

# RURAL AND REGIONAL DISADVANTAGE IN THE HIGHLANDS AND ISLANDS

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Highlands and Islands Enterprise  
Iomairt na Gàidhealtachd 's nan Eilean

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# 1 INTRODUCTION, RESEARCH AIMS AND METHOD

## 1.1 INTRODUCTION

Indigo House was commissioned by Highlands and Islands Enterprise (HIE) to undertake research to evidence the extent and nature of rural and regional disadvantage experienced in the Highlands and Islands, relative to Scotland and the UK. The research considers how the use of the current evidence base may compound social and economic inequalities in the region and explores what other evidence and indicators could be used to illustrate rural and regional disadvantage, supported with lessons from elsewhere. The research also looks at how policy and funding mitigates or exacerbates disadvantage, comparing Scotland and UK policy with policy and funding mechanisms elsewhere. Within this, it considers Regional Aid Funding mechanisms, introduced by the UK Government to replace EU funds, and as part of their “levelling up” agenda which aims to “transform the UK by spreading opportunity and prosperity to all parts of it”. Potential development opportunities for the Highlands and Islands were explored, with an assessment of the key priorities to be addressed in the short, medium, and longer- term to better support rural economies, and to unlock rural potential.

## 1.2 RESEARCH AIMS AND METHODS

The research aims were to:

- Illustrate the nature and extent of regional and rural disadvantage across the Highlands and Islands relative to the rest of Scotland and the UK
- Review key indicators used to measure deprivation and disadvantage in Scotland considering their effectiveness in capturing this in a rural context
- Consider how approaches to development and associated funding approaches are successfully addressing or exacerbating and entrenching disadvantage
- Look at emerging economic opportunities for the Highlands and Islands, particularly those associated with climate change and green recovery, and explore how unlocking their potential could help address facets of disadvantage
- Explore relevant research undertaken nationally or internationally, with a view to learning how rural and regional disadvantage is being characterised and addressed elsewhere.
- Assess, at a fairly strategic level, key priorities to be addressed in the short, medium, and longer- term to better support rural economies, and unlock rather than constrain rural potential.

The research involved analysis of secondary data sources, a desk-based review of policy and funding mechanisms, and qualitative research with key stakeholders. This latter element involved consultation with 22 representatives from across the public sector, industry and community bodies, and academia. It aimed to gather opinion on what rural and regional disadvantage is, the role of public policy and funding to mitigate or perpetuate any inequalities, and perceived data challenges. It also sought to explore what needs to be done in the short, medium, and long term to address rural and regional disadvantage in the Highlands and Islands. All consultees were assured of anonymity with thematic, summarised reporting.

### 1.3 STRUCTURE OF THE REPORT

The report is structured as follows:

- Chapter 2 provides insights on **key drivers and characteristics of rural and regional disadvantage**, and how this is measured elsewhere.
- Chapter 3 presents **evidence of rural and regional disadvantage in the Highlands and Islands** compared with elsewhere in Scotland and the UK, including consideration of the impact of COVID-19 and Brexit.
- Chapter 4 examines **how well policies currently address rural and regional disadvantage** in the UK and Scotland compared with examples from elsewhere.
- Chapter 5 **examines funding mechanisms looking at how rural proofing and place-based policies are applied to funding**, including EU funding and considering in particular the replacement EU funds.
- Chapter 6 looks at **how to address rural and regional disadvantage in the Highlands and Islands, exploring opportunities for development** in the region and lessons/examples of innovation and opportunities.
- Chapter 7 draws together **conclusions and offers recommendations for the short, medium and long-term**.

## 2 UNDERSTANDING RURAL AND REGIONAL DISADVANTAGE

### 2.1 KEY LESSONS ON MEASURING RURAL AND REGIONAL DISADVANTAGE

There is a significant body of work which considers the key drivers and characteristics of rural and regional disadvantage. Much of the work was initially developed to inform policies and strategies underpinning EU funding. This chapter explores how rural and regional disadvantage has been measured elsewhere and what lessons this provides for understanding the key elements of rural and regional disadvantage in the Highlands and Islands.

#### 2.1.1 Peripherality

A peripherality index was developed by Andrew Copus for the European Union in 1999,<sup>1</sup> as part of a body of work to identify areas where transport and accessibility infrastructure improvements were most needed.<sup>2</sup> This analysis was based on a gravity model-based method to estimate 'economic' or 'market' potential, with the potential for economic activity at any location being a function both of its proximity to other economic centres and of their economic size or 'mass'. His conclusion was that **more remote areas have less potential for economic growth compared with core regions.**

The resulting index found the core regions of the EU to be around the cities of Paris, London, Rotterdam, Antwerp, Brussels, the Ruhr conurbation, Frankfurt, Stuttgart, Munich, Hamburg and Berlin. At the other extreme were the regions of northern Sweden and Finland, the Scottish Islands and the Aegean Islands. Large areas in the south-west of the Iberian Peninsula, Southern Italy, mainland Greece, Ireland and Northern Scotland also achieve relatively high peripherality scores (due to being more remote and with less economic growth). The European Peripherality Index (EPI) was further developed<sup>3</sup> by researchers at the Institute of Spatial Planning (IRPUD) at the University of Dortmund to provide GIS mapping software. The EPI helped inform decisions about transport infrastructure projects to **promote regional cohesion and improve the accessibility of peripheral regions.**

Copus and Loughry from the Scottish Agricultural College (SAC) further developed peripherality measures in 2002<sup>4</sup> to provide a framework for assessing the baseline position and evaluating programme impacts on transport infrastructure. The analysis suggested that two new peripherality indicators, Weighted Average Car Travel Time (shown in the map below) and Weighted Average Van Travel Cost were likely to prove more appropriate than the Peripherality Index estimated in previous reports. This was because the method was better suited to the task of assessing the impact of transport infrastructure investment, and results were easier to interpret.

The map below shows that the Highlands and Islands are the most peripheral parts of Scotland, with the Outer Hebrides, Orkney and Shetland Islands the most peripheral, followed by remote parts of the mainland.

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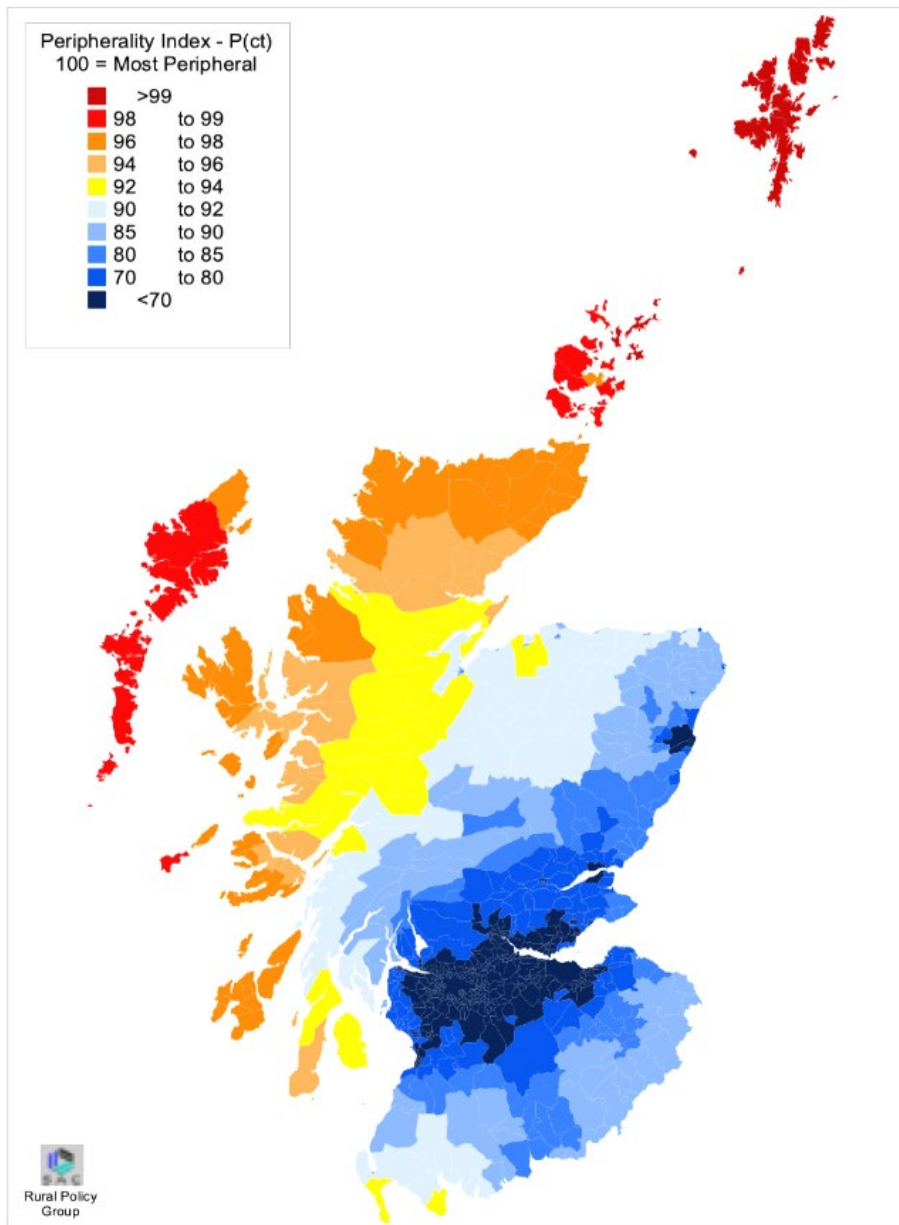
<sup>1</sup> <https://urbanauapp.org/wp-content/uploads/Urbana-Autumn-2001-Volume-VI-Number-1-Andrew-K.-Copus.pdf>

<sup>2</sup> [https://ec.europa.eu/regional\\_policy/sources/docgener/studies/pdf/periph.pdf](https://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/periph.pdf)

<sup>3</sup> [https://www.econstor.eu/bitstream/10419/115681/1/ERSA2002\\_224.pdf](https://www.econstor.eu/bitstream/10419/115681/1/ERSA2002_224.pdf)

<sup>4</sup> A Copus & Y Loughry (2002) Baseline Data and Programme Impact Indicators relating to Peripherality - A report Commissioned by The Highlands and Islands Special Transitional Programme, The Rural Policy Group Scottish Agricultural College (SAC)

**Map 1: SAC Peripherality index (car travel time)**



A range of insularity measures were also examined, based on indicators capturing the costs and time penalties of ferry links directly, some derived from the peripherality indicators, and some based on an assessment of ferry/flight capacity. Again, the Highlands and Islands were most disadvantaged in terms of these measures, but the travel time indices were determined to be of most practical use.

The European Policy Research Centre undertook an exploration of policy responses to peripherality in 2011.<sup>5</sup> Their research found a significant relationship in the vast majority of member states examined, between **peripherality** (defined in terms of low accessibility and low population density) and **poor performance, in at least some socio-economic indicators**. Their policy analysis concluded that although many regions had developed universal policy approaches, many also retained policies to focus on structurally weak regions. This is explored more in Chapter 4.

<sup>5</sup> <https://www.eprc-strath.eu/public/dam/jcr:2d3d3259-8f99-4769-9576-196531a32ff2/EoRPA%20paper%202011-6.pdf>

More recent work by ESPON in 2017 focused on ‘Inner Peripherality’<sup>6</sup> caused by various processes which limit development potential. The project identified **low economic potential, poor access to services of general interest and spatial peripheralisation processes at work**. The strength and quality of ‘relational proximity’ or ‘connectedness’ was considered as important. That is not just spatial connectedness, but networking capacity. Being well-connected provides better development opportunities, access to services and better labour market conditions to retain skilled workers. Areas at risk of inner peripherality may have good/fair access to services but may lack some services or rely on a single facility. Identifying areas ‘at risk’ involves looking at poor economic potential, poor access to services and demographic depletion. Interventions required include infrastructure investment, new technology and new forms of service delivery and building/strengthening networks. This has implications for many parts of the Highlands and Islands.

**EU funding decisions on significant transport and accessibility infrastructure have been based on a robust evidence base on the relationship between peripherality, poor access to services and constrained economic potential.**

Pugh and Dubois<sup>7</sup> also noted in 2021 that while the steady depopulation trends that had affected many peripheral and sparsely populated places were often associated with markers of socio-economic ‘decline’ this was often not grounded in the locals’ lived perception of the vitality of these places. **Hence, the shift in discourse from ‘periphery’ to ‘diversity’ was seen as a means of reframing contemporary understanding of socio-economic development taking place at the geographical margins.** They noted that researchers had found a number of ways in which the characteristics of peripherality can be leveraged, and that innovation and creativity can flourish in peripheral and remote areas. This is explored further in Chapter 6.

