

Supporting Scotland's economic growth

Case studies



AUDITOR GENERAL 

As part of our audit on Supporting Scotland's economic growth we reviewed the following seven case studies:

For Scottish Enterprise we looked at:

- **Amazon** – to review its support to an individual business, in particular the arrangements for Regional Selective Assistance (RSA) funding.
- **The Dundee Waterfront** – to review its involvement in a major regeneration project.
- **Food and Drink** – to review its approach to supporting sectors.

For Highlands and Islands Enterprise (HIE) we looked at:

- **Harris Tweed** – to review its support to individual businesses and fragile areas.
- **The Inverness campus** – to review its support for a major infrastructure project.
- **Energy sector** – to review its approach to supporting sectors.

We also reviewed an example of joint Scottish Enterprise and HIE support:

- **Scottish Investment Bank** – to review co-investment with the private sector.

Our case study work helped to inform our judgements in our main report. This case study supplement sets out details of each of the case studies, including spending, support provided and impact.

Case study 1

Scottish Enterprise's support for the Amazon project in Fife



Background

In 2009, Amazon was considering a number of locations in the UK and Europe to build a new distribution centre. The company runs a pan-European fulfilment network so typically considers options in a number of countries and locations when it looks to expand its network. Amazon approached Scottish Enterprise to enquire about the availability of public sector support should it choose to locate in Scotland. Fife was quickly identified as the only viable option for Scotland and a range of public sector partners, including Scottish Enterprise, Fife Council, Scottish Development International and Skills Development Scotland, worked together to offer a package of support that resulted in the opening of the Amazon distribution centre in Dunfermline. The focus of our case study was Scottish Enterprise's support for this project.

Rationale for public-sector support

Amazon had a number of options for the location of its distribution centre. The most cost-effective option was in Germany due to lower property rent, rates and taxes. Without public sector support, Scottish Enterprise was of the opinion that Amazon would opt to locate the distribution centre in Germany.

The Scottish Enterprise Board approved the Amazon project in 2010 after reviewing evidence on its strategic, economic, commercial, financial and management cases. The evidence demonstrated a number of benefits, including job creation in an area of increasing unemployment and £60 million of capital investment. The total cost benefit was predicted to be £3.80 for every £1 invested. There was also clear alignment with Scottish Enterprise's Business Plan and the Government Economic Strategy. An options appraisal found no other viable option to achieve the anticipated benefits.

Support provided by Scottish Enterprise

In addition to advice, Scottish Enterprise provided Amazon with three main strands of support with a total cost of £7.8 million:

- Regional Selective Assistance (RSA) grant – £1.4 million
- Property development grant – £5.9 million
- Training grant – £0.49 million.

RSA is a European Union (EU) grant. Scottish Enterprise administers the RSA grant scheme in Scotland. It is offered to businesses of all sizes from any country. The criteria, conditions and maximum levels of RSA funding are set by the EU. All RSA projects in Scotland must:

- be in an EU 'assisted area' – ie, an area that has been assessed as disadvantaged
- create or safeguard jobs
- not displace jobs elsewhere
- include capital investment (on land, building or machinery)
- be mainly funded by private sector.

There are two types of RSA grant with different funding conditions:

- Aid for initial investment – For projects that require significant capital expenditure. RSA funding of up to 30 per cent of the total project cost is available. The capital asset must remain in Scotland for five years after the final RSA payment. There are no EU funding requirements in relation to jobs. However Scottish Enterprise has set a condition which means that projects must safeguard or create permanent jobs and these jobs must remain in place for at least 18 months after the final RSA payment.
- Aid for job creation – For projects that involve low levels of capital expenditure. RSA funding is paid in relation to new, permanent jobs created by the project. Up to 30 per cent of the first two years' salary costs is available. Under this scheme Small and Medium Enterprises (SMEs) must retain each job for three years after the date of the job's creation. Large businesses must retain each job for five years after the job's creation.

Amazon received funding under the 'Aid for initial investment' scheme. The total funding offered and the conditions of that funding were agreed between Amazon and Scottish Enterprise.

Amazon requested an RSA grant of £1.6 million. Scottish Enterprise offered £1.4 million with the following conditions:

- Amazon had to spend £27.7 million of capital expenditure in relation to plant and fit out costs for its distribution centre and this must remain in Scotland for five years after the final RSA payment.
- Amazon had to create 685 full-time equivalent (FTE) permanent jobs and safeguard a further 78 FTE permanent jobs by 31 December 2014. Full-time jobs had to be at least 30 hours a week and part-time jobs had to be at least 15 hours a week. Seasonal jobs or other temporary jobs are not counted towards the target and no payments were made in respect of these types of jobs. Jobs must remain in place for 18 months after the final RSA payment.

RSA grants are paid in installments if the agreed funding conditions are met. For each installment, Amazon had to submit a claim form setting out details of its capital expenditure and the number of jobs created. Amazon received the full £1.4 million offered, in four installments between February 2012 and March 2015. The grant conditions mean that 763 jobs must remain in place until September 2016 and the plant and equipment must remain in Scotland until March 2020. The fulfilment centre now employs more than 1,500 permanent staff. Amazon has signed a 15-year lease for the distribution centre which means it is likely that the jobs and equipment will remain in place beyond these dates.

Scottish Enterprise also contributed £5.9 million towards the £40 million construction cost of the distribution centre. This grant was paid through the EU funded Scottish Property Support Scheme (SPSS), which ended in 2014. This scheme supported the development of commercial buildings when there was evidence of market failure. Market failure included situations where estimated development costs exceeded the estimated property value on completion. The SPSS grant was paid to a property developer which was then able to offer Amazon a reduced market rent charge for the 15-year lease. The reduced rent charge made Scotland a more viable option. The final element of Scottish Enterprise's support was a £487,000 grant to support training costs related to the project.

