public sector partners. The Government Economic Strategy shows that increased GDP growth is driven by increased productivity, population, growth and economic participation.

Scottish Enterprise is best placed to focus on the first of these: productivity. Furthermore, the strategy diagnoses Scotland’s current poor productivity performance being down to shortfalls in enterprise, innovation, investment and skills. Scottish Enterprise is best placed to focus on the first three of these and this business plan is structured around objectives in these three areas:

- **Enterprise**: responsive and focused enterprise support, helping growth companies and industries to reach their full potential;
- **Innovation**: stimulate innovation to support business growth including exploiting new products, processes and technologies;
- **Investment**: helping to create the right conditions for growth companies and industries to have access to property, markets and finance to help them grow.
One of the principal outcomes of the Scottish Government’s Enterprise Networks Review is a redefinition of the respective responsibilities of Scottish Enterprise and local authorities in relation to economic development. The Scottish Government has given Scottish Enterprise a very clear remit to focus on priority sectors and on supporting those businesses, of whatever size, that have high growth potential and that are important to the national or regional economy. Local government will be expected to play a complementary local role in economic development, providing business advisory support to local firms through the Business Gateway and assuming the lead in local regeneration projects, alongside its existing functions like transport and planning.

Scottish Enterprise will work proactively and selectively with a much smaller number of businesses, predominantly those with whom it has, or will establish, an account management relationship. This means that for the majority of firms, including those serving mainly local markets, public sector advice and/or guidance should be sought through the Business Gateway, overseen by local authorities.

We will also ensure that we play a full and proactive part in delivering the government’s equity agenda and contribute positively to social and geographic equity. In particular, we will help exploit the opportunities of a move towards a low carbon economy and increasingly integrate sustainable development into our work with our customers.

Increased productivity will result in more competitive and faster growing businesses in Scotland. These will generate the opportunities to attract and retain population, and create more and higher quality employment – which stimulates the labour market to help raise participation.

Responding to the requirements of Scotland’s key industries

Securing faster, more sustainable growth will require increased performance across the economy. Some sectors and firms offer the opportunity to strengthen Scotland’s areas of international comparative advantage, through achieving critical mass and boosting productivity.

The Government Economic Strategy
The Government Economic Strategy places a great emphasis on Scotland’s key sectors to boost productivity and improve Scotland’s position in the global economy. We will work closely on a pan Scotland basis with partners, such as Highlands and Islands Enterprise, VisitScotland and local authorities, to help support growth across those industries identified by the Government: energy, financial and business services, food & drink, life sciences, tourism and creative industries.

Scotland already has some major competitive advantages within these industry sectors which, as well as being able to boost growth in the shorter term, offer the greatest opportunities for long term sustainable economic growth in the future.

Scotland has other important industries such as aerospace, chemicals, construction, forest industries, marine & defence, and textiles that will also help shape what we deliver as well as supporting the enabling technologies which can be applied across multiple markets and industries e.g. advanced engineering and informatics. We will work with these sectors where there are clear opportunities to sustain or strengthen Scotland’s economic growth.

In supporting growth, we will work closely with industry leaders to understand their requirements for further growth and to set our priorities for future investment and support to help them achieve that growth. The recommendations of the newly constituted Industry Advisory Boards, informed by The Government Economic Strategy, will be the major driver for much of what we do.

We will also work closely with other public sector partners to exploit Scotland’s competitive advantages and support the wider application of these strengths in growing Scotland’s economy. An example of this is the Translational Medicine Research Institute [TMRI] which combines the research strengths of Scotland’s universities with our health service to attract millions of pounds of additional research investment to Scotland from pharmaceutical company Wyeth.

An overview of Scottish Enterprise’s role in activities aimed at stimulating growth in Scotland’s key sectors is set out in appendix 2.
a. Enterprise

Scotland’s businesses are the primary driver of sustainable economic growth. Our national competitiveness depends critically on the competitiveness of our individual businesses.

The Government Economic Strategy

Businesses generate wealth and are fundamental to economic growth. Scottish Enterprise will support businesses, of all sizes, which have high growth potential and which are important to the regional/national economy. We will deliver programmes and services that aim to help them increase innovation, improve productivity, compete internationally and increase their contribution to Scotland’s economic growth.

The primary purpose of our work with individual businesses is to help those with the potential to make a significant positive impact on the Scottish economy to grow or to grow faster.

Our main objectives are to:

- Help these companies to realise their growth potential;
- Support priority industries and companies to internationalise and attract added value through foreign direct investment;
- Increase the impact and speed to market of high growth start-ups.

To achieve these objectives priority will be given to the following activities:

**Supporting Firms with Potential to Grow**

Within Scotland, a relatively small proportion of companies account for most of the growth. Scottish Enterprise will therefore focus its support on those businesses with the potential to grow and on where we can help make that growth happen.
Scottish Enterprise currently allocates growing companies with an “account manager” to work with them to ensure they have access to the range of services, networks, market research and information we can offer. We aim to work with over 1900 account managed companies during 2008-09, 10% more than last year, with further increases planned in later years. At the same time we will build on our Account Management service model to work more intensively with companies to help them overcome the barriers that stop them from growing. We will also consider where we might evolve our services to make sure that they are aligned with the needs of companies and sectors, particularly those in each of the priority industries.

The barriers faced by each company will differ and each company will receive services tailored to their needs. The type of support could include:

- **Innovation**: Helping to develop new business models, products and services and also through account management to make a better connection between our academic research base and companies that benefit from innovative technology.

- **Internationalisation**: Accessing new markets abroad.

- **Investment**: Ensuring access to the right property, markets and finance.

- **Efficiency**: Assisting companies to improve product, process and service innovation and to reduce waste and emissions.

As previously outlined, local authorities will have responsibility for the Business Gateway service providing advice and guidance to businesses which primarily service local markets. SE will deal with those businesses which have high growth potential and are of regional or national significance. However, SE will rely on the Business Gateway to identify those businesses that have high growth potential and refer them to SE for selective and proactive account management.
Regional Selective Assistance Funds

Over the next year we will work closely with the Scottish Government to smoothly transfer RSA into our portfolio of support to growing businesses and provide integrated solutions to growth businesses.

Skills and Organisational Development

The Government’s *Skills in Scotland* strategy recognises the importance of skills in raising productivity including skills utilisation and demand stimulation.

We will focus more on developing leadership within companies to help them drive their growth. We will also help them grow through initiatives like Training Plus which supports businesses needing to increase or change the skills of their workforce in order to expand.

Training programmes such as Modern Apprenticeships will now be delivered by Skills Development Scotland (SDS). We will be working closely with the new body and with the Scottish Funding Council to ensure the skills demands of industries and businesses, captured through our work with Industry Advisory Boards and other business engagement, are understood across the public sector.
Internationalisation of Scottish businesses and attracting inward investment

Through SDI (Scottish Development International: a joint venture between the Scottish Government, Scottish Enterprise and Highlands & Islands Enterprise) we will continue support Scottish businesses to expand into overseas markets and attract new high value business to Scotland.

Scotland has benefited greatly from the attraction of new firms to invest here. We will work through SDI to continue this and will seek to attract high value jobs from international firms. There will be a particular focus on attracting investment into those industries where we believe Scotland can compete internationally. We will seek to fill strategic gaps and build critical mass in our priority industries through targeted foreign investment. An example of this would be the financial services firms we have attracted to Glasgow’s International Financial Services District in recent years.

High Growth Start Ups

Scottish Enterprise’s existing High Growth Start-Up Unit provides a service to high-value, technology based business start-ups. This includes technical and commercial experience and intensive hands-on support to help them develop products or technologies which can ultimately lead to stronger growth.

We want to build on the success of the programme by increasing the reach and capabilities of the current High Growth Start-Up team and supporting high growth start up companies from a wide range of industries.

Relative Investment Levels

- Maintain and over time increase our investment in tailored business support
- Maintain our investment in internationalisation and foreign direct investment
- Reduce our investment in lower impact business environment activities e.g. business incubators, business awards.
## Measures of progress and planned investment 2008-11

<table>
<thead>
<tr>
<th>Objective</th>
<th>Activities and Outputs</th>
<th>Planned Investment £m</th>
</tr>
</thead>
</table>
| Help more companies to realise their growth potential*                    | **Activities**: Proactively account manage more than 1,900 companies  
**Outputs**: 800 – 1,000 growth businesses increasing their turnover by £1m+ in the previous 3 years; £400m – £600m annual turnover growth in businesses supported; 18 - 23 High Growth start ups [including spin outs] with potential to reach a value of £5m (£2m GVA) in 3 years. | 30 30 31              |
| Accelerate internationalisation of Scottish businesses and attract foreign direct investment | **Activities**: Supporting the internationalisation of Scottish businesses into overseas markets; overseas offices; international ventures; talent attraction; attracting inward investors.  
**Outputs**: 1,800 – 2,400 planned high value jobs through inward investment.                                                   | 21 21 21              |
| Support the business environment particularly for priority industries      | **Activities**: Industry projects including: Scottish Manufacturing Advisory Service; workforce development in construction industry; talent attraction in life sciences, financial services and electronic design.  
**Outputs**: Strengthened growth in priority sectors for which measures are under consideration.                                                                                | 14 14 11              |

*presently excludes RSA support delivered direct by the Scottish Government
b. Innovation

Innovation – developing new processes, products and markets, often through incremental change – is vital across all sectors. Increasing the level of research & development (R&D) activity and knowledge transfer between the research community and industry are key drivers of innovative activity, particularly in science and technology related sectors, helping to boost productivity and sustainable growth.

The Government Economic Strategy

The exploitation of new ideas has long been recognised as a major driver of economic growth. Helping more companies from across a diverse range of industries to engage in innovation activity will be vital if we are to help Scotland increase its global competitiveness.

Scottish Enterprise will work with growth companies, the Scottish Funding Council, higher education and other research organisations to help support a culture of continuous innovation and maximise Scotland’s ability to compete internationally. We will help these companies exploit new ideas either through direct assistance or by helping them to develop relationships with other businesses and/or our strong academic and research base. We will also help to commercialise ideas from the research base and help turn those ideas into new businesses or to licence those ideas into existing Scottish-based growth businesses to increase productivity and improve performance.

Our primary purpose in our innovation activity is two fold: enabling more account managed companies to generate increased growth from the application of new products, processes, business models and markets, and; stimulating innovation within and across priority industries.
The following objectives will focus our activities where they can add most value:

- Supporting and encouraging innovation in the companies which we work with, focusing in particular on account managed companies and priority industries;
- Improving the market demand for and exploitation of new licences and collaborative ventures;
- Exploiting more economic value within the Scottish economy from academic spin outs;
- Supporting a culture of continuous innovation.

To achieve these objectives priority will be given to the following activities:

**Innovation within Businesses**

Innovation is not just about technology. Rather, companies are more likely to be able to compete where they can improve their efficiency, develop new products and processes or have new business models e.g. through resource efficiency.

We will support more growth companies to undertake research and development activity to help them achieve this. This will include simplifying the process for companies accessing innovation support and building on the success of programmes such as R&D grant for business [incorporating R&D Plus and Small Company Innovation Scheme] and SMART:SCOTLAND.