Research by Bailey and Gannon (2018)<sup>8</sup> concluded that the similarities between urban and rural areas were greater than differences. They found substantial levels of poverty in urban and rural locations although most measures showed higher levels in more urban locations. Some aspects of exclusion were worse in urban locations (notably neighbourhood problems and subjective well-being), with others worse in rural areas (notably transport and access to services). The analysis was, however, based on a rurality indicator that did not distinguish between more and less remote areas.

**The relationship between disadvantage and peripherality is nuanced, with subjective wellbeing important to set against economic prosperity, to better understand rural diversity alongside disadvantage and peripherality.**

## **2.1.2 OECD Rural Wellbeing**

The latest rural development framework by the OECD<sup>9</sup> examined a range of indicators in considering the challenges for rural areas including:

- Types of rurality – remote, near cities and within functioning urban areas
- Population decline, and ageing (dependency ratio)
- GDP per capita (and variation between top 20% and bottom 20%)
- GVA per worker
- Employment growth

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<sup>6</sup> <https://www.espon.eu/sites/default/files/attachments/D5%20Executive%20Summary%20PROFECY.pdf>

<sup>7</sup> <https://www.sciencedirect.com/science/article/pii/S0743016721002710#bib37>

<sup>8</sup> Bailey, N. and Gannon, M. (2018) More similarities than differences: poverty and social exclusion in rural and urban populations, in Dermott, E. and Main, G. (eds) Poverty and social exclusion in the UK: volume 1 - the nature and extent of the problem, 223-242. Bristol: Policy Press.

<sup>9</sup> [https://www.oecd-ilibrary.org/sites/d25cef80-en/1/3/2/index.html?itemId=/content/publication/d25cef80-en&\\_csp\\_=b742f7b6d3156322b4ff6d200a99c890&itemIGO=oecd&itemContentType=book](https://www.oecd-ilibrary.org/sites/d25cef80-en/1/3/2/index.html?itemId=/content/publication/d25cef80-en&_csp_=b742f7b6d3156322b4ff6d200a99c890&itemIGO=oecd&itemContentType=book)

- Digital skills
- Reading performance
- Broadband connectivity
- Patent activity

The OECD analysis showed several ways that **remote rural areas were disadvantaged when compared with rural areas closer to urban centres**. Demographic pressures from population decline were stronger in regions far from cities, with the ageing dependency ratio increasing fastest in remote regions in the past two decades. The income level, productivity level and employment rate for remote regions was 21, 14 and 3 percentage points below the OECD average. Rural regions struggled to create new jobs after the global financial crisis. Addressing the rural-urban digital divide in connectivity, and education and skills was identified as crucial to boost innovation in rural regions, which was lagging metropolitan areas.

The framework also suggested the need for **different policy approaches for remote rural areas**. Remoteness is a key driver of disadvantage, so better connectivity to remote rural areas was a key part of the suggested policy framework. This is explored in more detail in Chapter 4.

The challenges identified for remote rural areas were - highly specialised economies subject to booms and busts; limited connectivity and large distances between settlements; and high per capita costs of services. Opportunities were identified as absolute advantage in the production of natural resource-based outputs, attractiveness for firms that need access to urban areas, but not daily, and the ability to offer unique environments that can be attractive to firms and individuals. **Again, the emphasis is on diversity and opportunities rather than just understanding rural disadvantage.**

### 2.1.3 EU long-term vision

In December 2021, the European Commission set out a long-term vision for the EU's rural areas up to 2040.<sup>10</sup> It identified areas of action towards stronger, connected, resilient and prosperous rural areas and communities. It acknowledged that to enable members to make best use of their unique qualities, such as natural landscape and community strength, it was essential to understand and overcome the most acute challenges faced which included demographic change, high risk of poverty, and a lack of access to basic facilities. Key challenges were:

- 30.6% of the EU's population lived in rural areas, and rural and remote areas had the lowest shares of the EU's population in age groups below 50 years.
- The percentage of population 'at risk' of poverty and social exclusion was higher in rural areas than in towns and cities
- The average GDP per capita in rural regions was only three-quarters of the EU average
- The average road distance to essential services was much shorter in urban areas compared to rural areas. For example, in a city, the average road distance to the nearest doctor is 3.5km, whereas for remote rural areas, the average distance is almost 21.5 km
- Only 60% of households in rural areas have access to fast broadband (>30Mbps), compared to 86% of the EU population as a whole

The OECD and EU policy frameworks for rural areas both emphasise the need for policy approaches that build on rural community assets, while overcoming the specific challenges of infrastructure and accessibility. Chapter 4 provides more detail on the policies underpinning the OECD framework and the EU vision.

<sup>10</sup> [https://ec.europa.eu/info/strategy/priorities-2019-2024/new-push-european-democracy/long-term-vision-rural-areas\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/new-push-european-democracy/long-term-vision-rural-areas_en)



#### 2.1.4 The Nordic Regional Potential Index

In the Nordic Region, Nordregio's Regional Potential Index (RPI)<sup>11</sup> is constructed around a series of key socio-economic indicators relevant to the analysis of regional development, which captures the elements of infrastructure and accessibility outlined above. The data from the nine selected indicators is categorised into three dimensions: demographic, labour force and economic:

- Proportion of population living in urban areas of 5,000 inhabitants and more (maximum number of points allocated: 75). This replaces the indicator "population density" that was included in previous RPI
- Net migration rate (maximum number of points allocated: 75)
- Demographic dependency ratio (maximum number of points allocated: 75).
- Gender ratio (maximum number of points allocated: 75)
- Employment rate (maximum number of points allocated: 100).
- Proportion of the 25–64 age group with higher education degree (maximum number of points allocated: 100)
- Youth unemployment rate (maximum number of points allocated: 100)
- GRP per capita (maximum number of points allocated: 200)
- Total research and development (R&D) investment per capita (maximum number of points allocated: 100). This replaces the indicator "Total R&D investment" that was included in previous RPI

The indicators have strong communicative value - they are well established and are easily understood in the context of regional development. **They also show the strong role of demography in understanding regional performance.**

#### 2.1.5 Inclusive growth

The Scottish Government's National Strategy for Economic Transformation places a wellbeing economy, based on the principles of prosperity, equality, sustainability and resilience, at the heart of their vision for the economy in 2032.<sup>12</sup> It builds on the inclusive growth approach which was a key policy priority in their previous economic strategy (published in 2015)<sup>13</sup> which articulated an aim to achieve economic growth that "combines increased prosperity with greater equality, creates opportunities for all, and distributes the benefits of increased prosperity fairly". Inclusive growth is a core strand underpinning Scotland's wellbeing framework, its National Outcomes and policies,<sup>14,15</sup> and it underpins policies around employment and economic development, as well as the City and Growth Deals. Scotland is also a founding member of the Wellbeing Economy Governments (WEGo) group, an initiative launched in 2018 where member countries are working together to understand the key priorities for a wellbeing economy.<sup>16</sup>

Research undertaken by HIE and The James Hutton Institute<sup>17</sup> sought to produce a typology of areas in the Highlands and Islands with similar characteristics related to inclusive growth to provide a more nuanced understanding of the strengths and challenges experienced by communities in the region. Indicators were based on the primary themes of inclusion and prosperity as well as the contextual

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<sup>11</sup> <https://www.norden.org/en/nordicregion2020>

<sup>12</sup> <https://www.gov.scot/policies/economic-growth/>

<sup>13</sup> <https://www.gov.scot/policies/economic-growth/>

<sup>14</sup> <https://nationalperformance.gov.scot/>

<sup>15</sup> <https://www.gov.scot/publications/fairer-greener-scotland-programme-government-2021-22/pages/3/>

<sup>16</sup> <https://www.gov.scot/groups/wellbeing-economy-governments-wego/>

<sup>17</sup>

[https://www.hutton.ac.uk/sites/default/files/files/Note\\_Measuring\\_inclusive\\_growth\\_in\\_the\\_Highlands\\_and\\_Islands\\_a\\_typology.pdf](https://www.hutton.ac.uk/sites/default/files/files/Note_Measuring_inclusive_growth_in_the_Highlands_and_Islands_a_typology.pdf)

themes of physical geography and connectivity and population and social characteristics. The research used factor analysis to group indicators into a series of concepts or dimensions and cluster analysis to identify geographies with similar experiences related to inclusive growth.

The research illustrates the benefits of exploring inclusive growth through a number of indicators across a range of thematic areas. It uses data available at small area (datazone) level and provides a good example of the creative use of available data to capture different dimensions of inclusive growth. However, choice of indicators was based on those available at datazone or small area level. In some cases, this meant that the indicator used was the best proxy rather than the optimal measure for a given topic. With further refinement, this research and the approach described could significantly increase the evidence base around inclusive growth and rural diversity in Scotland.

## 2.2 CONCLUSIONS

Rural and regional disadvantage is understood as a structural form of disadvantage with peripherality, and population sparsity associated with constrained economic growth. OECD and EU policy frameworks point to the need to address rural disadvantage by targeting activity on accessibility and connectivity, and the need to build on rural community assets and opportunities. They also suggest the need for different policy approaches for remote rural areas. A strong focus on peripherality and demography, as in the European Peripherality Index and the Nordic Regional Potential Index provide examples of how to target resources to ease rural disadvantage.

Peripherality is key to inclusive growth and needs to be central to policy and funding to tackle disadvantage. There is strong evidence of a correlation between peripherality, socio-economic experiences, economic growth, and wellbeing.

There is also a need for greater emphasis on measures of inclusive growth that go 'beyond GDP' to capture wellbeing, considering rural diversity, opportunities and innovation as well as disadvantage, with recent work by HIE and the James Hutton Institute also providing an example of the effective use of small area data.

## 3 RURAL AND REGIONAL DISADVANTAGE IN THE HIGHLANDS AND ISLANDS

### 3.1 UNDERSTANDING THE EXPERIENCE IN THE HIGHLANDS AND ISLANDS

This section provides insights into the disadvantage experienced in rural areas comparing the Highlands and Islands to other rural parts of Scotland and the UK. It considers indicators related to the key factors of peripherality and demography, alongside relevant socio-economic data. Limitations with data sources commonly used to capture disadvantage are highlighted, with the implications for their use for determining funding priorities and informing policy development.

Comparator areas include Scottish local authorities outwith the Highlands and Islands (particularly the more rural regions of Dumfries and Galloway and the Scottish Borders), as well as relatively remote areas of England (Cumbria and Northumberland, North Yorkshire, and Cornwall/the Isles of Scilly) and Wales where comparable data is available. While these areas differ in size, population, and extent of rurality relative to the Highlands and Islands, their inclusion allows comparison with regions that had EU funding priority status (West Wales and the Valleys and Cornwall and the Scilly Isles were identified as less developed regions while the Highlands and Islands was a transitional region) and where tourism is a key sector (as it is in the Highlands and Islands). Other comparators provided include the most disadvantaged locations on key indicators.

#### 3.1.1 Defining rurality in the Scottish context

Rurality is not an uncontested term, so defining rurality in the Scottish context is the first step in considering geographic inequalities. Most of the data available for Scotland is based on the Scottish Government's Urban Rural Classification, which captures population size and accessibility.<sup>18</sup> In the simplest terms, 'rural' is defined as a settlement with fewer than 3,000 residents while urban is any settlement larger than this.

Rural areas are split into 'accessible' and 'remote', with accessible rural being those with a less than 30-minute drive time to the nearest settlement with a population of 10,000 or more; and remote rural being those with a greater than 30-minute drive time to the nearest settlement with a population of 10,000 or more. Within the 'urban' category, settlements are categorised into large urban areas, other urban areas, accessible small towns, and remote small towns.

While much of the Highlands and Islands is classified as 'remote rural' there are accessible rural areas within the region, and some accessible and remote small towns and other urban areas. The urban rural classification offers a means of comparing areas but, **even within remote rural areas there is a lot of complexity, with some varied and highly nuanced experiences, meaning that policy impacts in different ways in different places to respond to the reality on the ground.** The qualitative element of this research sheds further light on this and research undertaken by the James Hutton Institute and HIE provides detailed area profiles reflecting local characteristics, informed by specific challenges and opportunities facing communities.<sup>19</sup>

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<sup>18</sup> <https://www.gov.scot/publications/rural-scotland-key-facts-2021/>

<sup>19</sup> <https://researchontheedge.org/working-together-towards-a-better-understanding-of-inclusive-growth-in-the-highlands-and-islands/>

### 3.1.2 Population change

Chapter 2 outlines a key role for demography in understanding structural disadvantage in remote and rural areas, with population loss often associated with peripherality.

Between 2011 and 2020 **Scotland's population increased by 3.1% while the Highlands and Islands saw more limited growth (0.3%)**. Caithness and Sutherland, Argyll and the Islands and Innse Gall experienced the highest levels of population decline across the region – greater than 4% - while the population increased in Moray, the Inner Moray Firth and Orkney.