Impact

Scottish Enterprise worked well with partners to offer a comprehensive package of public-sector support for Amazon. Without this package of support Scottish Enterprise, and other partners, are of the view that Amazon would not have located in Scotland.

Scottish Enterprise will prepare post-completion monitoring reports on the Amazon project in September 2016 and March 2020. These reports will consider full details of the economic and wider impact of public-sector support. As at July 2016, the project has achieved the following:

- At least 1,500 FTE jobs have been created including the 685 pledged and 78 jobs have been safeguarded. Around 2,000 seasonal jobs have been created each year in Amazon's peak period, of which a percentage have stayed on as permanent employees each year.
- Subcontracted services, such as security, cleaning etc have created additional local employment opportunities.
- Total private sector investment of £51.8 million.
- Income of around £1 million from the sale of the land.
- 39 acres of land and one million square foot of distribution space has been developed.

Case study 2



Scottish Enterprise's support for the Dundee Central Waterfront Project

Background

Dundee had traditionally experienced a number of economic challenges, including high levels of unemployment and lower than average productivity levels. Scottish Enterprise has worked with Dundee City Council to support the regeneration of Dundee for over 25 years. Since 2001, the two bodies have worked together on the Dundee Waterfront Initiative that is expected to be completed by 2031. The Initiative, which will involve an estimated investment of around £1 billion¹ (from the public and private sector), aims to regenerate an area from the centre of Dundee to the River Tay. It is expected to make a major contribution to the long-term growth of the regional and national economy.

The focus of our case study is Scottish Enterprise's involvement in the Dundee Central Waterfront project. This ten-year infrastructure project covers a 5.5 hectare area between the city centre and River Tay and is part of the wider Waterfront Initiative. Dundee City Council is the lead partner for the project and the Scottish Government is also involved. The aim of the project is to transform the area's economic fortunes and change investors' and visitors' perceptions of the city. This will be done by reconnecting the Waterfront area to Dundee city centre and creating high-quality infrastructure to attract business and leisure investment. We did not audit Scottish Enterprise's involvement in the V&A Museum of Design project. However the development of Dundee Central Waterfront is considered to be an important factor in the museum's decision to locate in Dundee.

At the outset of the project Scottish Enterprise and Dundee City Council developed a Partnership Agreement. This provides details on the duration of the partnership, the partnership board and responsibilities for producing an action plan. The Dundee Waterfront project board includes both Dundee City Council and Scottish Enterprise personnel and relies on unanimity for decision-making. So far, no decisions have had to be resolved by vote or through the appeals process.

Rationale for public-sector support

The Dundee Central Waterfront project has the potential to attract around £270 million of private sector investment for Dundee. The project supports a number of the Scottish Government's key sectors by:

- growing the creative industries sector
- exploiting opportunities in the renewable energy market
- strengthening Dundee's contribution to regional tourism, particularly through increasing business tourism
- facilitating growth in financial and business services by creating quality office space.

The project was formally approved by the Scottish Enterprise board in February 2009. A range of documentation was provided to the board to inform the decision, including an options appraisal, Economic Impact Assessment (EIA) and Equality Impact Assessment. There was a fully evidenced business case, which included assessments of the strategic, impact, commercial, financial and management cases for the project. The options appraisal included four fully costed options that explored the order in which the different elements of the project would be started and completed. The associated advantages and disadvantages of each approach were set out. The EIA estimated that for every £1 invested by Scottish Enterprise, £16 would be generated for the Scottish economy. At the time of approval, the project clearly aligned to Scottish Enterprise's business plan and its regeneration strategy. There was also clear alignment with the Scottish Government's infrastructure investment plan (National Planning Framework).

¹This spend was between 2006 and 2014.

Support provided by Scottish Enterprise

The total public sector funding for Dundee Central Waterfront project is around £83 million. The Scottish Enterprise board originally approved funding of £33.01 over the ten-year period. A further £0.1 million has been approved, bringing its total investment to £33.11 million. Dundee City Council is contributing £48.75 million towards the project, which also includes £1.13 million from the European Regional Development Fund and other sources.

The Dundee Central Waterfront project involves several infrastructure development projects. Projects are mainly led by the council, and involve developing land to attract private sector investment and include:

- the demolition of obsolete buildings
- reconfiguration of the road network
- site configuration, site servicing, hard and soft landscaping
- gas and electricity connections
- cycle routes
- footbridge construction.

Projected impact of the project

The estimated impact of the Dundee Central Waterfront project is based on the support provided by all partners, not just Scottish Enterprise's contribution. A performance framework was established at the outset of the project, including a number of targets, such as:

- developing 710,000 sq ft of high-quality office space
- increased inward investment
- an increase in average office rental levels
- increased awareness and perception of Dundee.

This is projected to lead to an increase in:

- Dundee's productivity to Scottish levels by 2020
- net GVA by £68 million at 2018, £268 million at 2028 and £513 million by 2048
- employment, with an additional 1,065 full-time equivalent jobs created by 2020.

The majority of targets were forecast to be delivered over an 11-year timeframe (2009-2020) with significant progress by 2015, the mid-point in the programme.

Impact to date

As at May 2016 (seven years into the project) Scottish Enterprise has invested £31 million (over 90 per cent of its total approved funding). The infrastructure programme, which included the demolition of a number of buildings and upgrading the road network, is now substantially complete, and has been delivered on time and within budget. The final package will be implemented following the completion of the new V&A museum. When complete the Dundee Central Waterfront will offer a range of sites for office, leisure and residential development.

The success of the infrastructure programme is due to the well-developed strategy and action plan, and clear roles and expectations for all partners involved. The economic downturn created a number of challenges for the project. In particular it made leveraging private sector investment into the project, specifically in the commercial property development sector, very difficult. Similarly the demand for office property across Scotland took a long time to recover after the recession. This means that many of the targets will not be achieved within the original timescales. In 2014 Scottish Enterprise reviewed the targets and anticipates these will be fully delivered over a 10-20 year period.