**Links between Research Base and Companies**

Scotland’s universities and research institutes are renowned globally for the creation of knowledge and the development of new technologies, techniques and processes as evidenced in life sciences, informatics, energy and across many other disciplines. However, much of this supply is still not being used by companies to create economic growth. Closer links between firms demanding these new technologies and the supply from academia into these markets are therefore critical. This plan signals the start of a concerted effort by Scottish Enterprise, working closely with other key players in the public and private sectors, to achieve a step change improvement in the application of innovation in the marketplace.
We will work with growth businesses to stimulate greater demand for knowledge, technology and people from our academic institutions and facilitate greater ‘knowledge transfer’ between academia and industry. Our emphasis will be on promoting increased commercialisation opportunities that will contribute directly to increased sustainable economic growth.

**Intermediary Technology Institutes**

The Intermediary Technology Institutes play an important role in promoting innovation. Work includes market foresighting, defining market-led opportunities for developing new technologies (IP) and initiating the exploitation process through high-growth start-ups, and licences to Scottish-based and overseas companies. This is in three of our priority industries: energy, life sciences and creative industries (through techmedia including digital content and technologies).

**Innovation System**

Scottish Enterprise will continue to focus on improving the environment for innovation in Scotland. A priority will be improving the effectiveness of the innovation infrastructure within and across priority industries. A key component of this will be developing and delivering, collaboratively with partners, more transformational industry projects to address emerging opportunities.

A good example of this is the Advanced Forming Research Centre, a purpose built engineering manufacturing research facility carrying out work on behalf of member companies. The project, involving Strathclyde University and a group of leading private sector aerospace and other engineering companies, will stimulate increased investment in R&D and create a globally recognised manufacturing centre of excellence. This will focus on forming technologies – a general term used for a wide range of engineering processes including forging, extrusion, rolling and pressing. Finished products made from forming are required across a wide range of sectors including aerospace, automotive, civil, renewable and extractive energy industries, marine and general engineering.
Scottish Government Innovation Funds

Over the next year we will work closely with the Scottish Government to smoothly transfer these activities into our portfolio of support to growing businesses and provide integrated solutions to growth businesses.

**Relative Investment Levels**
- Maintain investment in support for the innovation system
- Increase investment in direct business innovation activities
- Focus investment in commercialisation – prioritise projects where this is a clear line of sight to exploitation and clear market demand.
Measures of progress and planned investment 2008-11

<table>
<thead>
<tr>
<th>Objective</th>
<th>Activities and Outputs</th>
<th>Planned Investment £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support and encourage innovation in the companies which we work with,</td>
<td><strong>Activities:</strong> Engage with up to 3,000 companies in supporting innovation.</td>
<td>08-09: 18 09-10: 18 10-11: 18</td>
</tr>
<tr>
<td>focusing in particular on account managed companies and priority industries*</td>
<td><strong>Outputs:</strong> Increased investment in R&amp;D by assisted businesses of £50m – £60m.</td>
<td></td>
</tr>
<tr>
<td>Innovation system: more transformational industry projects based on demand</td>
<td><strong>Activities:</strong> Intermediary Technology Institutes, Industry projects including TMRI, Edinburgh Stanford.</td>
<td>08-09: 56 09-10: 56 10-11: 56</td>
</tr>
<tr>
<td>and exploit the market demand for new licences and collaborative ventures</td>
<td><strong>Outputs:</strong> 20-30 high value knowledge transfers supported (licences acquired and collaborative ventures).</td>
<td></td>
</tr>
<tr>
<td>Exploit more value for academic spin outs</td>
<td><strong>Activities:</strong> Proof of Concept**, industry commercialisation projects including TMRI, Edinburgh Stanford***</td>
<td>08-09: 17 09-10: 16 10-11: 15</td>
</tr>
<tr>
<td></td>
<td><strong>Outputs:</strong> Up to 6 Proof of Concept spin out companies with private sector leverage of £10 million.</td>
<td></td>
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<td></td>
<td>**</td>
<td>08-09: 91 09-10: 90 10-11: 89</td>
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</tbody>
</table>

* Presently excludes Innovation support delivered direct by the Scottish Government

** The Proof of Concept Programme is designed to improve the level and quality of commercialisation within Scotland’s universities, research institutes and NHS Boards. It helps researchers to transfer their ideas and inventions from the lab to the global marketplace. Since the Programme was created in 1999, 206 projects have been supported creating over 500 new jobs, 40 spin-out and start-up companies, 38 licensing deals and leveraging over £210 million of public and private investment which would not otherwise have happened in Scotland.

*** The Edinburgh-Stanford Link is a £6m research, training and commercialisation initiative, linking the UK’s top computer science research group at the University of Edinburgh with the world’s most entrepreneurial, Stanford University in California. Funded by Scottish Enterprise, the Link exploits the commercial potential of research by transferring knowledge and skills into new or existing companies. The Link is due to be concluded in December 2008 and has already led to 18 full scale research projects and engaged with more than 120 companies looking to make use of the research.
c. Investment

Address gaps in access to capital that are constraining Scottish businesses from reaching their full potential, while helping to build capacity in the investment community to remove barriers to investment.

The strategy should not be to pick individual companies as winners – the market does that. Rather, the job of government should be to facilitate and accelerate the growth sectors and to provide the necessary environment to make sure that it happens in Scotland.

Businesses need access to appropriate property, markets and finance to enable them to grow. Scottish Enterprise will help to create the best possible conditions for priority industries and businesses with growth potential to access these. Our primary focus in investment is to reduce the barriers to achieving sustainable growth in Scotland.

The following objectives will focus our activities on where they can add most value:

- Increasing leverage from public funds by attracting more risk capital to invest in Scotland;
- Creating the best possible business infrastructure to promote the growth of our priority industries and high growth businesses;
- Attracting specialist partners to invest in priority industries including infrastructure, direct investments and collaborative projects.
To achieve these objectives priority will be given to the following activities:

**Attracting More Risk Capital to Invest**

We will continue to support the operation of the risk capital market in Scotland and the readiness of businesses for investment, helping companies to access the specialist finance they require to increase productivity and achieve their growth potential.

It is a principle of how we work that we should not take the place of the private sector. Therefore our approach has been to invest alongside the private sector where this is a clear equity funding gap, particularly in new innovative technology based companies.

The Scottish Co-Investment Fund, Scottish Venture Fund and Scottish Seed Fund have successfully demonstrated that public and private money can work together to support economic growth. For example over £23million has been invested since 2002 by the Scottish Co-investment Fund, which has supported 162 financial deals and attracted a further £54million from the private sector. This success has been enabled by significant EU funding and we will also apply for additional funding from European Structural Funds to enable us to do more. Given global economic conditions, investment finance and the underlying risk profiles will take on an even greater importance.
Business Infrastructure

Following the Scottish Government review of the enterprise networks, local authorities will take a lead role in local regeneration activity and Scottish Enterprise will continue to lead on economic development projects which will have a significant national or regional economic impact.

Scottish Enterprise is already a significant investor in property and infrastructure and our intention is to make greater returns on the assets that we already hold. Our support will be provided to projects which clearly demonstrate a high impact contribution to economic growth. As a principle, we will invest only where there is a industry demand that cannot be wholly provided by the private sector.

This will include ongoing work at Edinburgh BioQuarter to create one of the world’s leading locations for life sciences research and development and commercial activities. Other examples are Pacific Quay in Glasgow, part of the digital media quarter, and a continued commitment to the Clyde Waterfront development, home to the financial services sector in the West of Scotland.

We will continue to participate in national and regional scale regeneration projects and ensure the economic growth potential of these are fully realised. For example, we will continue to work with local authorities through the Clyde Gateway project to seize economic opportunities arising from the extension of the M74 and Glasgow hosting the Commonwealth Games in 2014.

Relative Investment Levels

- Reduce direct investment in physical business infrastructure e.g. by better exploiting current investment and through more innovative funding solutions.
- Maintain investment in equity funds.
Measures of progress and planned investment 2008-11

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<tr>
<th>Objective</th>
<th>Activities and Outputs</th>
<th>Planned Investment £m</th>
</tr>
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<tbody>
<tr>
<td>Create the best possible business infrastructure for priority industries and businesses to grow</td>
<td><strong>Activities</strong>: Strategic Investment Plan including: Advance Forming Research Centre, Scottish Centre for Regenerative Medicine*, Clyde Waterfront*, Edinburgh Bioquarter*, Energetica*. <strong>Outputs</strong>: Leverage from investment on site in high impact projects 1:2 to 1:2.5.</td>
<td>43 41 41</td>
</tr>
<tr>
<td>Increase leverage from public funds by attracting more risk capital to invest in Scotland</td>
<td><strong>Activities</strong>: operation of the Co-investment Fund, Seed Fund, Venture Fund. <strong>Outputs</strong>: Up to 90 deals with a leverage of between 1:2 to 1:3.</td>
<td>20 20 20</td>
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<td>Create the best possible business infrastructure for priority industries and businesses to grow</td>
<td>43</td>
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<tr>
<td>Increase leverage from public funds by attracting more risk capital to invest in Scotland</td>
<td>20</td>
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</tbody>
</table>

* The **Scottish Centre for Regenerative Medicine** is a £59million facility being developed as part of Edinburgh BioQuarter. The centre is being funded by the University of Edinburgh, the Scottish Government and Scottish Enterprise and will offer state-of-the-art research facilities, manufacturing capacity and commercialisation facilities that will be unique in Europe and rivalled only by Kobe in Japan. It will help to position Scotland at the forefront of regenerative medicine and stem cell technologies, acting as a magnet for the world’s leading scientists, clinicians and regenerative medicine companies to locate here.

* Scottish Enterprise will invest £23 million in the commercial research campus at **Edinburgh BioQuarter** over the next 15 years, which is expected to lead to £250 million private sector investment on site.

* The **Energetica** project aims to create a global hub for energy technology development covering all-energies. At its heart is a technology corridor spanning the 30 miles from Aberdeen north to Peterhead designed to attract and grow technology companies in a high quality environment – therefore maintaining and enhancing Scotland’s position as an industry leader. Scottish Enterprise is working with Aberdeen City and Shire Economic Forum in leading private and public sector partners on a strategy to identify and deliver development opportunities in this energy corridor.

* Scottish Enterprise is investing £2 million to fund the **Clyde Waterfront Strategic Partnership** for the period 2008/11 which aims to create an attractive, international location which will add competitive advantage, create jobs and increase output. An economic appraisal in 2007 estimated that the Clyde Waterfront initiative would generate over £440 million in additional value to the Scottish economy per annum to the Scottish economy by 2027/8.
d. Equity

We will concentrate on activities that both further the sustainable economic growth agenda and contribute to the broad strategic objectives of sustainability, social and regional equity – a "win:win" approach.

These activities will be delivered “mainstream” as part of our approach to enterprise, innovation and investment, building on the expertise built up in Scottish Enterprise over the last few years. We will:

- Promote the growth of a "low-carbon economy" through support for resource efficiency, the development and use of cleaner technologies linked to priority industries and an approach to business infrastructure investment that helps mitigate climate change;
- Promote Corporate Social Responsibility and support for growing social enterprises through our company work and the use of LOAN (Linking Opportunity and Need) in business infrastructure investments. LOAN is a partnership approach which seeks to ensure unemployed people in an area can access training and job opportunities provided by infrastructure projects;
- Support rural growth businesses and aid rural economic diversification;
- Carry out Equality Impact Assessments (EIA) on our projects and programmes to mitigate against any potential negative impacts across all aspects of equality.