This recent decline is a reversal of previous trends, with a period of strong growth between 2001 and 2011 in the Highlands and Islands (7.8% compared with 4.7% for Scotland).<sup>20</sup>

There is a varied picture in other rural areas of Scotland, with growth in the Scottish Borders (up 1.2%) but decline in Dumfries and Galloway (down 2.1%) between 2011 to 2020. Overall, Scotland's remote rural population declined by 0.3%, while there was stronger growth in accessible rural areas (8.7%) than across the rest of Scotland (2.7%).

Both rural and urban areas in England saw an increase in overall population between 2011 and 2020 (up 6.0% and 6.6% respectively).<sup>21</sup> The population in Cumbria remained relatively stable, while Northumberland and North Yorkshire experienced growth (up 2.4% and 3.2% respectively) and Cornwall grew more significantly, by 7.4%. The UK population grew by 6.0% over the same period.

*Table 1: Highlands and Islands population change 2011-2020*

	2011	2020	% change
Argyll and the Islands	68,493	65,486	-4.4%
Caithness and Sutherland	39,809	38,037	-4.5%
Inner Moray Firth	153,776	158,311	2.9%
Innse Gall	27,690	26,500	-4.3%
Lochaber, Skye, and Wester	39,146	39,082	-0.2%
Moray	93,470	95,710	2.4%
Orkney	21,420	22,400	4.6%
Shetland	23,240	22,870	-1.6%
Highlands and Islands	467,043	468,396	0.3%
Scotland	5,299,900	5,466,000	3.1%
UK	63,285,145	67,081,234	6.0%
<b>Comparator Rural Local Authorities</b>			
Dumfries and Galloway	151,410	148,290	-2.1%
Scottish Borders	113,880	115,240	1.2%
Northumberland	316,278	323,820	2.4%
Cumbria	499,817	499,781	0.0%
North Yorkshire	601,206	620,610	3.2%
Cornwall	533,760	573,299	7.4%

Source: 2020 Mid-year population estimates (NRS); ONS

<sup>20</sup> <https://www.hie.co.uk/research-and-reports/our-region-in-detail/>

<sup>21</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/912408/Rural\\_population\\_August\\_2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/912408/Rural_population_August_2020.pdf)

It is important to note that population estimates are subject to some measurement error. The cohort component method uses the previous mid-year resident population as the basis of the estimates, aging everyone by a year, and then estimates population change by adding births, removing deaths, and allowing for migration and other special population movements (e.g., prisoners). Although the method is continually improved and subject to quality control measures, it remains an estimate.<sup>22</sup> The Census provides the most accurate data on population, although this is only undertaken around every ten years, with the next Scottish census findings expected in 2023/24.

Scotland's remote rural population has not seen the growth that accessible rural areas in Scotland and the UK have. While the Highlands and Islands overall saw a slight increase in population between 2011 and 2020, growth lagged that for the country overall, with a number of remote and island communities experiencing considerable population decline.

### 3.1.3 Population density, sparsity, and increased dependency ratios

Remoteness impacts on disadvantage in numerous ways, through additional household costs as well as the loss/rationalisation of service provision. The population density in the Highlands and Islands is 12 persons per square kilometre compared with 133 across the rest of Scotland and 330 across the rest of the UK. Within the Highlands and Islands, Lochaber, Skye and Wester Ross, and Caithness and Sutherland have the lowest population density (at 4 and 5 persons per sq. km).

*Table 2: Highlands and Islands population density*

Area	Population 2020	Area (sq. km)	Density (Persons per sq. km)
Highlands and Islands	468,396	40,400	11.6
Rest of Scotland (excluding Highlands and Islands)	4,997,604	37,525	133.2
Rest of UK (excluding Highlands and Islands)	66,612,604	202,114	329.6
Scotland overall	5,466,000	77,925	70.1
UK overall	67,081,234	242,741	276.3
Argyll and the Islands	65,486	6,965	9.4
Caithness and Sutherland	38,037	7,717	4.9
Innse Gall	26,500	2,999	8.8
Inner Moray Firth	158,311	8,065	19.6
Moray	95,710	2,238	42.8
Orkney	22,400	989	22.7
Shetland	22,870	1,438	15.9
Lochaber, Skye, and Wester Ross	39,082	9,940	3.9

Source: 2020 Mid-year population estimates (NRS), Land Area from statistics.gov.scot.<sup>23</sup> UK data sourced from the Office for National Statistics (ONS).<sup>24</sup>

Population density in all parts of the region except Moray, is equal to or less than the lowest levels elsewhere in Scotland. Population density in Moray (at 43) is similar to Aberdeenshire (41) and Stirling (43). Dumfries and Galloway (23), Scottish Borders (24) and Perth and Kinross (29) are the only other local authority areas in Scotland with a population density below 50 people per square kilometre.

<sup>22</sup> <https://www.nrscotland.gov.uk/files/statistics/population-estimates/mid-19/mid-year-pop-est-19-methodology.pdf>

<sup>23</sup> <https://statistics.gov.scot/resource?uri=http%2F%2Fstatistics.gov.scot%2Fdata%2Fland-area-2011-data-zone-based>

<sup>24</sup>

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesandscotlandandnorthernireland>

English local authorities tend to be more densely populated.<sup>25</sup> Eden in Cumbria has the lowest population density at 25 people per square kilometre followed by Ryedale in North Yorkshire at 37. The lowest population density in Wales is in Ceredigion (41). Therefore, all sub-regions of the Highlands and Islands have a lower population density than the least populated regions in England, and all bar Moray, than the least populated area of Wales. **As well as having the lowest population density in the UK, the Highlands and Islands has among the lowest population densities in Europe.**<sup>26</sup>

Recent work on sparsely populated areas (SPA) in Scotland<sup>27,28</sup> by The James Hutton Institute identified areas with more sparse populations as having higher current and projected dependency ratios (the ratio of non-working age to working-age people). The average dependency ratio of the SPA was seven percentage points above the national average in 1996. By 2016 the relationship between the rates remained the same, but the gap had widened, with the SPA 16 percentage points above the Scottish average. By 2026 the margin is projected to reach twenty-five percentage points, and by 2037 more than forty percentage points.

Analysis of dependency ratios across the Highlands and Islands indicates that **Innse Gall and Argyll and Bute are particularly vulnerable**, with dependency ratios of over 90.0 projected by 2043 compared with 65.9 across Scotland and 67.0 for the UK (Table 3).

The age profile of the population is of particular importance in terms of contributing to community sustainability. It impacts on the available workforce and poses strategic challenges for the provision of health and social care across sparse areas. **Where remoteness exists alongside an ageing population, this has an impact on community sustainability and growth, as well as the need for additional health and social care services.**

Almost a third (31%) of the Highlands and Islands population is projected to be aged 65 years or older by 2043 ranging from 35% in Argyll and Bute and 34% in Innse Gall to 28% in Shetland. Projections for Scotland (25%) and the UK (24%) are considerably lower.<sup>29</sup> Similarly high projections for those aged 65+ are found in the Scottish Borders (31% by 2043) and Dumfries and Galloway (34% by 2043)<sup>30</sup> - the two local authorities outside of the Highlands and Islands with the oldest age profiles and lower population density.

**Remote rural areas within the Highlands and Islands with lower population densities are projected to have an older population profile by 2043. This pattern is also observed in other rural areas including in the South of Scotland.**

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<sup>25</sup>

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland>

<sup>26</sup> <https://www.hie.co.uk/research-and-reports/our-region-in-detail/>

<sup>27</sup> [https://www.hutton.ac.uk/sites/default/files/files/RD%203\\_4\\_1%20Working%20Paper%201%2001\\_1%20161117.pdf](https://www.hutton.ac.uk/sites/default/files/files/RD%203_4_1%20Working%20Paper%201%2001_1%20161117.pdf)

<sup>28</sup>

[https://www.hutton.ac.uk/sites/default/files/files/RD%203\\_4\\_1%20Working%20Paper%202%2001\\_2ii%20270218%20-%20published.pdf](https://www.hutton.ac.uk/sites/default/files/files/RD%203_4_1%20Working%20Paper%202%2001_2ii%20270218%20-%20published.pdf)

<sup>29</sup>

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/localauthoritiesinenglandtable2>

<sup>30</sup> <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-projections/sub-national-population-projections/2018-based/summary-datasets>

Table 3: Highlands and Islands dependency ratios

	2011	2018	2043 - projections
Innse Gall	62.7	71.1	95.3
Moray	57.9	62.1	80.9
Orkney	58.0	65.4	85.7
Shetland	55.3	61.6	75.3
Argyll and Bute	61.4	68.2	90.1
Highland	57.3	63.3	78.7
Lochaber, Skye, and Wester Ross	59.1	65.0	*
Caithness and Sutherland	61.5	69.0	*
Inner Moray Firth	55.8	61.6	*
Highlands and Islands (LA based)**	58.4	64.4	81.8
Scotland	52.0	55.7	65.9
UK		60.0	67.0

Source: NRS Small Area Population Estimates; 2018 based Sub-national population projections (LA-based)

\* Projections are not available below local authority level. Dependency ratios (the number of dependents (under 16's and over 65's) per 100 people of working age (16-64)); UK: ONS 2018-based population projections.

\*\*Highlands and Islands (LA based) is based on Innse Gall, Moray, Orkney, Shetland, Argyll and Bute and Highland.

The attraction and retention of young people is essential to support population growth and sustain communities across the region. HIE's 2018 research on Young People and the Highlands and Islands: Maximising Opportunities,<sup>31</sup> found that **increasingly, young people are keen to remain, return or move to the Highlands and Islands**. However, most respondents felt that compromises were necessary to do so, particularly for those living in more remote and rural communities. High-quality, well paid job opportunities with good career progression prospects, affordable housing and a lower cost of living were seen as the most critical factors that need to be in place to enable young people to live, work and study in the region.

The study findings are reflected in the National Islands Plan Survey,<sup>32</sup> published in July 2021, in which survey respondents felt there was **a lack of support for young people to remain, move or return to the islands**. There was perceived to be a lack of employment, training and higher education opportunities and a lack of childcare options to fit with residents' working patterns. Respondents also felt there was a poor variety of housing (type, size, and tenure) to meet people's needs and a lack of affordable housing.

This highlights the importance of demography for future economic growth, but also how current socio-economic factors can impact on demographic trends. Further evidence of these interconnected facets of disadvantage which can impact on demography are explored later.

### 3.1.4 GVA increasing at a lower-than-average rate

As noted earlier, peripherality and sparsity are commonly associated with constrained economic growth. Gross value added (GVA) is a measure of the value generated by any unit engaged in the production of goods and services in an area, industry or sector of an economy, and looking at GVA per head provides a useful way of comparing regions of different sizes.

<sup>31</sup> <https://www.hie.co.uk/research-and-reports/our-reports/2018/may/31/yp-research/>

<sup>32</sup> <https://www.gov.scot/publications/national-islands-plan-survey-final-report/>

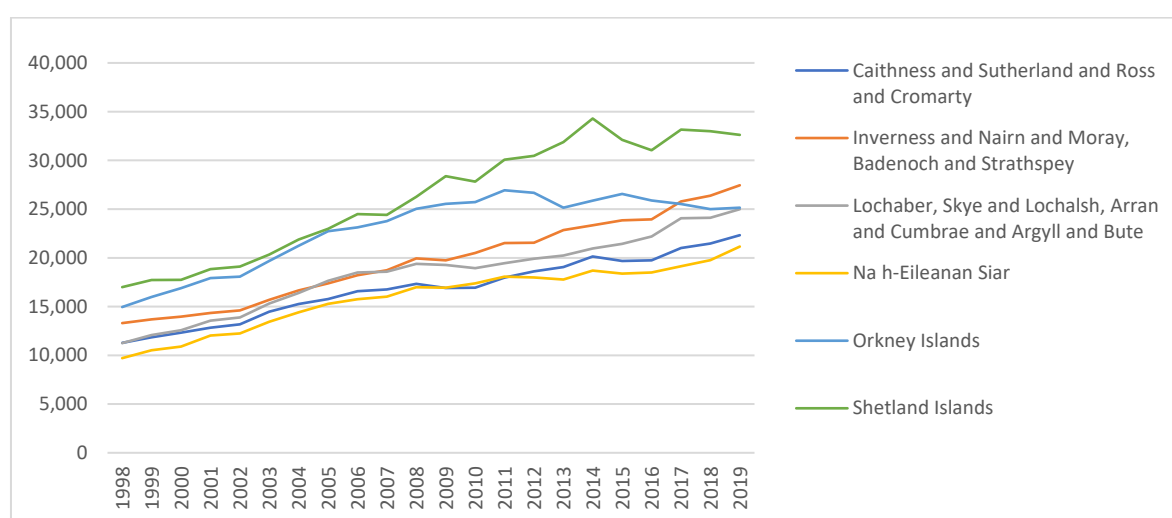


Provisional figures for 2019 show that the Highlands and Islands had GVA per head of £25,691 which is 95% of the Scottish level of £26,969.<sup>33</sup>

Sub-regional data suggests that, although GVA per head increased across the Highlands and Islands between 2009 and 2019, there is significant variation within the region. Levels were highest in Shetland (£32,618 per head in 2019) and lowest in Na h-Eileanan Siar (£21,158), and Caithness and Sutherland and Ross and Cromarty (£22,325). The UK GVA figure per head was £29,599 in 2019 – higher than all the areas of the Highlands and Islands except Shetland.