Despite these challenges, the Waterfront project is already having a positive impact on Dundee's development, its international profile and business confidence, all of which create opportunities to attract further investment. Since 2009 new hotel developments and the first large-scale speculative office development in central Dundee for over 30 years have been completed. There is strong developer interest in a number of sites at the Waterfront. In addition, the following is expected to enhance the economic impact of the Dundee Waterfront project:

- A new railway station, which will comprise a new concourse, retail facilities and hotel, is being progressed by Dundee City Council.
- The V&A has chosen Dundee for their new Museum of Design, which is currently being constructed at the Waterfront. The regeneration work already undertaken is believed to have been a crucial factor in the decision. The Museum is expected to create an additional 360 jobs by 2022/23.

Source: Audit Scotland

Case study 3



Scottish Enterprise's support for the Food and Drink sector

Background

The Food and Drink (F&D) sector includes food manufacturing, drink manufacturing, agriculture and fishing. During 2012/13 there were over 17,000 F&D businesses operating in Scotland (the vast majority of which were agricultural businesses), employing around 120,000 people, with an annual turnover of £14.3 billion. This is around ten per cent of Scottish businesses and five per cent of Scottish employment. Scottish Enterprise mainly focuses its support on the 1,100 businesses in the F&D manufacturing and processing sectors. The F&D sector is one of Scotland's largest exporting industries, with Food and Drink accounting for almost 20 per cent of all Scottish international exports.

Rationale for public-sector support

The F&D sector is one of the Scottish Government's seven growth sectors. These are industry sectors where Scotland is considered to have a comparative advantage or the potential to maximise future growth opportunities. Scottish Enterprise and HIE have both identified the F&D sector as a priority in their business plans.

The overall approach to supporting the F&D sector is informed by the industry leadership group, Scotland Food and Drink (SF&D). SF&D is a membership organisation that brings together public and private sector partners to help achieve the industry's growth ambitions and coordinate delivery of the industry strategy. SF&D has 350 members which include businesses, trade associations and sector skills councils. Public sector partners include the Scottish Government, Scottish Enterprise and HIE. The public sector provides SF&D with a funding package to deliver industry leadership activity on behalf of the sector. Scottish Enterprise is on the SF&D board. It is also on the SF&D Executive Group alongside other public sector bodies, including HIE, the Scottish Government and Scottish Development International (SDI).

The collective aim of all partners is to grow the sector's annual turnover to a value of £16.5 billion by 2017, with £7.1 billion of that generated through exports. Scottish Enterprise and HIE, along with the Scottish Government and other public sector bodies, support the industry to achieve its ambitions. This includes providing advice and funding to increase innovation, develop skills and improve productivity. SF&D reports that its partnership with the public sector allows it to do more industry development work. The Scottish Government estimates that, together with the enterprise bodies, it spent just under £25 million supporting the F&D sector in 2014/15.

Scottish Enterprise support for the sector

Alongside other public sector bodies, Scottish Enterprise works with SF&D to identify the challenges and opportunities for the sector, determine the most appropriate forms of support and coordinate activity. It also contributes to the development and delivery of the SF&D industry strategy.

The SF&D strategy was developed in 2009 and updated in 2013. It sets a number of targets for all public and private sector partners to work towards to help drive growth and address sector issues. The sector has identified six priorities to help achieve its ambitions:

- Build Scotland's food and drink reputation in both UK and international markets
- Focus on the primary sector (ie, producers) to encourage growth and profitability
- Build supply chains
- Become more environmentally sustainable
- Improve food productivity
- Accelerate innovation.

Each priority is led by an industry organisation and a public sector body. Scottish Enterprise jointly leads on the 'build supply chains' and 'accelerate innovation' priorities and SDI leads on the 'international' priority. Scottish Enterprise also has a supporting role in the other industry priorities. Scottish Enterprise produces an annual Food and Drink sector plan setting out its specific contribution, actions and measures against each of the sector's six priorities and how these align with Scottish Enterprise's business plan priorities. In addition to providing support for SF&D's activities, some of Scottish Enterprise's activities include:

- managing the £1.6 million 'Market Driven Supply Chains' project (co-funded by the Scottish Government and Scottish Enterprise). The project offers support to sector-based projects and to individual companies to support and encourage the development of effective supply chains to capitalise on both UK and International Market opportunities
- developing a new approach to innovation through the 'SF&D Partnership Innovation Response' which aims to encourage collaboration to boost innovation activity in the sector
- delivering the SF&D Export Plan. This includes: organising international market events to connect buyers and suppliers; showcasing Scotland's premium F&D offering; and managing the team of global specialists funded through SF&D, Trade Associations, SDI and the Scottish Government
- the Scotland Food & Drink Network (SFDN), which was established to help businesses to connect, find new opportunities and supports collaborative working.

To support the Food and Drink sector, Scottish Enterprise has a dedicated Food and Drink sector team. A number of other Scottish Enterprise departments support the F&D team, including Company Growth, Business Infrastructure and SDI (both in Scotland and overseas). Scottish Enterprise's approach to sectors is supported by its Sector Delivery team, which has responsibility for the development and implementation of sector-related projects.

Scottish Enterprise provides support to the F&D sector through providing specialist food and drink support and also more general support to individual companies. Scottish Enterprise currently provides account management support to approximately 290 food, drink and supply chain companies. Between 2006 and 2015 Scottish Enterprise:

- supported over 1,100 F&D companies, of which 425 were account managed
- undertook 208 specific F&D projects, of which 188 were for the benefit of the sector rather than individual companies.

Scottish Enterprise estimates that it spent £32.6 million on specific F&D support between 2006 and 2015. In addition it spent £22.3 million on providing more general support to F&D businesses.² This spending does not include staff costs, which may be significant given the extent of industry engagement and advice provided.