Under sustainability we will contribute to the Government’s Greener Strategic Objective ‘to improve Scotland’s natural and built environment and the sustainable use and enjoyment of it’ through:

- Helping the businesses we work with to understand the consequences of their business decisions on the environment;
- Promoting and developing with those businesses opportunities to make a positive contribution to the sustainability agenda.
To focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing economic sustainable growth.

The Scottish Government Purpose

The Scottish Government has established a clear “National Performance Framework” for its overall agenda. Scottish Enterprise makes a significant contribution to this agenda, as set out in this Business Plan and initial work has been undertaken to align SE’s performance management to this overall framework. Further work is underway by the Scottish Government and Scottish Enterprise to improve our overall approach in this area, based on the approach set out below.

The overall purpose of Government is set out at the top of this section. It will be measured within the framework, below.
Scottish Enterprise plays a key role in contributing to this framework at each level and this is illustrated below. Firstly, the Government Economic Strategy has identified a set of high level “purpose targets”:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth</td>
<td>To raise the growth rate to the UK level by 2011. To match the growth rate of small independent EU countries by 2017.</td>
</tr>
<tr>
<td>Productivity</td>
<td>To rank in the top quartile for productivity amongst our key trading partners of the OECD by 2017.</td>
</tr>
<tr>
<td>Population Growth</td>
<td>To match average European (EU15) population growth over the period from 2007 to 2017, supported by increased healthy life expectancy in Scotland over this period.</td>
</tr>
<tr>
<td>Solidarity</td>
<td>To increase overall income and the proportion of income earned by the three lowest three income deciles as a group by 2017.</td>
</tr>
<tr>
<td>Cohesion</td>
<td>To narrow the gap in participation between Scotland’s best and worst performing regions by 2017.</td>
</tr>
<tr>
<td>Participation</td>
<td>To maintain our position on labour market participation as the top performing country in the UK and to close the gap with the top 5 OECD economies by 2017.</td>
</tr>
<tr>
<td>Sustainability</td>
<td>To reduce emissions over the period to 2011. To reduce emissions by 80% by 2050.</td>
</tr>
</tbody>
</table>

These targets measure the overall performance of the economy to which a range of partners, working with the private sector, contribute.
The contribution of Scottish Enterprise

Scottish Enterprise can play a catalytic role in contributing to the overall target of raising GDP to the UK growth rate to the UK level by 2011. In addition, we play an important and direct part in contributing to the other indicators, particularly helping the Scottish economy to match the growth rate of small independent EU countries by 2017 and to rank in the top quartile for productivity amongst our key trading partners of the OECD by 2017. We recognise the interrelated nature of these targets, and the central importance of raising GDP in delivering the Government’s ambitions on Solidarity, Cohesion, Participation and Sustainability.

Within this framework, the analysis in the Government Economic Strategy shows that the overall target of increased GDP growth is driven by increased productivity, population growth and economic participation. Scottish Enterprise is best placed to focus on the first of these: productivity.

Furthermore, the strategy diagnoses Scotland’s current poor productivity performance being down to shortfalls in enterprise, innovation, investment and skills. Scottish Enterprise is best placed to focus on the first three of these. In doing so, we will contribute to the National Outcomes and National Indicators of the Government’s overall framework.
Enterprise: Scottish Enterprise will provide responsive and focused enterprise support, helping growth companies and industries to reach their full potential.

- This will help meet the Government’s ‘national outcome’ to realise our full economic potential with more and better employment opportunities for all our people.
- This will contribute to the National Indicator to increase the business start up rate and to grow exports at a faster average rate than GDP. SE’s focus will be on high growth start ups and the continued growth of existing businesses.

Innovation: stimulate innovation to support business growth including exploiting new products, processes and technologies.

- This will help meet the Government’s ‘national outcome’ so that Scotland is better educated, more skilful, more successful, renowned for our research and innovation.
- This will contribute to the National Indicator to at least halve the gap in total research and development spending compared with the EU average by 2011 and the knowledge transfer of research activity in universities. SE’s specific focus will be on the application of this R&D by businesses.

Investment: creating the right conditions for growth companies and industries to have access to property, markets and finance to help them grow.

- This will help meet the Government’s ‘national outcome’ so that we live in a Scotland that is the most attractive place for doing business in Europe.
Scottish Enterprise aims to have a positive influence on these indicators, but accounting for (or "attributing") the direct impact of our activity on them is not straightforward as some of these interventions will have more immediate (short term) impacts whilst other interventions will impact over the longer term.

Recent consideration by Audit Scotland has shown that Scottish Enterprise is well advanced in this area. We use a range of techniques to help achieve this, including project appraisal, evaluation and customer survey. For example, we assess the contribution of all of our projects to Scotland’s GDP/GVA. For both the **companies** we support and the **industries** we prioritise we measure the following:

- Enterprise: **turnover we help to grow**;
- Innovation: **R&D we help to stimulate**;
- Investment: **investment we help to lever**.

**Measuring our direction of travel**

- Where it is possible to quantify our more immediate contribution to the Government’s purpose, we identify "in-year" measures of progress.

These will also help to ensure that we can demonstrate the value of what we are delivering to business customers, partners, parliamentarians and the general public in an accessible way. They should be seen alongside our wider, longer-term contribution to the Government’s purpose with more qualitative progress achieved through the full set of projects and programmes in this plan.
### Summary of “in-year” measures

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth businesses supported*</td>
<td>1,900 - 2,100</td>
</tr>
<tr>
<td>Additional turnover growth in businesses supported</td>
<td>£400m - £600m</td>
</tr>
<tr>
<td>Growth businesses increasing their sales turnover by £1m+ in the previous 3 years</td>
<td>800 – 1,000</td>
</tr>
<tr>
<td>Major high growth start-ups (including spin outs) with potential to reach a value of £5m (£2m GVA) in 3 years</td>
<td>20 - 30</td>
</tr>
<tr>
<td>Planned jobs through inward investment of a high value nature</td>
<td>1,800 - 2,400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Innovation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in R&amp;D by supported businesses</td>
<td>£50m - £60m</td>
</tr>
<tr>
<td>High value knowledge transfers between business and academia supported (collaborations, licences, joint ventures)</td>
<td>18 - 23</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector leverage invested per deal through SE Investment Funds</td>
<td>1:2 to 1:3</td>
</tr>
<tr>
<td>Leverage from investment leveraged on site in high impact business infrastructure projects</td>
<td>1:2 to 1:2.5</td>
</tr>
</tbody>
</table>

* This represents 50% of Scotland’s companies with growth potential, that need our help to realise that potential. Technical notes on the targets and how they each relate to the Government’s purpose and GES targets are available.
In addition to Government Economic Strategy economy-wide measures, the relevant national indicators and the in-year measures identified above we will include a selection of other indicators which help us better understand the drivers of economic growth and monitor the delivery of our business:

- GDP per head
- Business R&D as % total R&D
- Graduates as % of the population
- Net migration as a % of the population.

**Going Forward**

What matters are the outcomes that are delivered by SE and how they contribute to the Government’s purpose. SE recognises the challenge that Government has set with the Government Economic Strategy purpose and further work is being conducted to measure SE’s direct contribution to the National Performance Framework. Specifically in relation to our work with priority industries, we aim to measure the direct contribution Scottish Enterprise can make, along with partners, to each industry. However, there is already a clear “line of sight” between these measures, the Government Framework and wider Government targets. Consideration is also being given to accounting for SE’s contribution to the “Single Outcome Agreements” of local authorities.
Strong Business Engagement

Business engagement will continue to be an essential part of how Scottish Enterprise identifies opportunities for supporting business and economic growth. Scotland and Scottish Enterprise has benefited greatly from the willingness, enthusiasm and participation of Scotland’s business community locally, nationally and internationally. It is essential that this engagement continues to influence what Scottish Enterprise delivers.

The Scottish Enterprise board, mainly made up of experienced business people, will continue to guide our activities. We are also committed to strengthening and developing the work of Industry Advisory Boards for each of the priority industries. These Boards led by industry leaders will help inform both us and other partners on how we can contribute to the growth of their industry based on the real demands and growth potential that can be realised. The Boards will articulate the ambitions of the industry and place demands for support from the constituents of the public sector. For example:

- Continued close working with the Tourism Forum, VisitScotland and HIE to support the tourism industry strategy ‘Tourism Framework for Change’ which aims to grow tourism revenue by 50% by 2015.
- The Financial Services Advisory Board whose strategy sets explicit requirements from not just Scottish Enterprise but also transport, and education in order to meet the aspirations of their industry.
We will also establish five new Regional Advisory Boards following the wind up of the local enterprise companies and the creation of our new single organisation. Regional Advisory Boards will consist primarily of business representatives but will also include representatives from local authorities and the tertiary education sector. These Boards will help identify projects and programmes in response to industry demand which takes advantage of local opportunities.

**Working with public sector partners**

*As a small country, Scotland’s public sector can utilise more effectively its potential advantages of speed in decision-making, nimbleness and co-ordination.*

The Government Economic Strategy

The Scottish Government’s Economic Strategy recognises that a number of public sector bodies have a shared responsibility in supporting businesses deliver Scotland’s economic prosperity. Scottish Enterprise most certainly cannot deliver the Scottish Government’s ambitious growth targets on its own. We will therefore continue to work closely with our public sector partners to ensure a joined up approach to meeting the objectives of the Government’s economic strategy.

For example:

- We will work closely with the newly formed Skills Development Scotland and continue to work with Higher and Further education to ensure the skills demands of Scotland’s key sectors are fully articulated and addressed.
- We will work increasingly closely with HIE. This will include developing consistent models for the delivery of account management services and joint working with priority industry sectors.
- Internationally through Scottish Development International (SDI), a joint venture with HIE and the Scottish Government, we will continue to focus on the internationalisation of Scottish businesses and the attraction of high value opportunities to Scotland. Through Globalscots and our International Advisory
Board we will also look to harness the skills, experience and goodwill of the Scottish diaspora for the benefit of Scottish businesses.

- We will develop a new relationship with Local Government which builds on the distinctive but complementary capabilities of both parties.

For example:

- In supporting individuals to start businesses, Local Authorities will now lead on providing this service through Business Gateway. This will be overseen by the Business Gateway management board which will have business representation to ensure it is responsive to the real demands of customers and that there are robust arrangements in place for identifying and nurturing companies with exponential growth potential.

- Responsibility for local regeneration has been transferred to Local Authorities but we will continue to work collaboratively with them on specific business infrastructure projects which have a national or regional impact e.g. Clyde Waterfront, to ensure the collective effort achieves significant outcomes for increasing sustainable economic growth.