Apart from North Yorkshire (£25,772), GVA per head was higher in the Highlands and Islands in 2019 than in all rural comparator areas of England and Wales: Cumbria (£24,405), Northumberland and Tyne and Wear (£22,144), Cornwall and the Scilly Isles (£20,055) and West Wales and the Valleys (the lowest GVA per head of all NUTS 2 areas of the UK (£18,601)).

*Figure 1: GVA per head by HIE NUTS3 areas (1998-2019)*



Source: ONS Regional Gross Value Added (balanced) per head

The estimates of GVA per head provided above are based on current prices, which include the effects of inflation. Looking at change in real GVA is more useful for assessing growth over time as it allows us to measure the actual change in output with the effects of price changes removed.

Over the period 2010-2019, the Highlands and Islands (at 11.8%) was among the regions<sup>34</sup> of the UK with the lowest growth in real GVA (12<sup>th</sup> lowest of 41 regions). Within Scotland, North-Eastern Scotland (5.2%) and Southern Scotland (7.4%) both had lower levels of growth than the Highlands and Islands. Of the comparator rural areas in England and Wales, both Cumbria (3.6%) and Northumberland and Tyne and Wear (6.6%) experienced lower real GVA growth than the Highlands and Islands over this period, while growth was higher in West Wales and The Valleys (12.8%), North Yorkshire (13.5%) and Cornwall and the Isles of Scilly (19.7%).

This shows a nuanced picture of GVA in the Highlands and Islands, with among the lowest real growth rates and GVA per head that is below the Scottish and UK average but a higher GVA per head than most comparator rural areas of England and Wales, including the other former EU funded areas of Cornwall and the Isles of Scilly and West Wales.

<sup>33</sup>

<https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalregionalgrossvalueaddedbalancedperheadandincomecomponents>

<sup>34</sup> Based on NUTS 2 areas



While GVA provides insights into the comparative productivity of different locations and facilitates comparisons between the Highlands and Islands with Scotland and the UK, changes in the way it is calculated combined with changes in the way that NUTS2 areas are grouped have affected the position of the Highlands and Islands relative to Scotland overall. The Highlands and Islands appears to have performed more strongly compared with Scotland than was previously the case, with relatively higher GVA per head rates compared with, for example, the South of Scotland. **As GVA is a factor in funding decisions, this change in method may have adversely affected funding priority.** This is explored further in Chapter 5.

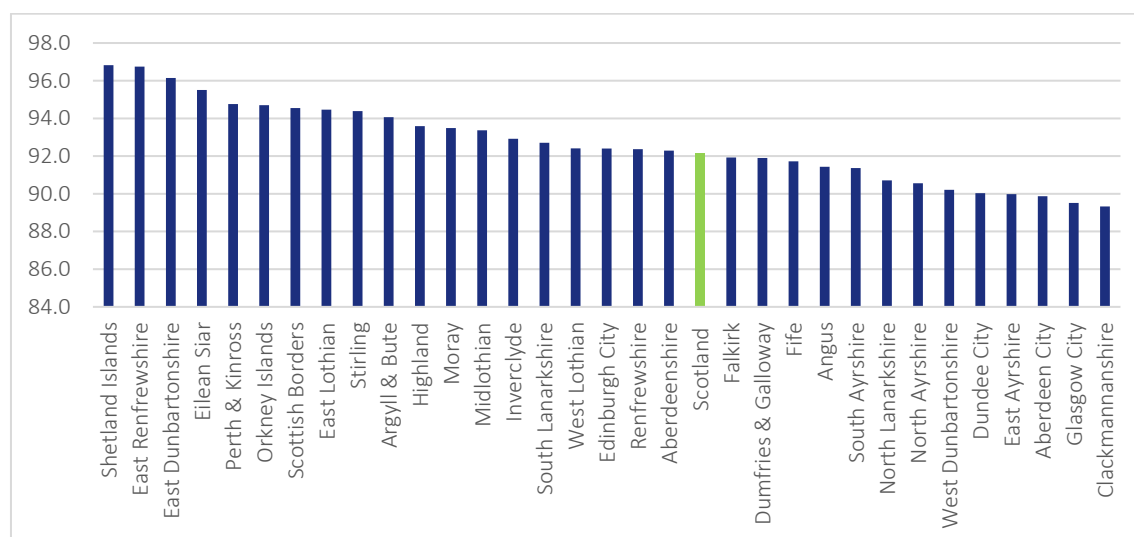
### 3.1.5 High economic participation amongst 16–19-year-olds

Having a skilled workforce is critical for economic growth, as skills development can reduce unemployment and underemployment, increase productivity, and improve standards of living.<sup>35</sup> The overall participation rate of those aged 16-19 in education, training and employment is higher than the Scottish average (92.1%) in all local authorities in the Highlands and Islands (ranging from 93.5% in Moray to 96.8% in Shetland).

Within this, participation in employment among those aged 16-19 years is higher than the Scottish average in all local authorities in the Highlands and Islands area except North Ayrshire, with rates as high as 27.6% in Shetland and 27.3% in Orkney. Conversely, the proportion of those aged 16-19 entering education is lower than the Scottish average in all areas of the region.

Looking at destination by rurality, remote rural and remote small towns in general are more likely to see school leavers enter employment.

*Figure 2: Participation rates of 16–19-year-olds in education, training or employment by LA (2020)*

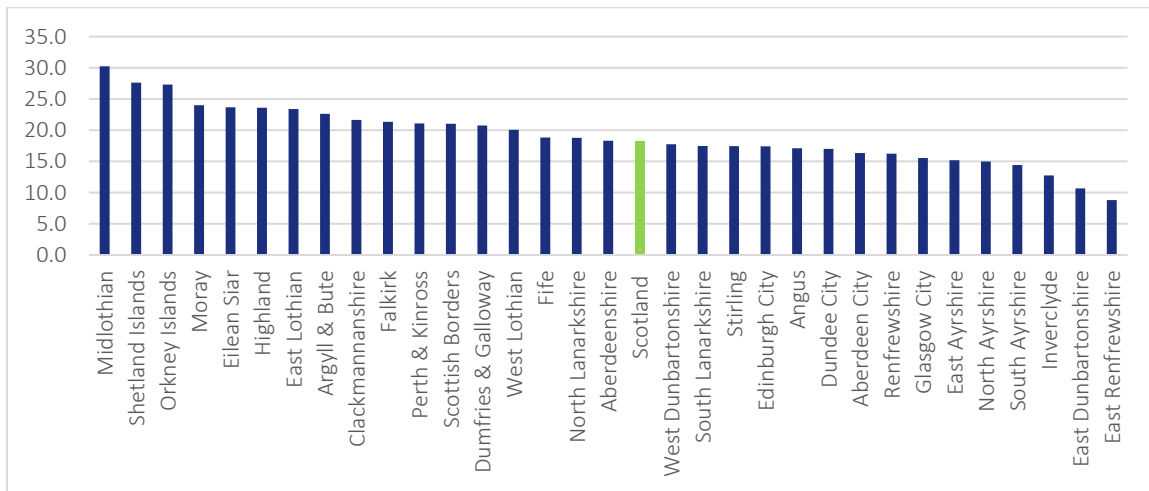


Source: Skills Development Scotland<sup>36</sup>

<sup>35</sup> <https://www.worldbank.org/en/topic/skillsdevelopment>

<sup>36</sup> <https://www.skillsdevelopmentscotland.co.uk/publications-statistics/statistics/annual-participation-measure/?page=1&statisticCategoryId=7&order=date-desc>

Figure 3: Participation rates of 16–19-year-olds in employment by LA (2020)



Source: Skills Development Scotland<sup>37</sup>

These young workers may well be in jobs where they are learning skills on the job. HIE's 2018 research on Young People and the Highlands and Islands,<sup>38</sup> identified a steady job, good work-life balance, and opportunities to progress as the top three factors young people sought in a job. However, a lack of local opportunities was seen as a barrier to achieving employment goals. The National Islands Plan survey reported a lack of employment, training, and higher education opportunities on the islands in particular. The quality of employment and skills is examined more below.

### 3.1.6 Self-employment, underemployment, and lower skilled employment

Traditionally, the economic activity rate in the Highlands and Islands has been higher than nationally. However, data for October 2020–September 2021 indicates that the regional **economic activity rate (76.6%) is broadly in line with the national average (76.1%)**, and below the UK level (78.3%). Within this, there are higher rates of self-employment – 10.3% regionally compared with 7.7% across Scotland (and 9.4% across the UK). Economic inactivity increased during the pandemic, and it is too early to tell if the decline in economic activity is a short-term adjustment or a longer-term trend.

Occupations vary, with proportionately **more employment in skilled trades but lower levels in professional and associate professional and technical occupations**. A lower proportion of the workforce had a qualification equivalent to NVQ level 4 in the Highlands and Islands than across Scotland and the UK.

Rural comparator areas in England also show higher levels of self-employment and lower qualifications. While there is a mixed picture across other employment indicators, the data indicates that **the challenge of providing higher skilled employment appears to be common to some other rural and remote areas of the UK**.

<sup>37</sup> <https://www.skillsdevelopmentscotland.co.uk/publications-statistics/statistics/annual-participation-measure/?page=1&statisticCategoryId=7&order=date-desc>

<sup>38</sup> <https://www.hie.co.uk/research-and-reports/our-reports/2018/may/31/yp-research/>

**Table 4: Highlands and Islands employment patterns and skills**

	Highlands and Islands	Scotland	UK
Economic activity rate - aged 16-64	76.7	76.1	78.3
% self-employed	13.9	10.5	12.6
% managers, directors and senior officials	9.4	8.5	10.6
% professional occupations	19.2	24.0	23.4
% associate prof & tech occupations	13.6	15.3	15.4
% administrative and secretarial occupations	9.4	9.6	10.3
% skilled trades occupations (SOC2010)	12.9	9.0	8.9
% with NVQ4+ - aged 16-64	40.9	49.0	43.0

Source: NOMIS Annual Population Survey Oct 2020-Sept 2021; % of all in employment for self-employed to % skilled trades; % with NVQ4+ based on data for Jan-Dec 2020

**Table 5: UK Regional comparisons employment patterns and skills**

	Cornwall	Cumbria	North Yorkshire	Northumberland
Economic activity rate – aged 16-64	78.5	76.6	75.7	76.9
% self-employed	17.1	13.9	16.4	7.0
% managers, directors and senior officials	9.9	11.8	8.9	8.2
% professional occupations	16.6	15.7	18.2	21.0
% associate prof & tech occupations	11.4	13.7	12.4	14.9
% administrative and secretarial occupations	10.1	11.4	9.5	10.1
% skilled trades occupations (SOC2010)	14.1	12.3	11.1	9.0
% with NVQ4+ - aged 16-64	34.4	38.1	38.1	33.8

Source: NOMIS Oct 2020-Sept 2021; % of all in employment for self-employed to % skilled trades; % with NVQ4+ based on data for Jan-Dec 2020

Higher levels of employment mask variation in working patterns. **A greater proportion of the workforce in the Highlands and Islands is estimated to have a second job** – 5.1% compared to 3.5% across Scotland, 3.6% in the UK and 3.3% in Southern Scotland.<sup>39</sup> Small sample sizes mean data is not available for most sub-regions of the Highlands and Islands. Of course, having more than one job might provide flexibility and indicate diversity (in the case of crofting, for example).

**Part-time working was more common in the Highlands and Islands**, where 35% of employees worked less than 35 hours a week, compared with 31% of Scottish workers and 30% of workers across the UK. It is estimated that in 2018, 7.4% of workers aged 16+ in Scotland would prefer to work longer hours (compared with 7.5% in the UK).<sup>40</sup> Within the Highlands and Islands, this ranged from 6.2% in Moray, 6.5% in Argyll and Bute, 7.7% in Highland to 13.2% in North Ayrshire and 13.5% in Inne Gall – the two areas with the highest rates of all local authorities in Scotland.<sup>41</sup> Small samples sizes mean that results were not presented for Orkney or Shetland or for sub-regions in more recent years. Rates were 8.6% in both the Scottish Borders and Dumfries and Galloway.