We reviewed the support that Scottish Enterprise provided to Young's Seafood Limited, one of its account managed companies. A Ministerial-led public sector task force was set up after Young's lost a significant contract which threatened a number of jobs in the Fraserburgh area. The task force developed an economic recovery plan for the area and has put in place a number of actions to mitigate the impact of job losses. Scottish Enterprise has supported the task force by providing Young's with a range of support, including supporting affected employees and identifying potential efficiency savings through its Scottish Manufacturing Advisory Service.

² <http://www.evaluationsonline.org.uk/evaluations/Search.do?ui=basic&action=show&id=513>.

Impact

Scotland Food and Drink's ambition in 2010 was to boost turnover in the sector to £12.5 billion per annum by 2017. In October 2013, this was revised to £16.5 billion after the original target was met three years early. The value of exports and the number of employees working in the sector have also grown at a faster rate compared to other industries.

In 2015 Scottish Enterprise's evaluation team, alongside the F&D team, undertook a large-scale evaluation of its support to the F&D sector, including supply chain companies. The evaluation included:

- reviewing evidence from six project evaluations between 2007 and 2014. Projects include the Food and Health Innovation Service and the Scottish Food and Drink Information Service
- compiling statistics on projects and companies supported between 2006 and 2015
- an assessment of the benefits and impact of support to companies, with a focus on account-managed companies.

The evaluation found that:

- Food and Drink projects have led to new products being developed, greater collaboration between businesses and increased sales. Additional benefits include improved awareness and understanding of markets and enhancing the reputation of Scottish brands
- between 2010 and 2014, F&D account-managed companies increased their turnover by 29 per cent and employment by 19 per cent
- between 2012 and 2014, international sales by F&D account-managed companies grew by seven per cent
- Scottish Enterprise helped to generate £14 from every £1 it invested in F&D account-managed businesses.

The evaluation also identified where improvements could be made. For example, it found that there could be better links between F&D project support and account managers to enhance access to wider Scottish Enterprise support. Scottish Enterprise continues to review the evaluation results to determine future support and activities.

In 2015, an expert working group, led by SF&D and including the Scottish Government and industry representatives, led a collaboration review to identify how partners could work better to support the sector. The review made a number of recommendations on, for example, supply chains, innovation, skills development, the support landscape and funding arrangements. It is not yet known what impact the collaboration review will have on Scottish Enterprise's, and other bodies' arrangements for supporting the sector.

In 2016, Scottish Enterprise initiated a review of its approach to supporting sectors, which included considering the role of sector teams, impact of its sector approach, performance management arrangements and industry engagement. It will use the results of this review to develop options on how to update and develop its approach to supporting sectors.

Case study 4



Highlands and Islands Enterprise's support for Harris Tweed

Background

Harris Tweed is the world's only commercially produced tweed that is hand-woven by self-employed weavers who work from their own home. It is protected by an Act of Parliament. Cloth must be made from pure virgin wool, with all dyeing, spinning and finishing processes undertaken in the Outer Hebrides.

The Harris Tweed industry is dominated by three mills: Harris Tweed Hebrides Limited (HTH) – Shawbost mill; Harris Tweed Scotland Limited (HTS) – Stornoway mill; and HTT (Manufacturing) Limited (HTT) – Carloway mill. There are also several smaller producers. HTH is the largest producer, accounting for around 70 per cent of total production, HTS accounts for around 20 per cent of production and HTT eight per cent.

Highlands and Islands Enterprise (HIE) has worked with the Harris Tweed industry for over 20 years. In 2008 the Harris Tweed Industry Forum (HTIF) was established to support and develop the industry. It was an industry-led body and included HIE, Comhairle nan Eilean Siar (CnES), the Scottish Government, Scottish Development International and Harris Tweed businesses/groups. The HTIF has since been disbanded but industry liaison and partnership working developed through the forum remain strong.

Rationale for public-sector support

The Outer Hebrides had suffered long-term population decline which was reversed for the first time in a century in the 2011 census. The area has higher than average unemployment and has many other social and economic challenges stemming from its remote and sparsely populated geography. Employment is therefore very valuable to the islands. Harris Tweed is a significant employer in the Outer Hebrides creating a number of economic, social and community benefits.

In 2009, total production of Harris Tweed reached its lowest recorded production level since 1934, with just 454,963 metres produced. In addition there were issues with accessing private sector investment. This created a significant threat to employment, to the economy and to the wider community. Supporting the Harris Tweed industry is aligned with the Scottish Government's and HIE's priorities, which includes increasing employment, boosting productivity, supporting the creative industries growth sector and exporting to international markets.

Support provided by Highlands and Islands Enterprise

HIE works with partners to provide a range of support to the Harris Tweed industry. It provides account management support to two of the mills – HTH and HTT. Its account management support is tailored to the needs of the individual mills and includes:

- grants to support capital investment projects
- expert advice
- helping to develop and implement business and growth plans
- supporting innovation to improve product efficiency and diversification into new international markets.

All forms of support are subject to appraisal. Where grant support is provided for a specific project an appraisal paper is presented to the appropriate HIE forum for approval. Appraisal papers follow the UK Treasury's five case model. For example, in 2015 HIE approved funding of £300,000 to Harris Tweed Hebrides as part of a £1.8 million expansion project. The appraisal paper set out details of the strategic, economic, commercial, financial, and management case for the project. It noted that private sector finance was not available as banks had concerns about the textiles sector and remote location. It included a breakdown of project costs and how the project contributed to the Scottish Government's and HIE's

strategic priorities. The HTH expansion projected an additional ten full-time equivalent staff and an increase in turnover of £1.735 million after three years.