- Scottish Enterprise will also work closely with Europe for the benefit of Scotland, particularly as a strategic delivery body for applying European Structural Funds. For example £24million of European Funding has already been channelled into improving the risk capital market in Scotland through the Co-Investment Fund with further significant EU funds being sought to continue this successful investment vehicle.
Efficient and Effective Delivery

To deliver our priorities as efficiently and effectively as possible, Scottish Enterprise has simplified its governance and management structures and created a more flexible workforce which can anticipate customer needs and adapt to changing global market conditions. This means increasing the proportion of staff who are customer facing and ensuring more staff are deployed nearer to our customers, while also reducing the numbers of senior management across the organisation. Overall, on a like for like basis over the past five years we will have reduced the headcount from 2,000 to 1,100 while increasing productivity.

Although local enterprise companies will no longer exist after 1 April 2008, we will continue to operate locally. These changes are designed to deliver more integrated services and a consistent high quality service to growth business customers no matter where they are based.

We will continue to look at improving the efficiency and cost of our operations and vigorously pursue the scope for shared services with other public sector agencies.

We carried out a Strategic Environmental Assessment of our 3 year plan last year and we will continue to implement the actions from this as well as developing a carbon neutral implementation framework.

We will contribute to work to improve the environmental performance of the public sector under the Scottish Government’s Greener Strategic Objective, by increasing efforts to `Green` our own operations, building on previous environmental management work.
## Appendix 1

How Scottish Enterprise contributes more widely to the Government Economic Strategy

<table>
<thead>
<tr>
<th>The Government Economic Strategy</th>
<th>Examples of SE’s Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Learning Skills &amp; Well-Being</strong></td>
<td></td>
</tr>
<tr>
<td>Supply of education and skills which is responsive to, and aligned with, actions to boost demand.</td>
<td>Promote skills utilisation and stimulate skills demand from business and industries, support organisational development and leadership development in growth businesses.</td>
</tr>
<tr>
<td>Creation of the conditions for talented people to live, work and remain in Scotland.</td>
<td>Attract and retain key talented individuals to Scotland in priority industries, promote Scotland overseas as a place to do business and further your career.</td>
</tr>
<tr>
<td><strong>Supportive Business Environment</strong></td>
<td></td>
</tr>
<tr>
<td>Responsive and focused enterprise support to increase the number of highly successful, competitive businesses.</td>
<td>Support to growth companies including access to risk capital, leadership skills.</td>
</tr>
<tr>
<td>Targeted support to business in the pursuit of opportunities outside of Scotland and the development of internationally competitive firms.</td>
<td>Support high growth companies to internationalise and attract value add to Scotland through Foreign Direct Investment.</td>
</tr>
<tr>
<td>Broader approach to business innovation in Scotland that moves beyond viewing innovation as the domain of science and technology alone.</td>
<td>Support innovation in business in products, services and business models. Develop innovation system in key sectors e.g. tourism, financial services.</td>
</tr>
<tr>
<td>Clear focus on strengthening the link between Scotland’s research base and business innovation and addressing low levels of business R&amp;D.</td>
<td>Ensure innovation developed in Scotland is exploited by business e.g. ITIs, Proof of Concept, Enterprise Fellowships.</td>
</tr>
<tr>
<td>Particular policy focus on a number of key sectors with high-growth potential and the capacity to boost productivity.</td>
<td>Focus on the real demands of Priority Industries to ensure growth potential is realised.</td>
</tr>
<tr>
<td>The Government Economic Strategy</td>
<td>Examples of SE’s Contribution</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td><strong>Infrastructure Development and Place</strong></td>
<td></td>
</tr>
<tr>
<td>Focus investment on making connections across and with Scotland better, improving reliability and journey times, seeking to maximise the opportunities for employment, business, leisure and tourism.</td>
<td>Addressing the demands/ opportunities to growth key sectors pan Scotland. Work with Transport Scotland to Influence transport policy to support growth.</td>
</tr>
<tr>
<td>Planning and development regime which is joined up, and combines greater certainty and speed of decision making within a framework geared towards achieving good quality sustainable places and sustainable economic growth.</td>
<td>Support the development of business Infrastructure focused on priority industries and growth companies. Lead on national and regional regeneration to support economic growth.</td>
</tr>
<tr>
<td><strong>Effective Government</strong></td>
<td></td>
</tr>
<tr>
<td>More effective government with a clear focus on achieving higher levels of sustainable economic growth through the delivery of the Purpose and five Strategic Objectives.</td>
<td>Continue to deliver year on year efficiencies, shared services with SDS, HIE and VisitScotland, greater leverage from private sector.</td>
</tr>
<tr>
<td>Streamlining the Scottish Government’s direct dealings with business, including better regulation and more efficient procurement practices.</td>
<td>Procurement policies.</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
</tr>
<tr>
<td>To provide the opportunities – and incentives – for all to contribute to Scotland’s sustainable economic growth.</td>
<td>Promoting Corporate Social Responsibility with companies and look for win/ wins in all our activities where through supporting growth we can also address equity e.g. LOAN (linking opportunity and need), support social enterprises with growth potential.</td>
</tr>
<tr>
<td>To accord greater priority to achieving more balanced growth across Scotland, to give all across Scotland the chance to succeed.</td>
<td>Lead on national business infrastructure e.g. Clyde Waterfront, and support growth in rural economies e.g. tourism potential in rural areas.</td>
</tr>
<tr>
<td>To promote economic growth and environmental quality and responsibility as mutually advancing.</td>
<td>Actively support the development of a renewable energy industry [e.g. wind, wave, bio-fuels, waste management]. Support growth businesses to achieve growth through business resource efficiency and waste minimisation.</td>
</tr>
</tbody>
</table>
# Appendix 2

## Developing A Focussed Approach: Creating Opportunity And Responding To Industry Demand

<table>
<thead>
<tr>
<th>Economic Strategy Key Sectors</th>
<th>Examples of Scottish Enterprise Focus</th>
</tr>
</thead>
</table>
| Energy (with particular focus on renewables) | - Support to growth businesses and internationalisation of supply chain  
- Attraction of inward investment  
- Capture ‘Energy Technology Institute’ benefits  
- Investment in test facilities e.g. European Marine Centre, Hydrogen Centre, Fuel Cells, Power Networks  
- Offshore wind fabrication  
- Intermediary Technology Institute  
- Leverage energy park investments e.g. Fife Energy Park, Energetica |
| Financial and Business Services | - Support to growth businesses including international promotion and profile  
- Attraction of high value financial services jobs  
- Supply chain development e.g. software support  
- Increase collaboration with universities e.g. informatics  
- Maximise current assets e.g. international financial services district in Glasgow  
- Encourage critical investment by others e.g. Edinburgh - Glasgow rail |
| Food and Drink (including agriculture and fisheries) | - Retain and develop growth businesses  
- Support food and drink industry networks  
- Food and Health Innovation Centre  
- Food Tourism  
- Access to finance for innovation  
- Collaborative supply chain centre of excellence |
| Life Sciences (including bio-technology and translational medicine) | - Support growth businesses including spin outs  
- Intermediary Technology Institute  
- Translational Medical Research Centre  
- Stem Cells  
- Predictive Medicine  
- Access to equity funds  
- Specialist Venture Capital attractions  
- Leverage existing physical investment e.g. Edinburgh BioQuarter, Beatson in Glasgow, Southern General; Western Dundee |
### Economic Strategy
#### Key Sectors

<table>
<thead>
<tr>
<th>Tourism</th>
<th>Transportation Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example of Scottish Enterprise Focus</td>
<td>Tourism business support</td>
</tr>
<tr>
<td></td>
<td>Innovation toolkit and fund</td>
</tr>
<tr>
<td></td>
<td>Development of products e.g. golf, food, whisky, forest tourism</td>
</tr>
<tr>
<td></td>
<td>Destination plans e.g. national park, Edinburgh, Glasgow</td>
</tr>
<tr>
<td></td>
<td>Resort inward investment</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Creative Industries (including digital content and technologies)</th>
<th>Support to growth businesses in digital media and technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Leverage investment in existing physical infrastructure e.g. develop the international attractiveness of Pacific Quay to digital media companies and related technologies.</td>
</tr>
<tr>
<td></td>
<td>Work with Creative Scotland to grow the industry</td>
</tr>
<tr>
<td></td>
<td>Exploit specific areas of opportunity where organisations in Scotland have particular competencies in markets with growth potential e.g. television production</td>
</tr>
<tr>
<td></td>
<td>Through international benchmarking understand the characteristics of creative industries that attract investment</td>
</tr>
</tbody>
</table>

### Financial Summary

#### Income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total funds available</td>
<td>329</td>
<td>297</td>
<td>289</td>
<td>283</td>
</tr>
<tr>
<td>Made up as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant</td>
<td>265</td>
<td>236</td>
<td>220</td>
<td>218</td>
</tr>
<tr>
<td>EU funds</td>
<td>9</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Property disposals</td>
<td>25</td>
<td>25</td>
<td>33</td>
<td>29</td>
</tr>
<tr>
<td>Property income</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Co-investment Fund</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Other business income</td>
<td>12</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
</tbody>
</table>
## Investment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Enterprise</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth Businesses</td>
<td>75%</td>
<td>32</td>
<td>30</td>
<td>30</td>
<td>31</td>
</tr>
<tr>
<td>Internationalisation</td>
<td>90%</td>
<td>21</td>
<td>21</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Business Environment</td>
<td>40%</td>
<td>17</td>
<td>14</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td><strong>Innovation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ITIs</td>
<td>100%</td>
<td>53</td>
<td>38</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Growth Businesses</td>
<td>75%</td>
<td>15</td>
<td>18</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Commercialisation</td>
<td>90%</td>
<td>18</td>
<td>17</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>Innovation System</td>
<td>90%</td>
<td>20</td>
<td>18</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Infrastructure**</td>
<td>60%</td>
<td>49</td>
<td>43</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>Investment Funds***</td>
<td>80%</td>
<td>11</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Customer facing staff</td>
<td></td>
<td>44</td>
<td>41</td>
<td>40</td>
<td>39</td>
</tr>
<tr>
<td><strong>TOTAL DELIVERY</strong></td>
<td></td>
<td>280</td>
<td>260</td>
<td>256</td>
<td>252</td>
</tr>
<tr>
<td>Research and Development</td>
<td></td>
<td>12</td>
<td>10</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Premises, IS &amp; other support costs</td>
<td></td>
<td>37</td>
<td>27</td>
<td>24</td>
<td>22</td>
</tr>
<tr>
<td><strong>TOTAL SE (cash basis)</strong></td>
<td></td>
<td>329</td>
<td>297</td>
<td>289</td>
<td>283</td>
</tr>
<tr>
<td>Non - cash</td>
<td></td>
<td>35</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td><strong>TOTAL SE (resource basis)</strong></td>
<td></td>
<td>364</td>
<td>327</td>
<td>319</td>
<td>313</td>
</tr>
</tbody>
</table>

* Rebased figures exclude resources transferred following the review of the Enterprise Networks: ie, Future Skills Scotland; Skills Development Scotland; local regeneration and Business Gateway.

** Business infrastructure includes expenditure on Scottish Enterprise’s property portfolio, transport & investment in URCs.

*** Investment funds include an estimated £10m pa of expenditure financed through the Scottish Co-investment Fund, towards which EU Structural Funds approved support of £32m in March 2008.
If you require this publication in an alternative format and/or language please contact the Scottish Enterprise Helpline on 0845 607 8787 to discuss your needs.