<sup>39</sup> <https://www.nomisweb.co.uk/> - Annual Population Survey July 2020-June 2021 (T16a – second jobs as a % of all people in jobs (T13a)

<sup>40</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/underemploymentandoveremploymenttemp16>

Workers in rural areas across the Highlands and Islands are more commonly employed in multiple jobs, or in jobs where working hours may not generate an adequate income, compared with workers in Scotland generally.

The analysis of employment patterns and skills above is drawn from the Annual Population Survey – a key data source in informing policy/funding/assessing economic context. However, as a sample survey dataset, there are limits to its use to compare sub-regions. Sample sizes are insufficient to provide robust annual estimates for sub-regions of the Highlands and Islands and other rural locations - even when taking the Highlands and Islands region as a whole, error is significant compared to that for Scotland or the UK.

However, an indicator of employment quality is an important aspect of rural disadvantage so data on second jobs might be examined at the regional level for the purposes of funding decisions and considered alongside other features of employment in the Highlands and Islands.

### 3.1.7 Lower than average unemployment

Unemployment in the Highlands and Islands tends to be lower than the Scottish average, with the lowest rates in Orkney and Shetland.

Unemployment did rise markedly during the COVID-19 pandemic, with Argyll and Bute, Highland and Inne Gall seeing the greatest increases by May 2020. By January 2022, unemployment rates had fallen, but still remained higher than pre-COVID levels, at 3.1% for the Highlands and Islands, 4.0% in Scotland and 4.3% in the UK.

Seasonality also affects unemployment across the Highlands and Islands, with higher levels of unemployment expected in winter months.

*Table 6: Claimant count (16+) as a % of those aged 16-64 years (Highlands and Islands, Scotland and UK)*

Area	May 2018	May 2019	May 2020	May 2021	January 2022
Inne Gall	1.7	2.0	5.7	4.6	3.1
Orkney	0.8	1.3	3.1	2.5	1.9
Shetland	0.8	1.4	3.5	2.8	2.0
Argyll and the Islands	1.9	2.9	7.5	5.8	4.3
Moray	1.8	2.5	5.0	4.6	3.1
Caithness & Sutherland	3.1	3.3	6.1	4.8	3.3
Inner Moray Firth	2.7	2.4	5.4	4.6	2.9
Lochaber Skye and Wester Ross	1.6	1.9	7.2	5.1	3.3
Highlands and Islands	2.1	2.4	5.6	4.6	3.1
Scotland	2.6	3.1	6.1	5.5	4.0
United Kingdom	2.2	2.7	6.4	5.9	4.3

Source: NOMIS

Reflecting the overall picture, **claimant count rates of youth (aged 18-24) unemployment in the region are generally lower in the Highlands and Islands than nationally.** Levels peaked in July 2020 during the COVID-19 pandemic reaching 10.3% in the Highlands and Islands and 9.9% across Scotland. For both, levels have returned to those seen prior to the pandemic (4.3% and 4.7% respectively in March 2020).

Post COVID-19 unemployment in the Highlands and Islands remains lower than in Scotland and the UK, with significant improvements in youth unemployment. However, this should be considered in the context of lower skills levels and working patterns, as discussed earlier.

It is important to note that the claimant count, while providing the most granular and up-to-date data, may undercount unemployment. The Claimant Count includes out of work Universal Credit claimants as well as Jobseeker's Allowance claimants but may not include everyone who is unemployed, if they are not eligible for Universal Credit, cannot evidence work seeking or decide not to apply for Universal Credit.

### 3.1.8 Relatively narrow business base and reliance on SMEs

Including central and local government, there are around 22,500 enterprises in the Highlands and Islands, representing 12.5% of the Scottish business base. However, the region accounts for a smaller proportion of all employees in Scotland (8.8%).<sup>42</sup> This reflects the dominance of small and micro businesses (0-49 employees) within the region, which account for around two-thirds of private sector employment (66.9%) compared to just over half across Scotland overall (50.6%).

Within the Highlands and Islands, just under half of employment is within four sectors: health; agriculture, forestry and fishing, retail and accommodation and food services (47% compared to 36% nationally),<sup>43</sup> and hence there is a lower share of employment in higher paying sectors. This is particularly evident in some of our more remote and rural areas.

### 3.1.9 Lower than average earnings

Data on earnings from the Annual Survey of Hours and Earnings for 2020 show an overall median gross weekly full-time wage of £595 across Scotland and £585 across the UK.<sup>44</sup> All six of the local authorities covering most of the Highlands and Islands<sup>45</sup> had lower wage rates than the Scottish and UK average, apart from Shetland. Moray and Argyll and Bute reported the lowest wages on average, at closer to £550 per week.

Rural areas in Scotland, including the Scottish Borders (£522) and Dumfries and Galloway (£518), tend to have lower than average wages. Across the UK, rural areas with lower-than-average wages include Eden in Cumbria (£527), Craven in North Yorkshire (£486), Richmondshire (£460) and Cornwall (£494), as well as some parts of rural Wales (at just over £500 per week).

Wages are an important contributory factor of rural disadvantage. However, sample sizes in the Annual Survey of Hours and Earnings (a key data source on wages) mean that there is greater error attached to many locations in the Highlands and Islands. As such, **analysis needs to ensure data comparisons from a number of years to test robustness, if being used as an indicator in funding measures.**

**The analysis above shows higher employment, lower unemployment and higher self-employment rates are coupled with lack of higher skilled full-time employment opportunities, and lower skilled jobs with lower wages in the Highlands and Islands compared with the Scottish average.** This reflects patterns seen in other rural areas across Scotland and the UK. Such issues need to be considered alongside unemployment and productivity measures when considering how funding can address rural and regional disadvantage.

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<sup>42</sup> Inter-departmental Business Register (IDBR) 2020

<sup>43</sup> BRES 2020

<sup>44</sup> The median is the point at which 50% of wages are above this point and 50% are below

<sup>45</sup> Highland, Western Isles, Shetland Islands, Orkney Islands, Moray and Argyll and Bute

### 3.1.10 Additional costs of living

The Rural Services Network<sup>46</sup> commissioned research in 2021 on rural growth which identified productivity constraints: **low wages and fewer jobs in higher-skilled/higher value sectors in rural areas, with a higher productivity gap compared with urban areas.** Although incomes tended to be lower, living costs were higher and housing affordability a significant issue. **Lower income jobs also appeared 'below the radar' in deprivation statistics which tended to be based on benefit dependency.**

With wages being typically lower than average, they also have further to stretch in many parts of the Highlands and Islands. Research undertaken in 2013 and updated in 2016 on the Minimum Income Standard (MIS) for Remote Rural Scotland identified additional costs of around 10-35% more than those in urban areas.<sup>47</sup> Costs varied considerably across household and settlement types and were most significant for those living in small island communities, influenced especially by the high cost of energy, food, household goods and transport.

Work led by Scottish Government in 2021 sought to estimate certain additional costs that make it more expensive to meet a minimum acceptable standard of living in remote areas of Scotland specifically to inform an adjustment to net income for the calculation of fuel poverty in remote rural, remote small town and island areas. Reflecting the earlier MIS for Remote Rural Scotland work, the research identified **significant additional costs in remote rural Scotland across a range of spending categories**, including food, clothing, household goods and holidays. However, most of these are relatively small compared to the **dominant extra cost - the cost of travel.** Again, costs varied by household type and location.

The work concluded that **a minimum acceptable standard of living in remote rural Scotland typically required between a tenth and a third more household spending than in urban parts of the UK.**<sup>48</sup> However, this is likely to be an underestimate as it is not a comprehensive account of the additional costs that arise in remote rural Scotland - it does not include fuel costs and not all situations of remote rural living have been examined (a smaller number of typologies were explored in the study compared with the previous MIS for Remote Rural Scotland research).

*Table 7: Percentage additional MIS costs in remote rural Scotland, 2021*

Household type	Mainland	Island
Couple+2	16.2%	15.5%
Family with children, rounded uplift (based on couple+2 case)	16%	15%
Single working age	20.0%	13.6%
Couple working age	20.6%	13.8%
Working age rounded uplift (based on average of single and couple)	20%	14%
Single pensioner	30.5%	37.1%
Couple pensioner	20.7%	29.1%
Pensioner rounded uplift (based on average of single and couple)	26%	33%

Source: <https://www.gov.scot/publications/cost-remoteness-reflecting-higher-living-costs-remote-rural-scotland-measuring-fuel-poverty/pages/5/>

<sup>46</sup> <https://rsnonline.org.uk/images/publications/cultivating-rural-growth.pdf>

<sup>47</sup> <https://www.hie.co.uk/research-and-reports/our-reports/2016/november/30/a-minimum-income-standard-for-remote-rural-scotland-a-policy-update/>

<sup>48</sup> <https://www.gov.scot/publications/cost-remoteness-reflecting-higher-living-costs-remote-rural-scotland-measuring-fuel-poverty/pages/6/>

Some parts of the public sector do recognise these additional costs and provide additional wage allowances to counteract them. In their recent review of policing for hard-to-reach posts in January 2021, Police Scotland noted that NHS Boards, Special Health Boards and NHS National Services Scotland covering Shetland, Orkney and the Western Isles pay all staff a Scottish Distant Islands Allowance. Rates for this are agreed with the Scottish Government on an annual basis. On 1 April 2020, they were as follows:

- Shetland - £1,895 per annum
- Orkney - £1,263 per annum
- Western Isles - £1,074 per annum.

It was also noted that the Scottish Negotiating Committee for Teachers have a longstanding and annually re-negotiated Distant Islands and Remote Zone Allowances. For secondary school teachers (at 1 April 2020) this equated to Distant Island - £2,157; Remote School - £1,515 (where teachers work on a distant island and from a remote school, both allowances are payable).

### 3.1.11 Fuel poverty

Fuel poverty is considerably higher in the Highlands and Islands than other parts of Scotland. The 2019 Fuel Poverty Act<sup>49</sup> established a new two-part definition whereby a household is considered fuel poor if:

- after housing costs have been deducted, more than 10% (20% for extreme fuel poverty) of their net income is required to pay for their reasonable fuel needs; and
- after further adjustments are made to deduct childcare costs and any benefits received for a disability or care need, their remaining income is insufficient to maintain an acceptable standard of living, defined as being at least 90% of the UK Minimum Income Standard (MIS).

To take account of the generally higher costs of living in Scotland's remote, rural and island communities, the legislation provides for uplifts to be applied to the MIS for households in these areas (see section 3.1.10 above). Even accounting for this, estimates for 2017-2019 show **remote rural areas in the Highlands and Islands to be clearly the most disadvantaged in terms of extreme fuel poverty**, with rates ranging from 19% in Argyll and Bute and Moray to 24% in Inverclyde compared with 12% for Scotland overall.<sup>50</sup> The fuel poverty gap (the annual amount required to move a household out of fuel poverty) is higher in island and rural local authorities.

### 3.1.12 Transport poverty and peripherality

Remoteness has been evidenced as a key driver of disadvantage, and peripherality a key driver of constrained economic growth. As such, the strength and quality of 'relational proximity' or 'connectedness' to more urban locations is important, as flagged by the ESPON study (2017) on 'Inner Peripherality' cited earlier.

In 2019, Transport Scotland commenced the second Strategic Transport Projects Review<sup>51</sup> (the first having been published in 2008) to inform transport investment in Scotland for the period 2022-2042. The review considered the transport needs of Scotland's people and communities across all modes – active travel, bus, ferry, rail, motorways, and trunk roads as well as passenger and freight access to major ports and airports.