Alongside the HTIF, HIE's support to the wider industry has included:

- supporting the Harris Tweed Authority (HTA) along with the Scottish Government, Scottish Development International and CnES. The HTA is responsible for the marketing and promotion of Harris Tweed, including branding and brand protection. Support to the HTA includes providing specialist advice for brand advancement and digital marketing opportunities and providing capital grant assistance towards the purchase of looms to be used for training purposes
- working with the Association of Harris Tweed Weavers and CnES on loom development programmes to improve the efficiency of production and maximise output for each loom
- setting up the Harris Tweed Training and Development Programme in partnership with CnES and co-funded through the European Social Fund. Since September 2013 this has provided training for 139 individuals covering a range of skills including weaving, loom maintenance and branding.

The estimated cost of HIE's support to the Harris Tweed industry since 2008, including the mills, is approximately £1.5 million. This figure does not include HIE staff costs, which may be significant given the extent of industry engagement and advice provided.

Impact

HIE's support has helped to increase employment in the Harris Tweed industry from 68 jobs in 2009 to 456 in 2014/15. Turnover for the industry has also increased, from £300,000 in 2008 to £9.5 million in 2014. The Harris Tweed Authority has recorded that over 1.7 million metres of cloth was produced in 2015, an increase of around 300,000 from 2014.

Growth in the industry has provided significant career opportunities for young people in an industry that had previously been viewed as offering only part-time employment and had an ageing workforce. The industry also offers high value jobs. For example, the average salary for a weaver is around £25,000, which is greater than the average wage in the Outer Hebrides. This helps support sustainability in the area as employment opportunities can help attract and retain young people to live and work in the Outer Hebrides.

An assessment in December 2015 found that the industry was growing and is expected to continue on its current growth trajectory to reach the following levels by the end of 2018:

- Increases in production of 50 per cent on 2014 levels
- Five hundred people employed in the Harris Tweed mills and as home weavers
- Sales revenue of Harris Tweed to exceed £40 million
- International sales of more than £10 million.

Demand for Harris Tweed is seasonal and during peak season demand tends to outweigh supply. As such, future plans involve expanding and developing the businesses, workforce and facilities. Harris Tweed has a strong world-wide profile and attracts significant national and international interest. It is a key part of the Outer Hebrides' cultural heritage and it features significantly in the 'visitouterhebrides' website profile.

Case study 5



Highlands and Islands Enterprise – development of the Inverness Campus

Background

Historically higher education provision in the Highlands and Islands was limited by the absence of an established University in the region. An economic impact assessment in 2009 found that the Highlands and Islands area provided for only one in 12 of the university places required for its population. Developing more substantial provision has long been a priority of the Scottish Government, HIE and the Scottish Funding Council. The Inverness Campus development is key to offering the academic and job opportunities needed to help retain and attract young people to the area. At the time of approval it was the largest single capital project that HIE had had responsibility for delivering.

HIE instigated preliminary discussions with stakeholders on a potential campus in 2006. The ambition was to encourage collaboration and knowledge transfer and to increase entrepreneurship and innovation, by bringing education, research and development, and business together on one site. The development would also provide a focal point for the University of the Highlands and Islands. Suitable land for the development was identified in 2007 and HIE purchased the 220 acre Beechwood site for £3.15 million in 2009.

Due to the significant benefits expected for the wider area, the project involves many stakeholders. The project is overseen by the Inverness Campus Partnership Forum, which includes HIE, the Highland Council, the Scottish Funding Council and representatives from a number of other public and third sector bodies. Many of the Forum members are bodies who have an interest in locating on the site. The Forum is a high-level, strategic partnership. It is chaired by the Deputy First Minister, John Swinney and its role is to agree, oversee and maximise the strategic vision of the campus.

Rationale for public-sector support

The Inverness Campus project supported a number of the Scottish Government's and HIE's priorities in 2009, particularly to increase productivity, population and cohesion. It continues to contribute to their current priorities. The project is expected to help reverse the out-migration of young people from the Highlands and Islands region through the improved provision of further and higher education facilities. It is also expected to grow the economy through business creation and new, higher paid jobs. Other benefits include:

- enabling the University of the Highlands and Islands (UHI) to compete internationally and achieve sustainability in terms of student numbers, research and funding
- increasing the opportunities for inward investment to Inverness and the wider Highlands and Islands area
- expanding the availability of Research & Development facilities.

Following the purchase of the Beechwood site, HIE worked with stakeholders to create a detailed masterplan for the development. In September 2009 the HIE Board was presented with an appraisal paper, including an Economic Impact Assessment, for approval. The appraisal paper outlined five different options for development of the site, including an option not to proceed, with associated costs, advantages and disadvantages of each. The board was also asked to approve a budget for HIE to deliver their chosen option. An independent consultant's review of the project helped to inform the board's decision-making and included recommendations for effective delivery of the project.

The board approved a hybrid of two options which would see HIE lead a full site development project and set the project team a budget of £25 million to deliver Phase 1 of the project. This was in addition to the £5.5 million already approved for feasibility studies, purchase of the site and planning applications. Following this approval, a Business Case was developed and approved by the board in June 2010.

Support provided by Highlands and Islands Enterprise

HIE's role was to lead the project. This included purchasing the land and creating the required infrastructure, facilitating all the developments, coordinating the partnership and promoting the project. HIE appointed a project director and a Project Board and a Project Control Group were established to manage the project. HIE was also responsible for monitoring progress and for risk management, which included maintaining a risk register. HIE also led and facilitated the Inverness Campus Stakeholders Board, which became the Inverness Campus Partnership Forum in 2010.

The HIE Board set a budget of £25 million in September 2009 for the project. The budget was to deliver the Phase 1 infrastructure, such as access points, internal road networks, a pedestrian and cycle bridge, external lighting, landscaping and 17 fully-serviced plots. As at June 2016 HIE had spent £23.4 million on the project.

HIE competitively tendered the infrastructure development and awarded a contract to a third party. HIE report that, at times, the delivery and management of the contract was quite challenging. A high level of professional advice (eg, project management, design, legal, contract specialists) has been required to ensure programme delivery at a pace and quality that is acceptable to HIE.