Many projects operated by Scottish Enterprise are part-financed by the European Union.
Introduction

Attached is the HIE Operating Plan 2008-11, which sets out the agency’s priorities, budgets and targets for the plan period in pursuit of the objectives of the Government Economic Strategy (GES). This cover paper also summarises progress on a number of issues which were discussed with the Committee when HIE gave evidence on 28 November 2007.

Operating Plan

Section 1 of the Plan describes how the GES challenges need to be tackled in the Highlands & Islands in pursuit of sustainable economic growth. Section 2 explains HIE’s approach to doing this by focussing effort on:

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

In Section 3, the targets for HIE’s transformational projects (and their respective contributions to GES targets) are laid out, together with the growth measures for HIE’s enterprise programmes in the High-Growth Businesses and Strengthening communities fields. This section also contains the outline budgets for the three years of the planning cycle, including the anticipated reductions in operating costs through efficiency savings.

Business Gateway

Detailed planning work for the introduction of Business Gateway in the Highlands & Islands continues, with the new arrangements likely to take effect towards the end of financial year 2008/09.

Skills Development Scotland

On 1 April, around 170 people (150 posts) transferred to Skills Development Scotland. The vast majority of these remain co-located with their former HIE colleagues and HIE continues to provide a range of services to the SDS staff on behalf of their new employer. Transferring staff who were members of the HIE Superannuation Scheme have been allowed to remain within the Scheme during a
transition period of up to twelve months, pending the conclusion of discussions on long-term SDS pension arrangements.

**Voluntary Severance Scheme**

At the end of March, 59 members of staff left HIE under a Voluntary Severance Scheme. The total cost of the Scheme was £4.4m. This figure includes £2.5m which was paid into the HIE Superannuation Scheme to meet the claims of those who were leaving and eligible to claim early retirement payments. The payback period is estimated to be approximately 2 years.

**Going Forward**

The last twelve months have seen significant change in Highlands & Islands Enterprise, which is now clearly focussed on building sustainable economic growth across the area it serves. HIE’s activities will support high-growth businesses and sectors; help to improve the competitiveness of the region in attracting ideas, investment and people; and strengthen communities through growth. With an annual budget of £85-90m and around 350 staff, HIE is playing a key part in addressing the development challenges of the Government Economic Strategy.
OPERATING PLAN
2008-11
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INTRODUCTION

The Government Economic Strategy (GES) was published in November 2007, signalling significant change in the role and focus of Highlands and Islands Enterprise (HIE). The messages in this document reinforce those announced by John Swinney, Cabinet Secretary for Finance and Sustainable Growth, in the review of the enterprise networks in September 2007, which stated that HIE should be “encouraging investment and innovation for companies and sectors with growth potential and that are of national or regional significance and developing transformational projects with a national or regional impact”. The Cabinet Secretary also confirmed that HIE would continue to deliver its responsibilities with regard to Strengthening Communities.

With a unique remit, encompassing economic and community development, HIE has a key role to play in helping to achieve the overall purpose of GES in the Highlands and Islands:

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;

and to assist in the delivery of the five strategic objectives for Scotland:

- Wealthier & Fairer;
- Smarter;
- Healthier;
- Safer & Stronger;
- Greener.

GES identifies five challenges facing Scotland:

- Raising the economic growth rate;
- Improving the poor productivity performance;
- Extending the high participation rate;
- Encouraging population growth;
- Improving social, regional and intergenerational equity.

Our efforts to address these challenges will reflect the following five Strategic Priorities from GES that are internationally recognised to be critical to economic growth.

- Learning, Skills and Well-being;
- Supportive Business Environment;
- Infrastructure Development and Place;
- Effective Government;
- Equity.

The Government Economic Strategy provides the framework for increasing sustainable economic growth. The contribution HIE will make towards implementing the national strategy is articulated in this Operating Plan. The plan reflects the budgetary position, organisational changes and transfer of responsibilities to local authorities and Skills Development Scotland stemming from the enterprise networks review and strategic spending review. It outlines our investment priorities for the three-year period from April 2008 to March 2011 and details how the organisation will focus its efforts to meet the aspirations for the region in line with the Government's overarching purpose.

All of these factors together have resulted in a fundamental change in Highlands and Islands Enterprise, which is focussed as never before on building sustainable economic growth across the area it serves. From Shetland to Argyll and from the Hebrides to Moray, HIE’s activities will support high-growth businesses and sectors; help to improve the competitiveness of the region in attracting ideas, investment and people; and strengthen communities through growth. With an annual budget of £85-90m and around 350 staff over the next three years, HIE is ready to play a key part in delivering the Government’s targets for sustainable economic growth.
SECTION 1
IMPLEMENTING GES IN THE HIGHLANDS AND ISLANDS

This section sets out the scale and nature of the challenge we face to increase sustainable economic growth in the Highlands and Islands. 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.

<table>
<thead>
<tr>
<th>Increase productivity and competitiveness</th>
<th>Stimulate economic participation</th>
<th>Stimulate population growth</th>
</tr>
</thead>
</table>

Increased GDP Growth

Ensure that growth is shared and sustainable

Solidarity: reduce inequalities across all individuals

Cohesion: reduce the disparity between the regions of Scotland

Sustainability: enhance the environment and reduce emissions

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 critical requirements for building further economic growth in the Highlands and Islands were discussed and developed at the Convention of the Highlands and Islands held at Fort William in October 2007. The key drivers of regional competitiveness over the coming years were seen as:

- **Population:** to achieve a growing population in every part of the area will require active promotion, combined with creation of the conditions which will allow population to grow. These include availability of employment, housing, schools, healthcare and the many other factors which convey quality of life to those thinking of staying or locating in the area.

- **Economy:** to widen the employment base, with higher economic activity rates and rising income levels, we require the propulsive businesses of the area to grow significantly over time through sustained increase in turnover, productivity and profitability. Equally, new business creation and inward investment will have a major part to play in bringing new economic activity.

- **Linkages:** to improve physical connectivity will need investment in the major transport projects which will bring step-changes in access. Electronic communications are also of huge importance and continuous investment will be required, as technologies are superseded and expectations rise.

- **Universities:** the UHI’s potential contribution to the Highlands and Islands is massive, but we require to press on beyond the acquisition of title to build a high-quality institution, distinctive in its form but capable of transforming the economic, academic and demographic profile of communities.

- **Services:** to sustain good quality services throughout the region, adapted to Highlands and Islands conditions, we need to seek equivalence with the level and standard of services delivered elsewhere. Increasingly, this will offer opportunity for innovation and flexibility so that the design and delivery of services is developed to match the needs of rural communities.
• **Communities:** to give local communities greater involvement in the shaping of their own futures will build on the impetus given by community land and energy developments. The ability of communities to become involved in revenue-generating projects is becoming an important driver, allowing wider community benefits to be realised from the income stream.

• **Prospects:** one of the most notable trends of the last generation has been the growth in confidence across large parts of the area. Building on that momentum will further benefit the region, but efforts will need to continue in those fragile areas where confidence is at lower levels.

**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 in an increasingly competitive economic environment is very important to maintain employment, income impacts and profits. This will help to encourage further business investment and spending, both of which are critical in sustaining economic growth. In order for the Highlands and Islands to make an increasing return to Scotland, output per worker will have to rise substantially. This will require the most successful local businesses to increase their output by expanding into new markets and for new sectors of the economy to mature and realise their full potential. Inward investment will also have a major part to play in bringing new, higher value-added economic activity to the region.

Through our account managed businesses, improving the skills base of the workforce will also form a constituent part of our response to the productivity challenge. More skilled workers produce higher value-added products and as a result can command more competitive salaries. The size of the workforce also needs to increase in order to realise sufficient productivity gains. This will require a steady stream of economically active in-migrants. Sustaining such a flow will require considerable investment in infrastructure, including new housing, transport and utilities provision which will need to be developed in a way that minimises impact on the environment.

**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 actually in employment. The area also has relatively high business start-up and self-employment rates, demonstrating the region’s entrepreneurial potential. However, while these statistics provide a strong base from which to grow, they mask underemployment with qualified and capable people employed in jobs that do not utilise their full range of abilities. Many small businesses do not offer scope for promotion or increased responsibility for ambitious staff and the lack of critical mass in terms of the scale of the economy limits its appeal as a business centre.

Whilst the unemployment rate in the Highlands and Islands is at a historic low, some sectors are constrained by general labour shortages and the out-migration of young people seeking better employment opportunities elsewhere. These issues are felt across the Highlands and Islands but are more prevalent in island communities. The incidence of long-term unemployment varies considerably between different parts of the Highlands and Islands but is more acute in peripheral and island areas. Long-term unemployment can be exacerbated by problems of remoteness and access to opportunity where private transport is often a necessity for travel to work.

Social enterprises play an important part in the economic vitality of the Highlands and Islands, particularly in remote and rural areas where smaller populations and a smaller customer base make provision of some services expensive for the public sector and unprofitable for the private sector. In many areas, social activity is crucial to the sustainability of communities as well as a route to economic and social well-being. The sector is important in providing opportunities to increase economic participation and improved quality of life, especially in remote mainland and island areas.
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 set out in the Government Economic Strategy, we need to undertake measures that will ensure there is population growth in every part of the region and that overall, the population rises to around half a million within a generation. We will need to sustain the regional demographic trends of the last few years over a long period and re-double our efforts to stem population loss from the more fragile areas. Vital to the future well-being of the area will be its ability to attract new residents and to retain young people through the provision of higher education opportunities, high-value added jobs and affordable housing. Success in attracting population will be equally dependent on the creation of dynamic, creative communities offering enhanced amenity and quality of life.

One of the major constraints to achieving sustained economic growth in the Highlands and Islands remains inadequate, outdated or limited infrastructure. The physical geography and low population density of the area present difficulties for transport links, housing provision, electronic communications and educational and community facilities for the more remote communities.

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 actively promoting our services to the most disadvantaged and peripheral within our communities. There is no single answer to the low earnings challenge facing large 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 remain close to our communities, we will maintain a strong local presence in all of the local economies, working in close partnership with the local authorities and other agencies. Our focus on social enterprise, and community leadership initiatives will ensure alignment with the Government’s social equity agenda.

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). A comprehensive review of the fragile areas and areas of employment deficit was undertaken in late 2007 using updated demographic, geographic and economic indicators.

Fragile areas are characterised by weakening of communities through population loss, low incomes, limited employment opportunities, poor infrastructure 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 or 13% of the region’s population.

Over 56,000 residents or 13% of the Highlands and Islands population are domiciled within designated fragile areas. These economically and socially disadvantaged parts of the Highlands and Islands account for 21% of the Scottish land mass but have a population density of just 3 people per square kilometre. This compares with 16 people per square kilometre in the non fragile parts of the Highlands and Islands and 130 people per square kilometre in the rest of Scotland. This contrasts with Glasgow City, which accounts for some 3,493 people per square kilometre, the highest population density in Scotland.
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, on and off-shore 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.
Figure 1: Area Challenges

Area Challenges 2008

- Fragile areas
- Areas of employment deficit
SECTION 2
DEVELOPING A COMPETITIVE REGION

Focus of Activities

To improve the region’s performance and its contribution to the economic growth of Scotland, HIE will deliver an integrated strategic approach to development, focusing its activities under three broad headings:

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

A summary of HIE’s activities under these three headings is presented below, illustrating the main areas of emphasis for the organisation. While the headings will form a basis for high-level budgetary allocation, the emphasis will be on integration of effort across the three to ensure that HIE’s interventions are best suited to driving economic growth in the different economies of the region.