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<sup>49</sup> <https://www.gov.scot/publications/island-communities-impact-assessment-fuel-poverty-targets-definition-strategy-scotland-bill/pages/15/>

<sup>50</sup> <https://www.gov.scot/publications/scottish-house-condition-survey-local-authority-analysis-2017-2019/pages/6/>

<sup>51</sup> <https://www.transport.gov.scot/publication/summary-report-january-2022-stpr2/>

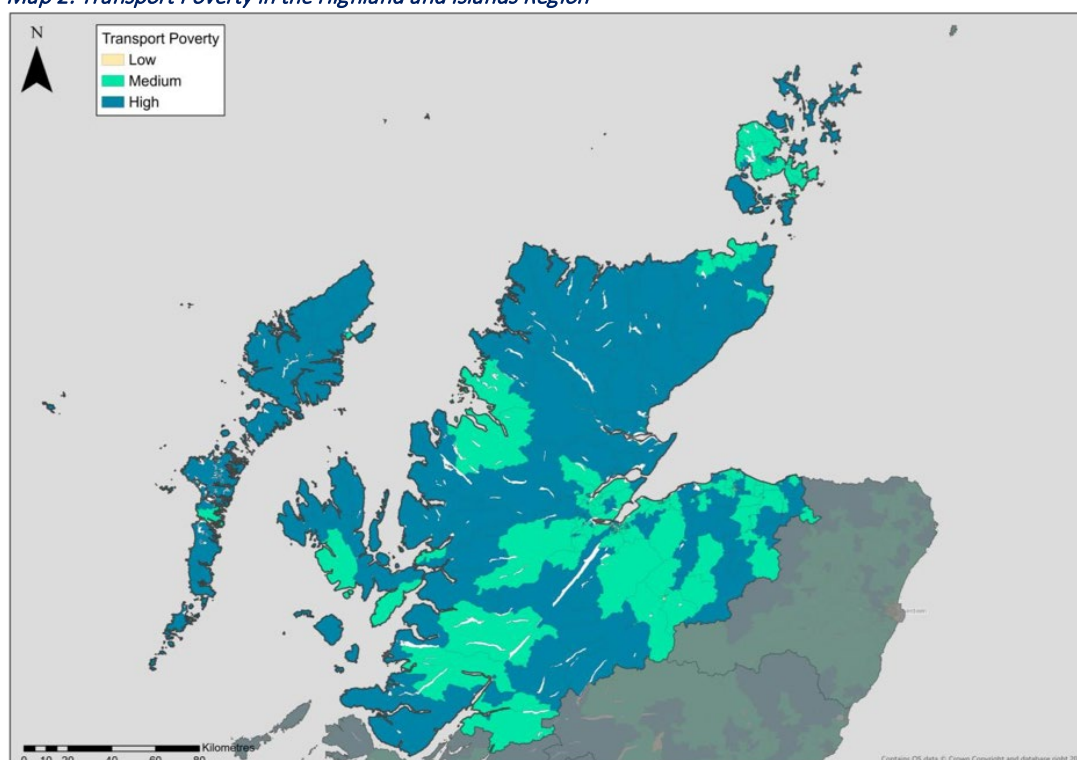


As part of the review, Jacobs Ltd and AECOM undertook work to evidence the problems and opportunities linked to the strategic transport network across the Highlands and Island region: Initial Appraisal: Case for Change for the Highlands and Islands.<sup>52</sup> As part of this evidence base, analysis was undertaken to explore the extent of **transport poverty (where people don't have access to essential services or work because of a lack of affordable transport options)** across the region.

The review included the four local authority areas of Highland, Comhairle nan Eilean Siar, Moray and Orkney. Across this area, 58% of data zones are classified as being at high risk of transport poverty compared to 38% across Scotland overall. A further 38% of data zones were classified as medium risk (41% national average) and 4% were classified as low risk (21% national average). A previous study identified 48% of data zones in Argyll and Bute and 27% of those in Shetland as being in the high-risk category in terms of transport poverty.<sup>53</sup>

The report highlights that transport poverty is a particular issue in the Outer Hebrides and in rural parts of the mainland (see map below). Across Islands in the region more broadly, only three data zones were classified as being at low risk of experiencing transport poverty, all of which are on Orkney Mainland. Of the mainland data zones classified as low, each data zone is located in an urban area.

*Map 2: Transport Poverty in the Highland and Islands Region*



Source: <https://www.transport.gov.scot/media/47211/stpr2-highlands-and-islands-case-for-change-draft-report-for-publication.pdf>

Note: For this study, the Highlands and Islands region is Moray, Highland, Orkney and Inne Gall.

Peripherality is strongly related to transport poverty, an important aspect of rural disadvantage, which impacts households and businesses, with additional costs and constrained growth. Remote rural areas in the Highlands and Islands face the impact of higher household costs generally but transport and fuel poverty are particularly significant compared with the experience elsewhere.

<sup>52</sup> <https://www.transport.gov.scot/media/47211/stpr2-highlands-and-islands-case-for-change-draft-report-for-publication.pdf>

<sup>53</sup> [https://www.sustrans.org.uk/media/2880/transport\\_poverty\\_in\\_scotland\\_2016.pdf](https://www.sustrans.org.uk/media/2880/transport_poverty_in_scotland_2016.pdf)



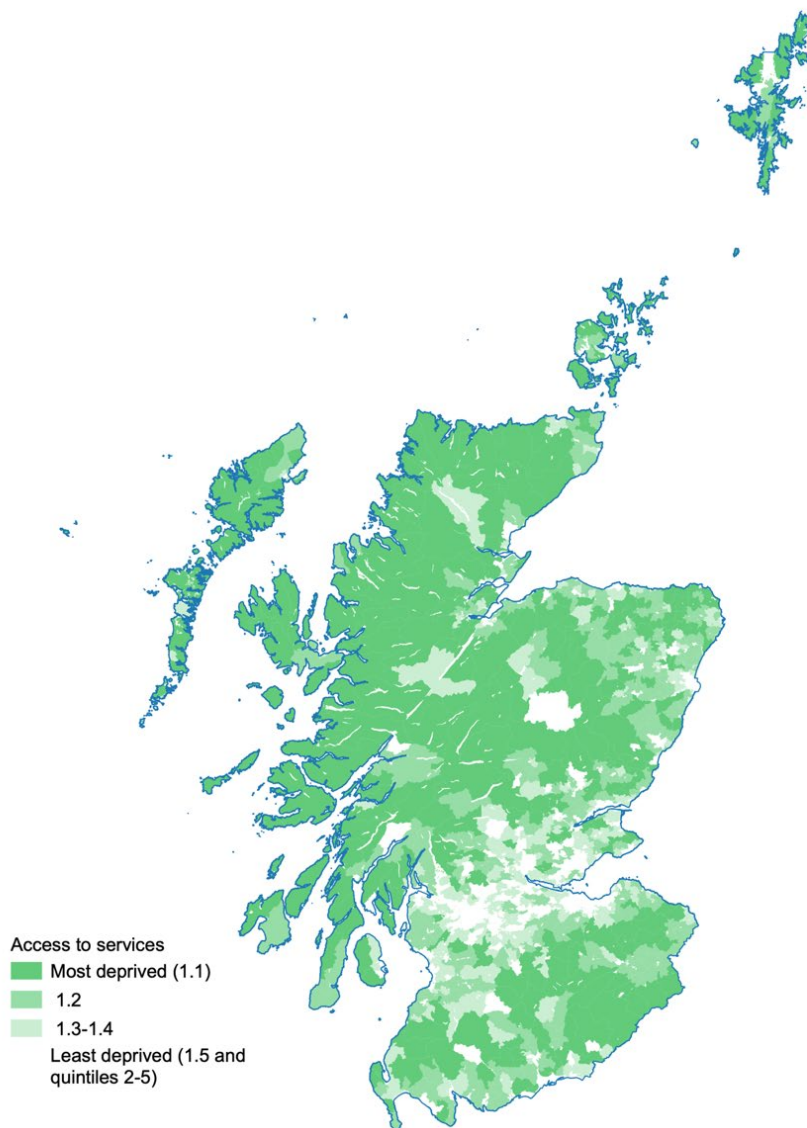
Future funding mechanisms should consider the impact of peripherality on household and business costs, to effectively address the impact of rural disadvantage on wellbeing and economic growth.

### 3.1.13 Poor and worsening access to services

The map below shows the areas with the poorest access to services, with dark green being the least accessible areas in the lowest quintile of the access to services domain of SIMD 2020. Access to services is based on average drive time to a primary school, secondary school, GP surgery, a post office, a retail centre and a petrol station and public transport times to a retail centre, a GP surgery, and a post office. Broadband access was included for the first time in 2020 (access to superfast broadband, defined as providing a minimum 30Mbit/s download speed).

A large part of the Highlands and Islands makes up the least accessible locations across Scotland, with the poorest access to services.

*Map 3: Areas with poorest access to services (SIMD2020)*



A high proportion of datazones in the Highlands and Islands – 46% in 2020 – are in the lowest 5% of datazones ranked according to the access to services domain of SIMD. Looking at change over time, there was some improvement between 2004 and 2010 (from 45% to 40%) but access to services has worsened since then (to 46% in 2020). The indicators included have largely remained the same, with the exception of public transport times being added in 2006 and Broadband coverage in 2020,<sup>54</sup> and some changes in source data for geographic location between 2016 and 2020.<sup>55</sup> This may cause some measurement effects so, while comparing the overall picture across Highlands and Islands is useful, comparing individual datazones would not be advisable.

**Table 8: Datazones in Highlands and Islands in the worst 5% ranked according to access to services (number and %)**

SIMD year	Number of datazones in worst 5% of datazones	% of datazones in the worst 5% of all datazones
2004	147	45%
2006	135	42%
2009	136	42%
2010	131	40%
2016	151	44%
2020	158	46%

Source: SIMD 2004-2020

Loss or poor access to services is likely to be a contributory factor to rural Scotland having 33% of Scotland's social enterprises but only 17% of the nation's population. The Highlands and Islands has among the highest prevalence of social enterprises in Scotland,<sup>56</sup> with more than 45 per 10,000 people in Shetland and Inverclyde, 31 in Orkney, 29 in Argyll and Bute and 24 in Highland. Moray has 16 per 10,000 people. Most social enterprises hold charitable status and 80% of those in rural areas started trading due to a gap in local provision, with 37% responding to the closure of a service (76% and 16% respectively amongst those in urban areas).

Access to services is poorer in the Highlands and Islands than the rest of Scotland, with signs that this is worsening. There is evidence that social enterprise activity is attempting to address components of this. While the prevalence of social enterprise activity is a positive feature of remote rural areas, it is often a response to market failure or societal inequality.

### 3.1.14 Housing affordability and availability

As a key enabler for jobs, stabilising local economies and population, the availability of, and access to, housing in the Highlands and Islands has been a long-standing concern underpinning rural disadvantage. It is a complex multi-dimensional problem with supply and affordability of housing shaped by factors such as access to credible, effective land, access to local skills, infrastructure and planning requirements and competing demands for existing stock (between supporting the tourism sector and providing accommodation for those who wish to live in the region).

The local authorities within the Highlands and Islands have a lower-than-average proportion of properties in the social rented sector, ranging from 15% in Inverclyde to just under 22% in Shetland (compared with 23% across Scotland) (see figure 4). This means that **the private sector has a more significant role in fulfilling housing need and demand.**

<sup>54</sup> <https://www.gov.scot/publications/using-scottish-index-multiple-deprivation-2006-guidance-leaflet/>

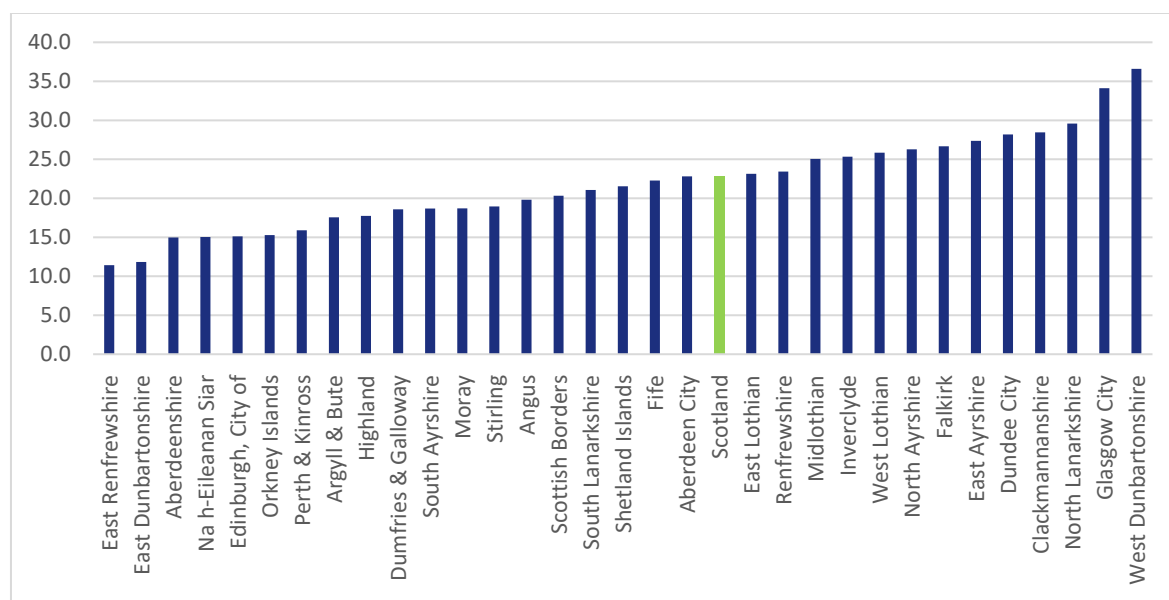
<sup>55</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2020/09/simd-2020-technical-notes/documents/simd-2020-technical-notes/simd-2020-technical-notes/govscot%3Adocument/SIMD%2B2020%2Btechnical%2Bnotes.pdf>

<sup>56</sup> <https://socialenterprisecensus.org.uk/wp-content/themes/census19/pdf/2019-report.pdf>

The need for affordable housing was highlighted in work commissioned by HIE in 2017 on Stimulating Housing Development in the Highlands and Islands.<sup>57</sup> The study estimated that at that time across the Highlands and Islands, the equivalent of just over 1,800 new properties were needed each year across the market and social sectors, with an estimated 1,071 affordable homes required and 742 market properties. While the study found that social landlords have made a significant and increasing contribution to sustaining the delivery of affordable housing, **social rented sector completions in 2019 were still considerably below the level of projected need.**

The study also noted that it is challenging for housing need and demand assessments (HNDA) to accurately estimate need in remote rural communities as HNDA tend to be based on previous trends (i.e., previous household formation rates, which reflect previous migration patterns).