HIE's involvement in the project is long term and will extend to after the Campus is built, branded and fully functioning. HIE estimates that it will be involved for a further 20 years. Only then will the desired impacts for the region and creation of new jobs and opportunities be fully realised.

Anticipated impact

At the time of approval, the Inverness Campus was expected to generate significant economic and social benefits for Inverness and the wider Highlands and Islands area. The projected impact includes:

- GVA of £38 million per year and wider economic impact of £82 million per year
- Significant population increase for the local area and improvements to the demographic profile
- Increases to the number and level of students studying in the Highlands and Islands. To date, student numbers have increased from 6,500 to 7,000.

Prior to the Campus opening to the public in May 2015, HIE commissioned an update of the estimated economic impact. This estimated that 1,300 jobs would be located on the Campus by 2020, and a further 940 new jobs would be created in the wider Highlands and Islands area at that date.

Impact

The Campus opened to the general public in May 2015. The infrastructure development for phase 1 is expected to be completed by October 2017, within budget. Achievements to date include the completion of an 'advance' Life Science unit (Aurora House); the opening of the new Inverness College UHI building; and completion of 'An Lòchran', a multi stakeholder enterprise and research centre. Construction of 150 student residential units is expected to be completed in August 2016 with a further phase to commence construction immediately thereafter. Two commercial enterprises have been secured to date – 'Aquapharma' (supply chain to the aquaculture sector) is located within Aurora House, and 'Scottish Vet Referrals' is constructing a new build on site, which is due to be completed by the end of 2016.

Marketing and promotion of the Campus has generated considerable interest from potential tenants looking to locate on site. In addition part of the Campus development has been designated a 'Life Sciences' Enterprise Area by the Scottish Government. This will help attract life sciences businesses to the campus through incentives such as business rates discounts of up to £275,000 and a streamlined planning process. A further collaborative venture, involving the NHS, UHI and HIE, is at the planning stage and will follow the successful format of the Centre for Health Science, where delivery of clinical care adjoins academic and commercial activity which supports knowledge exchange.

Case study 6



Highlands and Islands Enterprise support for the Energy sector

Background

Scotland has a wealth of energy resources. Energy resources can typically be categorized into traditional, such as oil, gas and coal, and renewable, such as offshore wind and tidal. The energy sector is a major employer in Scotland. Since the 1970s, the North Sea oil and gas industry has supported thousands of jobs, both directly and in the wider supply chain. In the past decade, there has been rapid expansion of renewable energy production, particularly in onshore wind, helping to create additional employment. In 2014 there were 72,000 jobs in the sector, an increase of 6,000 jobs from the previous year.

Energy is a large contributor to Scotland's GDP. Output in the energy sector has increased substantially, with the energy GDP index increasing by 20.9 per cent between the first quarter of 2007 and the second quarter of 2015. By comparison, output for the whole economy increased over this period by 3.7 per cent. Scotland has long been a net exporter of energy, primarily to the rest of the UK. In 2013, total exports from the energy sector stood at £15.7 billion, accounting for 21.2 per cent of Scotland's total exports.

Rationale for public-sector support

Realising Scotland's renewable energy potential is central to the Scottish Government's economic strategy. The Scottish Government's ambition is for Scotland to be a world leader in renewable energy and for renewable sources to meet 30 per cent of Scotland's total energy consumption by 2020. In 2013 Scotland met 13.1 per cent of energy consumption through renewable sources. Meeting the 2020 target will require public sector support to increase the production of renewable electricity, heat and transport, and encourage a reduction in energy consumption.

Energy is one of the Scottish Government's seven growth sectors. These are industry sectors where Scotland is considered to have a comparative advantage or the potential to maximise future growth opportunities. Highlands and Islands Enterprise (HIE) identifies energy as a priority sector in its operating plan, as does Scottish Enterprise. HIE primarily focuses on the development of the offshore renewable energy sector (offshore wind, wave and tidal) and community renewable energy but recognises the importance of oil and gas to the region.

Energy policy is an area reserved to the UK Government. However the Scottish Government and enterprise agencies can support the energy sector in a number of ways:

- Planning – approval or refusal of planning permission for energy projects
- Supporting businesses who operate in the sector
- Investing in, and supporting, the development of infrastructure
- Supporting international trade and attracting inward investment
- Establishing and running appropriate technology support programmes
- Lobbying the UK Government and European Union to influence future energy policy.

A significant proportion of activity by marine energy companies is on the research, development and testing of energy generation technology. As such, investment in renewable marine energy is risky and this can make attracting private sector investment challenging. Public sector support can help mitigate this by providing investment whilst also helping to leverage additional private sector funds.

Support provided by Highlands and Islands Enterprise

The energy sector has five industry advisory/leadership groups, all of which report into the First Minister's Energy Advisory Board:

- Renewables Industry Advisory Group
- Oil and Gas Industry Leadership Group

- Thermal Generation and Carbon Capture and Storage Industry Leadership Group
- Skills Industry Leadership Group
- Economics and Grid Industry Leadership Group.

They comprise public sector bodies, including the Scottish Government and the enterprise agencies, and senior industry representatives. Their role is to provide advice to ministers and to the enterprise bodies on the challenges and opportunities in their particular sector.

HIE provides support to the energy sector in a number of ways, and develops 'route maps' to set out their approach. Some of the activity in HIE's Renewable Energy Route Map 2016-18 includes:

- developing the renewable energy sector through infrastructure investment, supporting local supply chain businesses and attracting inward investment
- supporting businesses and social enterprises through the account management service, delivering sector wide development programmes and promoting the region's strengths, skills and expertise in the sector
- strengthening communities and fragile areas through tailored programmes to support shared ownership of local assets, supporting communities develop and take forward renewable energy projects and influencing policy in the community energy sector at a Scottish, UK and EU level
- supporting academic partners, including the University of the Highlands and Islands (UHI) and the Massachusetts Institute of Technology, to develop a unique and world class research capability and to support entrepreneurship and innovation across the sector.