HIGH GROWTH BUSINESSES

HIE’s interventions under this theme will make a material impact on the strategic priority ‘Supportive Business Environment’ by providing responsive and focused enterprise support to high growth businesses.

Business growth activity will also contribute to the following strategic challenges highlighted in the Government Economic Strategy:

- Economic growth – increasing the economic impact of identified priority businesses.
- Population – creation of high value jobs in tight labour markets, fuelling in-migration.
- Productivity – achieving more productive, more profitable and more valuable businesses in all parts of the region.

Support to high growth businesses is vital to building sustainable growth and achieving our strategic outcome of a population of dynamic and growing businesses with a culture of innovation and sustainability in the six key sectors. Successful businesses not only contribute directly to economic performance but also underpin our communities.

Following the transfer of responsibility for local business development (Business Gateway) to the local authorities, HIE will focus on those industries and businesses which have the highest growth potential and where that potential can only be realised with our assistance.

To increase the economic impact of identified priority businesses, our approach will be based on an Account Management model, designed to support new businesses, existing businesses and inward investment which offer the potential to contribute significantly to the growth of the local, regional and national economies. This model will build on our existing knowledge of the key businesses within the region as well as requiring a close working relationship with local authority colleagues involved in the running of Business Gateway – a vital source of new, high growth businesses in key sectors. HIE’s Account Management model will incorporate the best practice of Scottish Enterprise’s approach to support high growth businesses.

Key businesses will be identified through a segmentation process using criteria including: sector, turnover/scale, productivity/output per worker, economic linkages, significance to local/regional/national economies and more subjective elements including growth potential. HIE will seek to establish 500 account managed relationships by 2011.

Following the launch of the new strategy, HIE commissioned an external review to assess the appropriateness of the organisation’s small grants to businesses. The review concluded that very small grants were unlikely to have a material effect on the overall economic strategy as the organisation seeks to secure businesses of greater scale and added value under the “wealthier and fairer” objective of the economic strategy. Furthermore, there are a number of commercial opportunities for gaining funding in the market, and across all the larger population settlements there is sufficient interest from the banking sector to ensure a competitive market place.

Incorporating the key recommendations from this review, HIE will set a minimum intervention level for capital investment at £25,000. We do, however, recognise that access to funding is more difficult in fragile areas. To address this market failure, HIE will continue to provide discretionary support in these areas with a minimum intervention level for capital support to be set at £5,000 per application. Financial support for non-capital items will continue, irrespective of business location, with no minimum levels of intervention. HIE will continue to support business applications for selective items of a non-capital nature, particularly in those areas identified as...
making significant contribution to business competitiveness eg research and development, innovation, market research and leadership development. Rigorous appraisal will be applied to all non-capital applications to ensure that they are truly driving economic growth.

In order to contribute to the strategic target of lowering emissions levels by 2011, HIE will ensure that resource efficiency will be addressed through the development of business growth plans, helping to break the link between emissions and economic growth.

HIE will act to increase external investment in Highlands and Islands businesses by encouraging firms to see the benefits of securing additional funding for their businesses, supporting private sector investors such as venture capital funds and business angel groups and by investing alongside these investors in appropriate cases. A close working relationship with the providers of other public sector funding sources such as Regional Selective Assistance and SMART: SCOTLAND will also help increase the level of investment in the regional economy.

In order to maximise the impact of available resources, we will seek to increase leverage from other funding sources. Structural funds continue to be a key source of additional investment and HIE will act as a Strategic Delivery Body with responsibility for enhancing business competitiveness, commercialisation and innovation.

The National Performance Framework clearly states the Government’s target to grow exports at a faster average rate than GDP. A highly competitive Highlands and Islands economy hinges on extending involvement in global markets. That means working with high growth firms to internationalise perspectives and significantly extend the number and range of international business activities. We will continue to build awareness of relevant new opportunities and deliver effective support from first-time engagement to new products and new markets and ultimately to developing global companies. Scottish Development International will be a critically important element in our success in this area. HIE will enhance its contribution to the overall achievements of Scottish Development International, a joint venture between the Scottish Government, Scottish Enterprise and HIE.

Reflecting the Government's Economic Strategy and its intent to broaden the approach to innovation and strengthen the link between business and research, HIE's activity will focus on four areas. Through account management, we will influence businesses to recognise the benefits of innovation and thus generate more investment in R and D to support growth. We will continue to work with UHI to derive the maximum benefit from its developing research base through knowledge transfer to growth businesses. In addition, we will work with other universities and organisations including MIT, BT and Cisco to capitalise on their specialisms and expertise. Finally, HIE will continue to develop an infrastructure to support innovation by fostering networking between entrepreneurs, intermediaries and researchers.

**Key Sectors**

In order to contribute to the expansion of Scotland's areas of international comparative advantage, HIE will give particular attention to building a critical mass of activity in the key sectors identified within the GES, helping to create the right environment for their competitiveness and growth. We will work collaboratively with Scottish Enterprise (and in the case of tourism with Visit Scotland) to develop a shared vision for each sector at the national level, and establish mechanisms for measuring progress towards agreed national and regional objectives. We will also work with Skills Development Scotland to identify and address the challenge of attracting and retaining the talented workforce required to ensure these sectors realise their full potential. The key sectors with which we will work are:

**Creative Industries:** The creative industries, including digital content and technologies, are one of the world's fastest growing sectors and are an increasingly important sector in the Highlands and Islands. Globally, the sector tends to be dominated by urban centres, but freelance and micro businesses share the market with major multinationals. Business units are informal and scale in the industry tends to be created through networks, not individual companies. HIE will focus on working with local industry partners to grow the sector and, through industry showcasing, create local, national and international networks that will offer access to new skills and new markets. In this, we will work in partnership with the proposed new cultural development body, Creative Scotland.

**Energy:** The resources of the Highlands and Islands constitute the greatest abundance of potentially exploitable renewable energy resources in the UK including wind, wave, tidal and biomass. HIE's work in the sector is focussed on the region becoming an exemplar through the continuing development of a world class industry in sustainable and renewable energy using our people, knowledge, natural resource and technology for the economic and social benefit of the Highlands and Islands and for Scotland as a whole. This will be achieved through working in partnership with stakeholders throughout the region and beyond. Key areas of focus for HIE will be supporting industry capacity building, awareness raising and education, supporting research and development activity, ensuring appropriate skills in the region and influencing the direction of policy affecting the sector.
The oil and gas sector and related engineering activities also offer significant development opportunities. With the oil price at over $100 a barrel, prospects for developing smaller fields in the North Sea and major new finds in the West of Shetland basin are increasing. These opportunities include the potential for major new investment at the Sullom Voe terminal to secure Atlantic margin gas fields, and supply opportunities from Shetland, Caithness (Scrabster/Wick) and the Western Isles. The Invergordon IRM base and potentially the yards at Nigg and Arnish are also likely to benefit from continuing high oil prices and security of supply issues.

**Financial and Business Services:** Scotland has a major competitive advantage in financial and business services, however, the sector is at present significantly under-represented in the Highlands and Islands. The region is already host to a small number of operators including Cap Gemini Ernst & Young (CGEY) in Inverness, Vertex in Dingwall and Forres, plus Telecom Service Centres (TSC) in Aviemore. CGEY in Inverness undertake a range of IT functions, employing 300 people, whilst the TSC Aviemore office is a 120 person back office for HSBC. Vertex in Dingwall undertakes administrative functions for Westminster Council. HIE’s own data centre in Benbecula provides financial processing services for the organisation and illustrates the benefits that employment in this sector can bring to island communities. HIE will work to identify other areas of activity where the Highlands and Islands can contribute to Scotland’s success in this sector.

**Food and Drink:** Food processing and the primary sectors, including agriculture, aquaculture and fisheries are a vital component of the overall economic base and rural populations in the Highlands and Islands. The industry supports up to 23,000 FTEs in the region and contributes £1 billion in exports. HIE has identified the following priorities: developing management and workforce skills; building collaborative supply chains; improvement of industry communications and addressing environmental sustainability. Activity will include structured programmes such as “Planning to Succeed” for farmers, learning journeys for processing businesses, development of local forums and business clusters, and carbon footprint research and development.

**Life Sciences:** The life sciences sector in the region is currently dominated by one major business in Inverness, with 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. Strong growth opportunities have been identified in marine bio-discovery, natural products, mental health, diagnostics, medical devices plus remote and rural health. There is also huge potential for the cross fertilisation of ideas and collaboration between the health sciences, food and drink and manufacturing/engineering sectors, for example nutraceuticals/functional foods, medical devices, robotics and tele-health. HIE will work with key stakeholders to capitalise on emerging opportunities in this key sector.

**Tourism:** The tourism sector is disproportionately important to the Highlands and Islands. It employs 13% of the workforce and with only 8.6% of Scotland’s population, yields more than 20% of Scotland’s tourism revenue. HIE will work with the sector and key partners with the shared aspiration of growing the sector by 50% by 2015. Our priorities for tourism include strengthening business leadership and productivity capabilities, helping businesses of all sizes to be internationally competitive, and assisting world class destination development in key areas to create an excellent overall visitor experience. These priorities require a wide range of development activity, including tourism e-business, management, leadership and workforce development, market intelligence support and aiding effective business collaboration.

**Measuring HIE’s Contribution**

HIE’s activities in support of High Growth Businesses are undertaken in pursuit of the GES strategic challenges listed at the head of this section. Transformational projects under the Growth Businesses heading are:

<table>
<thead>
<tr>
<th>Inward Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Main GES contributions – <strong>Economic growth, Productivity, Population.</strong></td>
</tr>
<tr>
<td>• Target – Attract six significant high growth business inward investment projects in line with new strategic priorities and identified key sectors.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Main GES contributions – <strong>Economic growth, Productivity.</strong></td>
</tr>
<tr>
<td>• Target – Work with Scottish Government and SEn to develop a shared vision for each of the key sectors at national level and establish mechanisms for measuring progress towards agreed national and regional objectives.</td>
</tr>
</tbody>
</table>
Programme targets are also set to reflect the contribution which the activities will make to the achievement of the GES targets. The measures for the key programmes are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<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>
</tbody>
</table>

*Target under development

**REGIONAL COMPETITIVENESS**

HIE’s Regional Competitiveness activities are focussed on increasing sustainable economic growth at the regional level, evidenced primarily through increased GDP growth decoupled from greenhouse gas emissions. Given the challenges the region faces and the current structure of the economy, strategic investments in transformational projects will be required in order to bring about the impacts to which we aspire. Over time, these investments will contribute significantly towards the following GES strategic challenges:

- **Economic growth** - increasing the size of the area’s contribution to Scotland’s growth.
- **Productivity** - raising the competitiveness of Highlands and Islands businesses.
- **Participation** - raising the already-high activity rates and improving skills in the workforce.
- **Population** - assisting the growth in population in all parts of the region.