Figure 4: % of properties that are social rented (stock estimates (2018))



Source: <https://www.gov.scot/publications/housing-statistics-stock-by-tenure/>

The cost of housing development by Registered Social Landlords is one factor influencing supply. Scottish Government data collated as part of the housing subsidy review found that average unit costs are £156,664 in cities and urban areas but are £172,639 in the Western Highlands, Islands and Argyll remote rural areas and £165,116 in other rural areas. This reflects **the unit cost of new housing supply that are 10% higher in remote rural areas and 5% higher in other rural areas, compared with urban areas.**

Analysis for the Stimulating Housing Development research estimated **higher proportions of 'young and stuck' households in a number of more remote areas**, based on analysis of Scottish Household Survey data. These were households containing a young person aged 26 years old or older, in full time work or self-employed who is neither the householder nor spouse. This indicates a pool of young people who may be at risk of leaving the local area if they are not able to form a new household in future.

The highest estimated prevalence of 'young and stuck' households were in the following datazones:

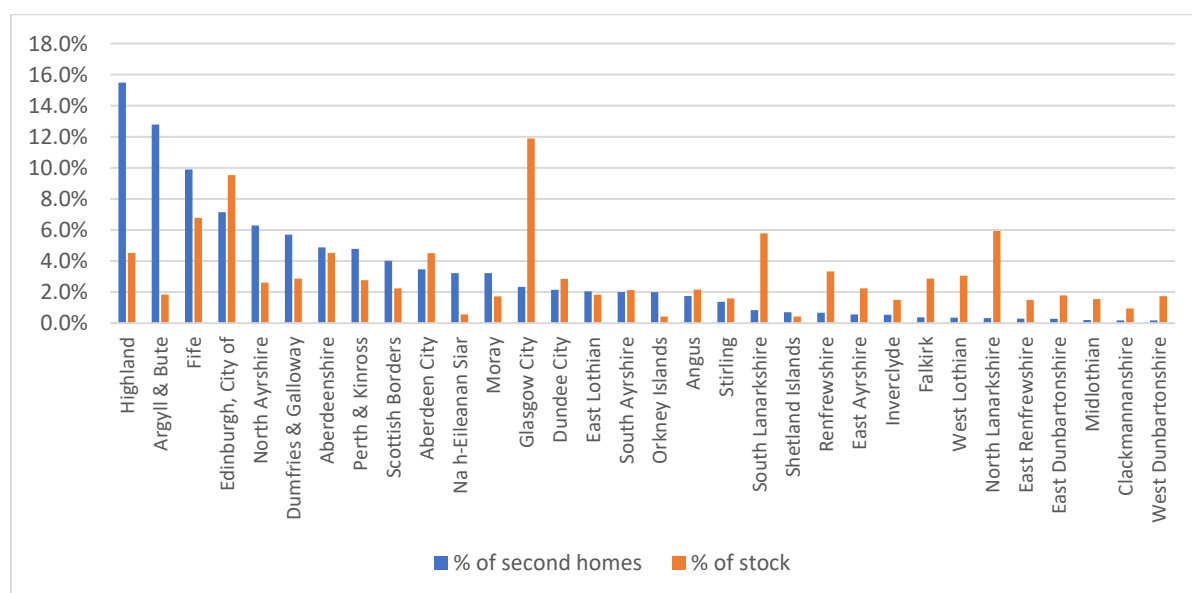
- Skye South (6.3% of households)
- South Lewis (6.2%)

<sup>57</sup> <https://www.hie.co.uk/media/3033/stimulatingplushousingplusdevelopmentplus-plusreport.pdf>

- Conon (6.2%)
- Ross and Cromarty North West (6.2%)
- South Speyside and the Cabrach (6.2%)
- Black Isle South (6.2%)
- West Mainland, Orkney Islands (6.2%)
- Mull, Iona, Coll and Tiree (6.2%)
- Sutherland North West (6.1%)
- Northwest Lewis 6.1%)
- Lochalsh (6.0%).

Second homes pose a significant constraint to the local housing markets in the Highlands and Islands and all parts of the region have disproportionate shares of the stock of second homes. Highland has over 15% of all second homes in Scotland compared with just under 5% of the overall housing stock. Argyll and Bute has almost 13% of all second homes compared with under 2% of the overall housing stock.

**Figure 5: Comparison of second homes (2020) and stock estimates (2018)**



Sources: <https://www.gov.scot/publications/housing-statistics-empty-properties-and-second-homes/> and <https://www.gov.scot/publications/housing-statistics-stock-by-tenure/>

Research commissioned by Scottish Government in 2019 into the impact of short-term lets on communities across Scotland<sup>58</sup> indicates that **the Highlands and Islands has a very substantial AirBnB market** (Table 9). Within the region, the proportion of all dwellings that were advertised as whole units on AirBnB in May 2019 ranged from 1.0% in Moray to 3.1% in Argyll and Bute and 3.3% in Highland, compared to an average of 0.8% across Scotland. The number of whole units advertised in comparison to the number of second homes also suggests evidence of potential overlap between second homes and AirBnB but certainly a significant impact on local housing markets. There may also be areas where local authority average figures disguise local pockets of higher concentrations of AirBnB and second homes.

<sup>58</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/research-and-analysis/2019/10/research-impact-short-term-lets-communities-scotland/documents/people-communities-places-research-impact-short-term-lets-communities-scotland/people-communities-places-research-impact-short-term-lets-communities-scotland/govscot%3Adocument/people-communities-places-research-impact-short-term-lets-communities-scotland.pdf>

*Table 9: Whole units advertised on AirBnB and second homes by local authority area*

	Number of whole units advertised on AirBnB (May 2019)	Number of second homes 2019	% of all dwellings that are advertised on AirBnB as whole dwellings
Argyll and Bute	1,468	3,129	3.1%
Highland	3,959	3,789	3.3%
Moray	443	787	1.0%
Orkney	198	487	1.7%
Shetland	163	173	1.4%
Innse Gall	397	788	2.7%
<b>Scotland</b>	<b>22,063</b>	<b>24,471</b>	<b>0.8%</b>

Source: SG Research on Short term lets, NRS dwellings data 2019

The combined impact of AirBnB and second homes reduces the availability of properties to let and buy and has the potential to increase property prices, with these purchasers often able to out-bid local purchasers. Anecdotal evidence suggests this is a growing challenge in rural communities.

The average house price based on April 2021 sales<sup>59</sup> showed Innse Gall with substantially lower than average house prices (£127,532, compared with £161,401 for Scotland) while Argyll and Bute (£151,933), Moray (£160,992) and Orkney (£158,640) had just below average prices. Highland (£181,101) and Shetland (£191,667) had above average house prices.

The average house price in Innse Gall in April 2021 (£127,532) was 4.4 times the median gross full-time wage of around £29,225. In Highland, the average price of £181,101 is 5.95 times the median full-time wage of around £30,435. The ratio overall for Scotland is 5.2 – an average house price of £161,401 compared with a median gross full-time wage of £30,940.

Although the average price in Innse Gall remained stable between 2020 and 2021, in other locations prices had increased at above the Scottish average (6.3%). **Prices were up over 30% in Orkney, 15% in Shetland, 9% in Argyll and Bute and 8% in Highland, compared with 4.5% in Moray.**

While the house price index data gives an indication of the variation across the market in any given year low numbers of sales transactions in some local authorities, such as Orkney, Innse Gall and Shetland, can lead to volatility in the series. Therefore, the change in price can be influenced by the type and number of properties sold in any given period. Geographies with low number of sales transactions should be analysed in the context of their longer-term trends.

Data on private rents is only available from the Scottish Government at broad regional level. Average rents in the Highlands and Islands<sup>60</sup> are below the Scottish average. A rent of £607 would be around 24% of the median gross full-time wage in the Highlands and Islands (c.£2536 per month) while the Scottish average 2-bed rent of £689 is 27% of the median Scottish wage (c.£2578 a month). However, the range of incomes and rents will be considerably different than these overall averages. **The lack of sub-regional data on private rents is a considerable gap in the current data which prevents us from fully understanding the range of rents across the large rural area included as 'Highland and Islands'.**

<sup>59</sup> <https://www.gov.uk/government/statistics/uk-house-price-index-scotland-april-2021/uk-house-price-index-scotland-april-2021>

<sup>60</sup> Highlands and Islands covers Highland, Orkney, Shetland and Innse Gall.

This shows an overall picture of constrained housing supply and pressure from second homes and short term lets across much of the Highlands and Islands, with house prices increasing above the Scottish average in many locations. This, alongside lower than average wages creates significant affordability issues for people living in the Highlands and Islands.

### 3.1.15 Poor internet and mobile phone connectivity

As highlighted earlier in the ESPON study on Inner Peripherality, improved connectivity is essential to addressing the disadvantage experienced in remote areas. However, digital connectivity remains a significant challenge within the Highlands and Islands and other remote rural communities.

The Scottish Government has committed to providing superfast broadband access (speeds of at least 30Mbps) to every home and business in Scotland through its Reaching 100% (R100) programme.<sup>61</sup> The programme builds on the previous Digital Scotland Superfast Broadband (DSSB) project, led by HIE, with much of the technology delivered expected to go beyond the original superfast commitment. While these programmes have vastly improved access to superfast fibre broadband across Scotland and in rural areas, **the local authorities within the Highlands and Islands continue to have among the lowest coverage of Superfast broadband (with speeds of 30MB per second) in Scotland and the UK.** Orkney, at just 65.9%, had the lowest proportion of premises with Superfast broadband in July 2021 of all local authorities in the UK. This compared to 94.7% of premises in Scotland and 97.4% in the UK overall.

There were higher levels of coverage in the UK comparator areas - 94.9% of Cornwall premises had Superfast broadband, as did 94.2% in Cumbria, 92.7% in North Yorkshire and 94.3% in Northumberland. Other local authorities in the UK with levels of connectivity similar to those within the Highlands and Islands include Fermanagh and Omagh in Northern Ireland (70.6% Superfast) as well as Mid Ulster (79.2%) and Mid Devon (83.0%).

*Table 10: Local authorities with the lowest % of premises covered by Superfast Broadband (ThinkBroadband, July 2021)*

Local Authority	%
Scottish Borders	89.2
Moray	88.1
Perth and Kinross	87.5
Dumfries and Galloway	87.3
Argyll and Bute	84.6
Aberdeenshire	84.5
Highland	82.4
Na h-Eileanan an Iar	79.8
Shetland	75.3
Orkney	65.9
<b>Scotland</b>	<b>94.7</b>
<b>UK</b>	<b>97.4</b>

Source: <https://labs.thinkbroadband.com/local/uk>

Mobile connectivity is also important socially, economically and in terms of local resilience. **Looking at 4G mobile phone coverage outdoor at premises, the Highlands and Islands has among the worst coverage in the UK.** Just 49% of premises in Na h-Eileanan an Iar had an outdoor reception from all providers while just 33% of premises had an indoor reception. This is the lowest level of coverage in the UK.

<sup>61</sup> <https://www.scotlandsuperfast.com/how-can-i-get-it/r100-superfast-access-for-all/>



Levels were also low in Orkney, Argyll and Bute and Shetland, while Moray and Highland were a little better serviced although still substantially below the Scottish and UK averages. Across the UK overall, 98% of premises have coverage from all providers outdoors and 81% indoors, with 96% outdoors and 81% indoors for Scotland. Mobile coverage in the remote UK comparator areas is mixed compared with the Highlands and Islands but tended to be somewhat better.

Reflecting this, the Scottish Government's 4G Infill programme funds new mobile telephone masts in locations with no existing mobile coverage to improve mobile connectivity. The majority of the programme will focus on sites completely without coverage in the Highlands and Islands.<sup>62</sup> While improved 4G coverage will benefit remote and rural areas, the focus is already shifting to the deployment of 5G.<sup>63</sup> With initial deployments likely to focus on urban areas there is a risk that rural and remote rural communities, which are estimated to see the largest proportionate positive benefits from 4G and 5G,<sup>64</sup> will face further disadvantage in terms of a digital divide.