In recent years, HIE has invested in a number of infrastructure projects, including some which were identified in the National Renewables Infrastructure Plan. We looked at three examples – the Nigg Energy Park, the European Marine Energy Centre (EMEC) in Orkney and Wind Towers at Machrihanish. HIE has invested at least £32 million since 2000 into these three sites. Investment in infrastructure directly benefits the businesses involved and the wider supply chain.

Nigg Energy Park

The Park was originally developed in the 1970s to support the North Sea Oil and Gas industry. Global Energy Group bought the site in 2011 after it had been largely unused since 2000. HIE has approved £9.1 million of funding for the Global Energy Group since 2011 to assist with two phases of redevelopment activity, in order to renovate the Park and increase the range of work that can be undertaken. This upgrade has facilitated new oil and gas activity and enabled the site to be used to support a range of renewable energy projects. It has also led to it securing a multi-million pound contract to support the £2.6 billion Beatrice Offshore Wind Ltd project.

EMEC

EMEC was established in 2003 by a public sector consortium led by HIE. Partners included the Scottish Government, UK Government, Scottish Enterprise, Carbon Trust, Orkney Islands Council and the European Union. In 2008/09, EMEC acquired the assets from HIE. It is the world's only independently accredited, grid connected centre for testing of wave and tidal energy devices and has tested more devices than any other facility. It helps to develop international industry standards, and is currently developing a hydrogen production facility which will demonstrate the use of storage technologies to alleviate grid constraints. HIE has provided EMEC with £5.2 million between 2002 and 2009 for various developments and expansions. EMEC has been self sufficient in terms of revenue since 2010/11 but HIE has continued to provide the business with account management support.

Wind Towers

Wind Towers is located at Machrihanish in Argyll. It manufactures towers for wind turbines and has been in continuous production for over 12 years. Between 2001 and 2015, HIE has invested around £18.3 million into the Machrihanish site. Ownership of the site changed twice during this period, with HIE becoming co-owners with SSE in 2012 after purchasing 19.9 per cent equity in Wind Towers. HIE support has

included facilitating development of the site, purchasing assets and leasing them back to the business, and working capital loans. HIE has also worked with Argyll and Bute Council, the Scottish Manufacturing Advisory Service, and Scottish Development International to improve the local infrastructure, production efficiency and international strategy respectively. We set out the impact of this support below.

In 2015, HIE, at the request of the Scottish Government, and in response to a crisis in the wave energy sector, established Wave Energy Scotland (WES) to support the development of wave energy technology. It has been set up as a subsidiary of HIE. WES, through a series of competitive pre-commercial procurements and collaborative projects, will fund the development of wave energy technologies with the aim of creating products that will become commercially viable. Two major funding rounds were run in 2015 which resulted in 23 contracts being let with a total value of over £8 million. In addition, WES has entered into a collaborative research project, awarded four knowledge capture contracts, four research projects to inform the focus of future funding, and a further contract for the dismantling of a wave energy device.

HIE account manages around 100 businesses in the renewable energy sector, including the three businesses mentioned above. This is 20 per cent of their account management portfolio. It also account manages around 50 community organisations. As part of this they help communities to develop community owned renewable energy projects and enable local energy generation and use. This includes supporting communities to directly or part own renewable energy projects and helping communities access innovative finance solutions.

We reviewed the support that HIE has provided to the Rousay, Egilsay and Wyre Development Trust (REWDT), part of the Orkney Islands. HIE have provided the Trust with two phases of account management and have helped fund the posts of Admin/Finance Officer, Community Development Officer and Turbine Development Officer. The Trust considers that these roles have been key to helping the organisation be successful in its activities to support development and growth. The Turbine Development Officer post was important in ensuring the successful construction of a community wind turbine. The turbine has provided the REWDT a source of income since 2012 through selling the energy it produces to the local electricity grid. REWDT can then use the income for projects identified in its community development plan, which HIE assisted them to create.

Impact

HIE measures the impact of its support for the energy sector over a longer period of time than its other forms of support. For example, its standard measures, like sector turnover growth and job increases, are unsuitable for a developing sector where many products are still at the testing stage and many businesses are not yet commercially operating. It uses measures such as total inward investment, number of communities developing and owning renewables projects, and investment in commercial and academic research activity.

HIE reports the following impact from its support to Nigg Energy Park, EMEC and Wind Towers (now CS Wind):

- Nigg Energy Park – an additional annual turnover of £190 million per annum and 1,246 new full-time equivalent jobs expected to be created within three years of HIE's investment.
- EMEC – 114 additional full-time equivalents (FTE) per year between 2003 and 2015 in Orkney. The reported wider job benefits are 225 FTEs annually for the whole of Scotland and 292 FTEs per year for the UK. It is also estimated to have helped contribute £142 million to the Scottish economy over this period.
- Wind Towers – retention of 134 full-time equivalent employees and creation of up to a further 70 full-time equivalents at Machrihanish, an area that experiences low employment rates. As the UK's only wind tower manufacturer it has maintained an indigenous supply of towers for the wind energy sector.

Case study 7



Scottish Investment Bank's support to businesses

Background

The Scottish Investment Bank (SIB) was established in 2011 and is the investment arm of Scottish Enterprise, operating Scotland-wide in partnership with Highlands and Islands Enterprise. It was created by expanding and developing Scottish Enterprise's investment function, to respond to the challenges faced by Small and Medium Enterprises (SMEs) attempting to access capital during the economic downturn. SMEs are businesses with less than 250 employees. SIB helps ensure that SMEs with growth and exporting potential have access to growth capital.