In working to deliver regional competitiveness, it is important to recognise that the economy of the Highlands and Islands does not operate as one coherent unit. Given the scale of geography and the corresponding settlement pattern, clear distinctions can be drawn around nine economies which make up the region. In order to develop a successful regional economy, it is therefore essential to reflect on this area dimension and view building sustainable growth as requiring success in each of these nine areas. Whilst there are pan-regional drivers such as higher education, transport and broadband, each economy is different and has varying challenges and opportunities. It is therefore crucial to the development process that effort is built around a clear understanding of local conditions, a point which was acknowledged in the enterprise networks review.

It is our aspiration to make the Highlands and Islands a region to rival any other rural region in the world. In working to achieve this aim, our strategic approach to regional competitiveness will be focused on transformational projects, infrastructure development, international trade and investment, population growth, policy influence and housing solutions.

In recognising the distinct challenges of the different parts of the Highlands and Islands, HIE will take the lead or work in close partnership with other public bodies in developing and implementing a series of locally, regionally and nationally significant projects in each of the areas that make up the region. In most cases, the key partners will be the relevant local authority or other public body such as the health board, however, contributions from the private sector and the social economy will be critically important to success in the long term.

**Infrastructure**

Population growth is a central element of HIE’s strategic approach and it is seen as essential to sustain the area’s long-term progress. It is our aspiration to achieve growth in every part of the region. The level of growth in recent decades demonstrates the area’s attractiveness both to the indigenous population and to those from outwith the area. These factors, coupled with low unemployment and skills shortages, present opportunities for encouraging more people to move to the Highlands and Islands. However, there are challenges in achieving population growth, particularly in the more remote and fragile areas and where public services are limited and/or where housing is in short supply. A more general disincentive is the narrow economic base and corresponding low average wage rates.

We recognise that achievement of our ambitions in relation to population growth will, to a large extent, be dependent on associated infrastructure developments. The availability of public services along with efficient and affordable transport and telecoms is fundamental to a successful economy that will sustain growth in population and incomes. Therefore, we will continue to work with partners in the public and private sectors to accelerate the provision of infrastructure developments and facilitate a step change in the rate of residential development. In order to ensure strategic and infrastructure planning are closely aligned, we will deepen our close working
relationships with the planning and housing departments of our key local authority partners. We will also ensure that all infrastructure projects led by HIE meet the criteria established in our Sustainable Construction Policy, and will work to encourage partners to adopt such an approach.

Physical connectivity to key markets and destinations is pivotal to the economic success of the Highlands and Islands. This applies to mainland trunk road links such as the A9, the A82, the A96 and the core rail services between the Highilands and the city regions of Edinburgh and Glasgow. It also applies to island communities and initiatives such as the Air Discount Scheme and the Road Equivalent Tariff ferry fares pilot have the potential to help overcome long-standing financial and social constraints within these peripheral economies.

The telecoms sector is continually changing and the move towards “next generation” services will require significant investment. For strong commercial reasons, it is inevitable that these services will be available in urban areas ahead of rural regions. Public intervention may be necessary to ensure that rural areas such as the Highlands and Islands do not lag behind.

Inward Investment

Attraction of foreign direct investment is critical to the development of a highly competitive Highlands and Islands economy, bringing new investment along with a global market perspective and highly productive operations. We will be proactive in identifying and targeting foreign direct investment opportunities which build on our competitive strengths and accelerate the growth of our key sectors. We will continue to build relationships with existing foreign owned businesses, encouraging new investment to increase scale and productivity in their Highlands and Islands operations. Strong partnership working with SDI will play a key role in success in this area.

Measuring HIE’s Contribution

HIE’s Regional Competitiveness activities are undertaken in pursuit of the GES strategic challenges listed at the head of this section. Transformational projects under the Regional Competitiveness heading are:

<table>
<thead>
<tr>
<th>University of the Highlands and Islands</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main GES contributions</strong> - <strong>Economic growth, Productivity, Population, Cohesion.</strong></td>
</tr>
<tr>
<td><strong>Target</strong> - work with UHI and partners to implement agreed action plan in wake of Quality Assurance Agency (QAA) for Higher Education Report to ensure university title.</td>
</tr>
<tr>
<td><strong>Target</strong> - complete estates strategy for UHI and progress development of high quality campus facilities at two key sites by December 2008.</td>
</tr>
<tr>
<td><strong>Target</strong> - establish a sustainable research capacity of international standard in selected themes of critical importance to the Highlands and Islands.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>European Marine Energy Centre (EMEC)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main GES contributions</strong> - <strong>Economic growth, Sustainability.</strong></td>
</tr>
<tr>
<td><strong>Target</strong> - secure partnership support and implement five-year business plan and strategy to strengthen EMEC’s position at the forefront of the global marine renewables industry.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Caithness and North Sutherland Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main GES contributions</strong> - <strong>Economic growth, Productivity, Population, Cohesion.</strong></td>
</tr>
<tr>
<td><strong>Target</strong> - implement inward investment marketing plan to attract new business activity in agreed priority sectors to diversify the Caithness and North Sutherland economy.</td>
</tr>
<tr>
<td><strong>Target</strong> - develop and implement a programme of work to facilitate tidal energy development in the Pentland Firth.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Arnish Development</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main GES contributions</strong> - <strong>Economic growth, Participation, Population, Solidarity, Cohesion.</strong></td>
</tr>
<tr>
<td><strong>Target</strong> - develop the use of facility in line with long-term development plan.</td>
</tr>
</tbody>
</table>
Centre for Health Science and Diabetes Institute

- Main GES contributions - Economic growth, Population.
- Target - implement benefits realisation plan to maximise impact of Centre for Health Science.

Beechwood Campus Development

- Main GES contributions - Economic growth, Population.
- Target - secure land and planning consent for master plan with a view to on site work commencing 2011/12.

Moray 2020 Action Plan

- Main GES contributions - Economic growth, Productivity, Population.
- Target - implement Moray 2020 action plan in line with agreed timescale to deliver anticipated outputs. Development of Enterprise Park in Forres, including construction of advance units to support indigenous businesses and inward investment opportunities.

Lochaber Land Development

- Main GES contributions - Economic growth, Productivity, Population.
- Target - facilitate step-change in supply of land for industrial development in Lochaber, thereby removing current constraint on economic development.

Dunstaffnage Development

- Main GES contributions - Economic growth, Productivity, Population, Sustainability.
- Target - work with Scottish Association for Marine Science to ensure implementation of the development programme, including improved financial position and key role in UHI research strategy.

Kintyre Action Plan

- Main GES contributions - Economic growth, Productivity, Participation, Population, Cohesion.
- Target - development and early implementation of an action plan to address the current economic challenges facing the Kintyre peninsula.

STRENGTHENING COMMUNITIES

HIE’s Strengthening Communities remit stems from the statutory recognition that social and economic development are complementary (and necessary) to achieving growth in a remote, sparsely-populated area. In such communities, market failure, limited commercial opportunities and limited provision of local services has resulted in an enhanced role for community-led development. Creating stronger, more dynamic and sustainable communities is thus integral to the work of HIE and its activities to tackle the challenges of solidarity and cohesion. These challenges are greatest in the fragile areas (shown in Figure 1), but are also significant in rural parts of the Highlands and Islands away from the main settlements. HIE’s Strengthening Communities activities contribute to the following GES strategic challenges:

- Economic growth - enabling social enterprises and stronger communities to foster growth.
- Population - creating the conditions for talented people to live, work and remain in the area.
- Solidarity - developing social enterprises and an enterprising third sector to offer opportunities for those more distant from the workforce.
- Cohesion - ensuring remote and fragile areas contribute to, and benefit from, economic growth.
- Sustainability - taking forward community renewable energy and other environmental initiatives.
Since the 1960’s, the turnaround in the region’s overall fortunes has been substantial and sustained 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 a number of individual communities, eg through community land and community energy projects which have galvanised effort and generated income streams for re-investment.

To extend this success, HIE will tackle the equity challenges of solidarity and cohesion through a new Growth at the Edge approach. This will bring together a range of activities – including community capacity building, leadership development, acquisition and development of assets for community benefit, support for business development and cultural initiatives – to enable disadvantaged communities to generate economic growth and create the conditions for population retention and growth.

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 will focus on stimulating a variety of forms of Social Enterprise. One of these is community renewables and HIE is working with the Scottish Government to establish Community Energy Scotland (CES) as a successor to the Highlands and Islands Community Energy Company, which offers advice and support to community organisations to convert energy provision in community facilities and to develop small-scale commercial generation for the national grid. The interest in renewable energy projects by rural communities continues to grow rapidly and, in addition to the community economic benefits generated, is now making a measurable contribution to the sustainability challenge through the reduction of carbon dioxide emissions.

HIE’s Community Land Unit, working under contract to the BIG Lottery to deliver its Growing Community Assets programme, will continue to assist communities with asset acquisition and management, account managing larger strategic projects, such as those in South Uist in the Outer Hebrides and Assynt in Sutherland. These investments have completely transformed the long-term prospects of individual communities – Gigha, Knoydart and Eigg are other notable examples – and HIE will continue to work with communities where the opportunity of ownership and development presents itself and enjoys widespread community support.

HIE’s activities in developing the social economy will also include working with third sector organisations, including Councils for Voluntary Service and Scottish Council for Voluntary Organisations, to encourage social innovation in service delivery, contributing to the participation challenge of GES, while improving the attractiveness of communities and retaining/growing population.

Investment in community-based arts and cultural activity is the basis of much of the growth in creative industries in the Highlands and islands and HIE will 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, heritage and Gaelic language. Much of the activity will centre on building on the legacy of the Scottish Year of Highland Culture 2007, with local authority partners, Creative Scotland and Hi-Arts.

HIE will work with Bord na Gaidhlig and Comunn na Gaidhlig to take forward the further development of the Gaelic language. The 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 and the investment in Gaelic education, arts and broadcasting, for example, now brings significant economic benefits to Scotland. HIE will implement its Gaelic Plan in liaison with Bord na Gaidhlig, with an emphasis on realising the potential commercial and business elements of the language.

Strengthening Communities activities are undertaken in partnership with community organisations, representative bodies, local authorities and a wide range of other partners. HIE will continue to fulfil a lead role in those projects and programmes where it is best placed to do so and seek to offer partnership support in those where it is appropriate for others to lead, eg local authorities in community learning and development and fostering local voluntary sector activity. Areas of potential innovation include low carbon islands, community “hubs”, development of new crofts and woodland crofts and delivery of services through digital technology.

Measuring HIE’s Contribution

HIE’s Strengthening Communities activities are undertaken in pursuit of the GES strategic challenges listed at the head of this section. Transformational projects under the Strengthening Communities heading are:
Islands Initiative

- Main GES contributions - Economic growth, Population, Solidarity and Cohesion.
- Target - presentation of a set of proposals to the Convention of the Highlands and Islands for discussion and agreement, with early implementation of at least three individual measures.