SIB provides a range of products and services:

- It provides **equity finance** (ie, it buys shares in businesses) alongside the private sector. SIB operates two equity funds, both on a fully commercial basis:
 - the Scottish Co-Investment Fund (SCF) – which to date has been part funded by the European Regional Development Fund (ERDF). SIB can invest between £10,000 and £1.5 million as part of deals typically within the range of £20,000 to £10 million
 - the Scottish Venture Fund (SVF) – also to date has been part funded by ERDF. SIB can invest £10,000 to £2 million in deals typically ranging from £20,000 to £10 million.
- It delivers the Scottish Government's **Renewable Energy Investment Fund (REIF)**. The £103 million fund can provide businesses and communities with loans and equity investments, all on fully commercial terms, to support renewable energy projects at the testing or commercialisation stage.

SIB provides **debt finance** through the following loan funds:

- The Scottish Loan Fund – this was established by SIB and SIB is the cornerstone investor. The fund is managed by Maven Capital, an independent fund manager. The £113 million fund comprises £55 million of funding from SIB (part-financed by Highlands and Islands Enterprise and ERDF) and £58 million of private sector investment. It provides SMEs with loans between £250,000 and £5 million.
- The Scottish Recycling Fund – which is delivered in partnership with Zero Waste Scotland. It provides loans between £50,000 and £1.9 million, over a maximum five-year term.

It also provides **non-financial support**, including portfolio management and SIB provides a Financial Readiness service to help businesses navigate the funding landscape, improve their attractiveness to potential investors and lenders and support for accessing appropriate funding from both the private and public sectors.

Our case study focused on SIB's arrangements for its equity funds – the SCF and the SVF. We looked at how it selects its co-investment partners and chooses which businesses to invest in. We spoke to SIB staff, a co-investment partner and a business that had received support.

Rationale for public-sector support

SIB was established to provide better access to finance for early stage and established SMEs with growth and export potential. SMEs make a vital contribution to the Scottish economy. In 2011 the Scottish Government considered that constrained access to finance posed a significant risk to economic recovery. Investment by SIB can help attract private sector investment into businesses. Evaluations of the SIB co-investment funds in 2013 found that all private sector investors would have invested less in businesses without the accompanying public sector investment.³

³ <http://www.evaluationsonline.org.uk/evaluations/Search.do?ui=basic&action=show&id=512>

Scottish Enterprise has undertaken detailed market analysis, independent evaluations and internal and external consultations to assess the rationale for continued public sector intervention in equity funding. In 2015, as part of its regular evaluation of the funds, the Scottish Enterprise Board approved funding of up to £74.5 million (inclusive of future European Regional Development Fund support) for the three years to 2018. Various alternative options were considered, including a reduced level of investment and/or procuring a private sector fund manager(s). The Board decided that continuing the current co-investment model would build on previous success and the proposed amount of £74.5 million was appropriate.

Scottish Investment Bank co-investment funds

SIB will only invest public funds in a business when the private sector is also willing to invest and where there is a gap in funding. Where equity investment is provided, Scottish Enterprise will become a shareholder in the business. In response to customer feedback, Scottish Enterprise recently streamlined its five equity funds into two to simplify the system for applicants, increase flexibility and reduce barriers to investment.

The Scottish Co-investment Fund (SCF) involves SIB investing alongside private sector investors who hold Accredited Partner status. Partners are typically angel investors, investor syndicates or venture capital companies who wish to undertake multiple investments alongside SIB. Accredited partners:

- identify investment opportunities
- undertake appropriate due diligence
- negotiate the terms of the deal
- invest its own funds into businesses
- offer the deal to Scottish Enterprise if there's a funding gap.

Scottish Enterprise contributes to the cost of setting up investments through an administration charge paid to the Accredited Partner, which is calculated as a percentage of Scottish Enterprise funds invested in the deal.

Private sector investors can apply to Scottish Enterprise to become a partner and, if successful, will sign a formal partnership agreement. The agreement details their responsibilities and the legal framework for the relationship with Scottish Enterprise. As part of the application process SIB evaluates the potential partners' investment history, key personnel, the availability of funds, their current portfolio and investment management arrangements, and previous investment exits.

The Scottish Venture Fund (SVF) is still private sector led, but SIB will undertake its own due diligence as appropriate on the business and the investment proposition. It will then work with the private sector investor to agree the terms of the investment. The private sector investor is not required to sign a partnership agreement and this is an arrangement that is better suited to some investors.

Impact

SIB has been successful in increasing the number of active private sector investors, the amount of capital being invested into early stage Scottish companies and raising the international profile of Scottish equity investment. To help improve the likelihood of success Scottish Enterprise provides businesses with other forms of support, including its account management service.

Between April 2003 and December 2015 SIB has invested over £335 million, from all of its funds, leveraging additional private sector investment into businesses of at least £827 million. Co-investment funds are the most significant, with over £216 million invested, leveraging £517 million of private sector investment. Although the main purpose of SIB funds is to support business growth, they can also provide Scottish Enterprise with income through the sale of investments and repayment of loans. Over this period, income has totalled £68 million. In certain circumstances, such as the failure of a business, SIB has to write off investments or sell shares for less than it originally invested. Over this period, write offs have totalled £39 million.

In 2014/15, the SIB Portfolio of investee companies (275 companies at 31 March 2015) supported over 3,500 full-time equivalent jobs and generated turnover of £342 million. It also supported these companies to grow internationally: companies in its portfolio secured £182 million worth of exports and 83 companies reported £130 million of international sales.

SIB assesses the performance of its Accredited Partners on a regular basis. This includes a formal annual review meeting and a discussion on likely investment activity in the year ahead. This helps to drive improvement for both SIB and its partners. The Accredited Partner and supported business that we spoke to were very positive about their experience of SIB engagement. They reported that public sector involvement made identifying private sector investment much easier by boosting the reputation of businesses.

Source: Audit Scotland



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