South Uist

- Main GES contributions - Economic Growth, Population, Solidarity and Cohesion.
- Target - work with the community owners and partners to ensure flow of benefits to the local community through new economic activity, service provision and housing development.

Programme targets are also set to reflect the contribution which the activities will make to the achievement of the GES targets. The measures for the key programmes are as follows:

<table>
<thead>
<tr>
<th>Measure</th>
<th>2008/09</th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<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
**New each year
The publication of GES and the tighter, more focused remit for both HIE and Scottish Enterprise have clearly set out the Government's objectives for the Scottish economy. The public sector reform statement specifies the requirement for a more robust system of performance measurement that will demonstrate progress towards the Government's strategic objectives and targets. HIE will work closely with the Government and Scottish Enterprise to develop measures which reflect the performance of HIE and link in to both the Government's high level indicators and the targets in the GES. HIE will also contribute towards the delivery of the targets set out in the Single Outcome Agreements between the Scottish Government and local authorities.

The GES sets out clear strategic targets against which the Government will report on a regular basis:

- 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 5 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 will have a critical role to play in ensuring that the Highlands and Islands makes a strong contribution towards the achievement of the national targets set out in GES. Those targets have informed the development of desired outcomes for this region which in turn has informed the choice of transformational projects and enterprise programmes that HIE will deliver on. These connections are expressed graphically, below, and in more detail in the following paragraphs.
HIE's Contribution to the GES Targets – Regional Level

HIE is tasked with harnessing its resources to maximise the contributions the Highlands and Islands make towards the GES targets. We believe that the potential contributions set out in the table below represent a challenging, but realistic, set of aspirations:

<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 our area</td>
<td>Major</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Reduce H &amp; I emissions levels</td>
<td>Support</td>
</tr>
</tbody>
</table>

As the table makes clear, HIE recognises that it will play 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 will be the private sector and HIE will work 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 will constrain the extent to which measurement can take place at the Highlands and Islands level, HIE will seek to monitor progress towards the above targets on an annual basis. Taken together, they will 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. As the previous chapter shows, the majority of them sit under the Regional Competitiveness heading. These have been selected on the basis of their importance to the economy and the level of resource that HIE has committed to them. The following table brings them together and indicates which of the GES challenges they principally address:

**Inward Investment**
- Main GES contributions - **Economic growth, Productivity, Population**.
- Target - Attract six significant high-growth inward investment projects in line with new strategic priorities and identified key sectors.

**Key Sectors**
- Main GES contributions - **Economic Growth, Productivity**.
- Target - Work with Scottish Government and SEn to develop a shared vision for each of the key sectors at national level and establish mechanisms for measuring progress towards agreed national and regional objectives.

**University of the Highlands and Islands**
- Main GES contributions - **Economic growth, Productivity, Population, Cohesion**.
- Target - work with UHI and partners to implement agreed action plan in wake of Quality Assurance Agency (QAA) for Higher Education Report to ensure university title.
- Target - complete estates strategy for UHI and progress development of high quality campus facilities at two key sites by December 2008.
- Target - establish a sustainable research capacity of international standard in selected themes of critical importance to the Highlands and Islands.
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<tr>
<td>• Main GES contributions - <em>Economic growth, Sustainability.</em></td>
</tr>
<tr>
<td>• Target - secure partnership support and implement five-year business plan and strategy to strengthen EMEC’s position at the forefront of the global marine renewables industry.</td>
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</thead>
<tbody>
<tr>
<td>• Main GES contributions - <em>Economic growth, Productivity, Population, Cohesion.</em></td>
</tr>
<tr>
<td>• Target - implement inward investment marketing plan to attract new business activity in agreed priority sectors to diversify the Caithness and North Sutherland economy.</td>
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<tr>
<td>• Target - develop and implement a programme of work to facilitate tidal energy development in the Pentland Firth.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Arnish Development</th>
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</thead>
<tbody>
<tr>
<td>• Main GES contributions - <em>Economic growth, Participation, Population, Solidarity, Cohesion.</em></td>
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<tr>
<td>• Target - develop the use of facility in line with long-term development plan.</td>
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<thead>
<tr>
<th>Centre for Health Science and Diabetes Institute</th>
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<tr>
<td>• Main GES contributions - <em>Economic growth, Population.</em></td>
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<td>• Target - implement benefits realisation plan to maximise impact of Centre for Health Science.</td>
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<thead>
<tr>
<th>Beechwood Campus Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Main GES contributions - <em>Economic growth, Population.</em></td>
</tr>
<tr>
<td>• Target - secure land and planning consent for master plan with a view to on site work commencing 2011/12.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Moray 2020 Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Main GES contributions - <em>Economic growth, Productivity, Population.</em></td>
</tr>
<tr>
<td>• Target - implement Moray 2020 action plan in line with agreed timescale to deliver anticipated outputs. Development of Enterprise Park in Forres, including construction of advance units to support indigenous businesses and inward investment opportunities.</td>
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</table>

<table>
<thead>
<tr>
<th>Lochaber Land Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Main GES contributions - <em>Economic growth, Productivity, Population.</em></td>
</tr>
<tr>
<td>• Target - facilitate step-change in supply of land for industrial development in Lochaber, thereby removing current constraint on economic development.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Dunstaffnage Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Main GES contributions - <em>Economic growth, Productivity, Population, Sustainability.</em></td>
</tr>
<tr>
<td>• Target - work with Scottish Association for Marine Science to ensure implementation of the development programme, including improved financial position and key role in UHI research strategy.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Kintyre Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Main GES contributions - <em>Economic growth, Productivity, Participation, Population, Cohesion.</em></td>
</tr>
<tr>
<td>• Target - development and early implementation of an action plan to address the current economic challenges facing the Kintyre peninsula.</td>
</tr>
</tbody>
</table>
Islands Initiative

- Main GES contributions - Economic growth, Population, Solidarity and Cohesion.
- Target - presentation of a set of proposals to the Convention of the Highlands and Islands for discussion and agreement, with early implementation of at least three individual measures.

South Uist

- Main GES contributions - Economic Growth, Population, Solidarity and Cohesion.
- Target - work with the community owners and partners to ensure flow of benefits to the local community through new economic activity, service provision and housing development.

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 High Growth Businesses and Strengthening Communities headings (see previous chapter). The following table shows the set of growth measures for the main programmes over the three-year planning period. 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):

<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>
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<tr>
<td>Increase in turnover in the social economy (£m)</td>
<td>*</td>
<td>*</td>
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<td>No of community groups supported to invest in renewable energy</td>
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<td>*</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

*Targets under development

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.
The above table details the full breakdown of income sources, investment priorities and operating costs over the three-year life of the plan. The operating costs section incorporates the two per cent efficiency savings (over and above the impact of inflation), a key part of our contribution towards the strategic priority of more effective government. These figures take account of current estimated transfer values to Skills Development Scotland and local authorities.

It should be noted that the investment allocations for 2009-10 and 2010-11 are indicative only and will be confirmed or amended during the next planning round as the new organisational structure becomes more established and new development opportunities emerge.
SECTION 4
EFFECTIVE DELIVERY

HIE will operate as a single organisation with its functions dispersed and delivered across the nine 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 more collaborative approach to our work, based on clarity of functions and shared objectives. The sharing of skills across former administrative boundaries will be a common feature of new working practices.

Structure

Delivery will be corralled around five groups, namely:

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

People

From April 2008, HIE will be an organisation with approximately 350 full-time equivalent staff, two thirds of whom will be based outwith Inverness, including some 20% on islands.

HIE recognises that its ability to deliver GES in the Highlands and Islands is heavily reliant on the skills of its staff. In order to ensure that we have a suitably capable and motivated workforce, we will invest extensively in a suite of training programmes aligned to our new strategic priorities. Training in account management, project appraisal, project management, sustainability and equalities have been identified as priorities. HIE will also develop and implement a programme of internal secondment opportunities to develop talent and experience amongst existing staff to maximise organisational capability with regard to the development of transformational projects and account management of high-growth firms.

Resource Allocation

Targeted resource allocation will underpin HIE’s approach to implementing GES in the Highlands and Islands. The smaller staff resource and budget following the enterprise and spending reviews will require continual prioritisation over the plan period as development opportunities are worked up or present themselves.

The focus will be on implementing transformational projects in pursuit of economic growth in all parts of the Highlands and Islands. Funding for these projects will be “top-sliced” from HIE’s budget prior to the remaining resources being allocated. Projects likely to receive this funding will go through an early assessment process to ensure that they prospectively offer significant levels of benefit.

In addressing the solidarity and cohesion challenges of GES, HIE will ensure that the fragile areas and areas of employment deficit receive appropriate levels of resource allocation.

Public Sector Partnership Working

In order to maximise the effectiveness of public sector activity, we will work closely with partner organisations such as Scottish Enterprise, 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, 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 national and European policy development which affects the economic and social development of the Highlands and Islands.
Partnership with Local Authorities

Central to our success will be a highly effective close working relationship with the seven local authorities that operate within the Highlands and Islands. Building on the Concordat, we will engage at both the strategic level to develop a shared understanding of long-term goals and at the operational level to ensure effective delivery of GES and the implementation of Single Outcome Agreements across the Highlands and Islands. Of particular importance will be the links between Business Gateway and HIE’s area offices to ensure the provision of a seamless high quality public service to businesses with growth potential across the Highlands and Islands.

Joint Working, Co-location and Shared Services

We will implement the Government's shared services agenda to improve the quality and range of services provided across the Highlands and Islands whilst also delivering Best Value on the services we provide. Discussions are underway with a number of public sector agencies on these issues including: Skills Development Scotland, SNH, VisitScotland, local authorities and Job Centre Plus. Working in a collaborative manner with a common purpose will ensure public services are delivered in the most efficient and effective manner in every part of the region. We will seek every opportunity to co-locate with other public bodies throughout the Highlands and Islands, targeting Lerwick, Kirkwall, Stornoway, Golspie and Inverness in the first year.

Engagement with Businesses and Communities

HIE wishes to deepen and broaden the ways in which it engages with the business, community and tertiary education sectors across the Highlands and Islands. Our aim is to increase engagement to at least 500 business and community leaders through implementing a new engagement model, co-designed with the local authorities, business organisations and the third sector.

We propose developing a package of measures which will ensure that HIE's implementation of the Government Economic Strategy is shared and shaped at regional, local and sectoral level. In addition, the Scottish Government has made it clear that it would like a greater degree of business and community engagement in conjunction with local authorities. HIE will therefore work with the constituent local authorities under Community Planning for mutual benefit. A coordinated approach to engagement would also reduce duplication of effort and minimise overload for business and community leaders.

HIE Carbon Footprint

It is our ambition to match the Government's energy savings target for the next 3 years in our own operations. This will be achieved by focussing on our premises and their energy efficiency, what we buy in relation to sustainable products and their carbon footprint and also in our travel policies and procedures to ensure that we move towards significant reductions in carbon emissions from our business operations. We also intend to explore and implement, through the auspices of our Community Energy Company, renewable efficiency devices to test and demonstrate the effectiveness of such devices and become, where practical, exemplar's in their use.

It is also intended to move towards greater carbon and energy efficiency in the new commercial buildings we procure for development purposes and actively seek to demonstrate what is possible in terms of new commercial premises across the Highlands & Islands.