*Table 11: Local authorities in Scotland with the lowest % of premises covered by 4G (all providers) – May 2021*

Local Authority	4G outdoor (%)	4G indoor (%)
Na h-Eileanan an Iar	49.0	33.1
Orkney	54.7	21.2
Argyll and Bute	74.3	59.0
Shetland	74.6	46.3
Moray	82.8	51.4
Highland	85.1	62.5
Aberdeenshire	87.5	63.4
Dumfries and Galloway	92.7	67.3
Stirling	93.2	70.1
Perth and Kinross	93.9	76.6
<b>Scotland</b>	<b>96.0</b>	<b>81.0</b>
<b>UK</b>	<b>98.0</b>	<b>81.0</b>

Source: <https://www.ofcom.org.uk/research-and-data/multi-sector-research/infrastructure-research/connected-nations-update-spring-2021>

### 3.1.16 Interplay of factors and Impact on Doing Business

The factors above indicate the range of **causes and effects of disadvantage in rural areas and across the Highlands and Islands**. Geographic distance and peripherality, the socio-economic make-up of the region and the enabling infrastructure all impact in different ways, and critically, it is the degree and extent of inter-connection between these factors that can exacerbate and entrench disadvantage. This inter-play can act in a vicious cycle. For example, challenges of depopulation and lack of skills and workforce are more difficult to resolve due to the lack of/or inadequate housing, and transport. Without a critical mass of population, it is difficult to make a strong case for change and investment in such essential services and infrastructure.

This also **has implications for business operating in rural communities, particularly in terms of driving up costs**. Agglomeration effects tend to be more muted. Distance from markets, poor transport infrastructure and higher fuel prices add to the cost of transport and logistics, with this exacerbated by the impact of Brexit and COVID-19 on supply chains (see section 3.2.1 below). Staff may also have

<sup>62</sup> <https://www.gov.scot/news/improving-mobile-coverage-2/>

<sup>63</sup> <https://www.gov.scot/publications/forging-digital-future-5g-strategy-scotland/pages/1/>

<sup>64</sup> <https://www.gov.scot/publications/forging-digital-future-5g-strategy-scotland/pages/7/>

to travel further for meetings with suppliers and customers or to access training and events, creating additional cost both in terms of travel and extended time away from the businesses in comparison those located closer to services, networks, and customers.

Labour costs are increasing, and given the tightness of the labour market, staff recruitment and retention is becoming more challenging, compounded by lack of housing and access to services. The February/March 2022 HIE Business Panel survey<sup>65</sup> found that 70% of employers were experiencing workforce related challenges, with poor transport connections, lack of accommodation and lack of childcare amongst the range of factors contributing to this, particularly for businesses located in remote rural areas.

While broadband infrastructure is helping to address some of the challenges of physical distance, adoption of digital technology does lag that of more urban areas,<sup>66</sup> with distance from demonstration centres and expertise a constraint to innovation.<sup>67</sup> These factors can **impact on the competitiveness and productivity of businesses operating in rural areas** compared to those based elsewhere.

### 3.2 IMPACT OF BREXIT AND COVID-19

The section above has highlighted various facets of disadvantage in the Highlands and Islands and other rural areas, with strong evidence of peripherality impacting on economic growth through poor access to services, travel, and other infrastructure constraints. These effects have been compounded more recently by Brexit and the COVID-19 pandemic. While it is difficult to untangle Brexit and COVID impacts on businesses and communities, the evidence suggests that impacts were more acute in the Highlands and Islands, and in remote rural and island communities in particular, driven by aforementioned factors such as distance from markets, the economic base, higher dependency on transport (including ferries/air services), and generally higher costs of living/doing businesses.

#### 3.2.1 Brexit and COVID vulnerability

In December 2020, the Scottish Government estimated that the impact of Brexit on the Scottish economy would be considerable. Scottish Government modelling estimated that a deal of the type that appeared to have been agreed at that time could cut Scotland's GDP by around 6.1% (£9 billion in 2016 cash terms) by 2030 compared to EU membership.<sup>68</sup>

It was estimated that all goods sectors would face the impact the higher costs of trading with the EU as a result of the additional customs and borders procedures and associated paperwork. For key service sectors, access to EU markets would be reduced compared to EU membership. It was envisaged that extra costs could make Scottish businesses uncompetitive in some markets: manufacturing, food and drink, agriculture and forestry were particularly 'at risk'. These industries are particularly important in the Highlands and Islands, with the potential for more adverse effects.

Reflecting this, research by the Scottish Government on vulnerability to Brexit<sup>69</sup> **found that five of the six local authority areas most vulnerable to Brexit were in the Highlands and Islands**, due to sectors being more dependent on migrant workers, EU grants and having a more fragile population.

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<sup>65</sup> [www.hie.co.uk/businesspanel](https://www.hie.co.uk/businesspanel)

<sup>66</sup> <https://www.hie.co.uk/research-and-reports/our-reports/2021/august/05/digital-economy-business-survey-2021/>

<sup>67</sup> <https://www.hie.co.uk/media/11057/hie-business-panel-wave-19-june-2021-report.pdf>

<sup>68</sup> <https://www.gov.scot/news/bad-brexit-deal-for-scotland-1/>

<sup>70</sup> <https://www.hie.co.uk/media/9646/the-impact-of-covid-19-on-the-highlands-and-islands.pdf>



Analysis by HIE in September 2020<sup>70</sup> indicated **a greater impact of COVID-19 on the Highlands and Islands than across Scotland overall, with significant variation across the region.** In addition, **recovery was estimated to lag that for Scotland overall**, with economic scarring and loss of productive capacity likely to be evident for years to come. A number of factors were driving this including a greater share of employment in the sectors most exposed to COVID-19<sup>71</sup> and those most affected by ongoing restrictions, higher rates of self-employment, and in an economy dominated by micro businesses, a higher share of private sector employment in small and medium sized enterprises.

While the above analysis was all undertaken prior to the UK leaving the EU, HIE's Business Panel Surveys provide insights into the extent of impact on businesses in the region. In June 2021, just over **two-fifths (44%) of businesses in the Highlands and Islands reported a negative impact from Brexit on their business**, while 11% cited positive impacts and 41% that Brexit had no impact on them. The October 2021 survey<sup>72</sup> found that most businesses in the region (76% of those who felt it was relevant to them) were experiencing some form of supply chain challenge, mainly linked to accessing the goods, materials or services they need but also with export processes and the transportation of goods to customers. Workforce challenges were also evident with more than half of businesses (57%) experiencing labour shortages: 49% with recruitment and retention challenges and 44% from staff absences. These workforce challenges were more acute for tourism businesses.

While businesses were continuing to grapple with a range of economic challenges including ongoing recovery from COVID-19, increased inflation, record fuel prices, and supply chain issues, in October 2021 there were **signs of economic recovery among regional businesses. Two-thirds were operating at (44%) or above (22%) their pre-pandemic levels (up from 41% and 16% in June/July 2021). Most (64%) expressed confidence in the economic outlook for Scotland over the next 12 months and were optimistic about their own prospects (82%).**

### 3.2.2 Community responses to the pandemic

Research by SEFARI<sup>73</sup> explored the lived experiences of the COVID-19 pandemic in rural and island communities; identified the factors that support and promote resilience in Scottish rural and island communities; and considered routes to medium to long-term recovery. The key findings were:

- The impact of Covid-19 on rural communities has been place and person-dependent as well as defined by levels of digital connectivity. Impacts were felt to be more challenging in rural communities due to ageing populations, in-migration of retirees, lack of affordable housing, peripherality issues and limited economic diversification. There were criticisms about the response to the pandemic by local authorities.
- Five themes were found in relation to resilience: community cohesion and in-built resilience; strategic partnerships and responsive service delivery; the role and responsiveness of community anchor organisations; responsive local businesses and services; and digital connectivity and upscaling online systems. Rural communities were vulnerable to Covid-19 for multiple, often inter-connected reasons: reliance on a few key industries; centralised service provision; limited digital connectivity; exposure to tourists; food supply issues; and ageing populations. However, stronger community bonds in many rural and island communities were felt to have increased their resilience due to effective community-based response strategies.

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<sup>70</sup> <https://www.hie.co.uk/media/9646/the-impact-of-covid-19-on-the-highlands-and-islands.pdf>

<sup>71</sup> Manufacturing; construction; arts, entertainment and recreation; wholesale and retail and accommodation and food services

<sup>72</sup> <https://www.hie.co.uk/research-and-reports/our-reports/2021/december/15/hie-business-panel-survey-2021/>

<sup>73</sup> <https://www.hutton.ac.uk/news/resilience-face-covid-19-scotland%E2%80%99s-rural-and-island-areas>

- Predominant themes on rural recovery included: building on new partnerships and supporting community anchor organisations; capitalising and rewarding community spirit; encouraging young people to move to rural areas; retaining and enhancing digital connectivity opportunities; strategic partnerships which deliver place-based solutions; supporting adaptable local businesses; supporting diversification of the rural economy; enhancing the knowledge base on local-regional vulnerabilities; and retaining a flexible, targeted and responsive approach to financial support.

An EU funded Northern Periphery and Arctic Programme (NPA) study looked at the impact of COVID-19 on the Northern periphery and the Arctic.<sup>74</sup> The research across 11 countries and across diverse disciplines, such as health, economics, and human rights, was delivered by a partnership, led by CoDeL (based in Uist in the Outer Hebrides) with 6 universities/research institutes, 3 public institutions and 3 business networks. The research had a wide range of recommendations for the future learned as a result of the COVID-19 pandemic. These included:

- an urgent need to develop much greater clarity and detailed understanding, more tried and tested policy and action to determine what redefining peripherality means in practice.
- policy, decision-making and action in peripheral regions need to be assessed against different paradigms – moving away from economic growth to integrate economics and enterprise, health and wellbeing, community and culture, and environmental sustainability.
- resilience, and factors that contribute to resilience from the individual to the regional level, must become a core focus in peripheral regions, in particular in preparing for the disruptions that the climate emergency is already causing.
- policy, decision-making and action needs to build on the many assets and strengths to be found in peripheral regions, which Covid-19 has brought into strong focus. This means investing in the future rather than managing decline.
- There is also a need to invest in effective, empowered and resourced regional and local governance. This includes supporting and investing in community-based organisations and giving them greater freedom to discover their own effective solutions to meet the local needs that they understand.

Other recommendations covered a range of very critical, fundamental issues: valuing public investment over austerity; addressing inequalities; implementing human rights; investing in newly emerging sectors; developing local food and other supply chains to promote self-sufficiency; building circular, local economies; diversifying regional and local economies; investing in community and social enterprise; investing in micro and small enterprises; ensuring local benefits from large scale investments; developing sustainable tourism; addressing demographic trends proactively and supporting trans-national partnerships.

Central to many of the ideas put forward is **to shift from old approaches aimed at enabling peripheral areas to 'catch up' with 'central' areas**, by means of centralising services, attracting large corporate inward investments, and linking local businesses to distant markets, aiming to maximise footfall and income from mass tourism, etc. It is argued that the pandemic and the climate emergency have both shown that this way of thinking is both damaging and unsustainable.

A **new paradigm is suggested based on innovation in the periphery** - a sustainable way of living to attract young people, reversing demographic decline, and offering flexible and collaborative working at the local level across all sectors, with more localised services and economic activity rooted in communities, supported by modern connectivity and technology to deliver wellbeing.

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<sup>74</sup> <http://codel.scot/covid-19-economic-impacts-recovery-in-the-northern-periphery-arctic>

### 3.3 CONCLUSIONS

The analysis above has identified a number of areas where the Highlands and Islands shows distinct features of disadvantage, with sparsely populated areas associated with high and increasing dependency ratios.

Although GVA is increasing in the Highlands and Islands, this is uneven and growing at a lower-than-average rate compared with other rural regions. There is higher economic participation and lower unemployment but lower skilled employment and lower than average wages.

There are significant additional costs of living and doing business in remote rural areas (particularly transport costs and fuel costs), with costs even more acute in island communities. There are also additional challenges that can act as a constraint to growth including relatively poor and worsening access to services, high fuel poverty, housing affordability and availability and poor internet and mobile phone connectivity.

The data analysis indicates **the need for more nuanced, rural proofed data** which captures rural and regional disadvantage with a strong demographic element, as seen in the Nordic Regional Potential Index. There are **challenges with data quality and comparability**, with some of the data having higher margins of error for the Highlands and Islands and sub-areas due to smaller sample sizes. **Greater consideration needs to be given to unintended impacts of such data being used to inform policy decisions, including further entrenching inequalities.** It is important to ensure policy decisions are based on appropriate data and indicators which reflect rather than mask the reality of rural areas.

There are a range of **causes and effects of disadvantage in rural areas that presented barriers to opportunities** – many of the causes relate to geographic distance and peripherality, and the associated travel and transport requirements. There are **many inter-connecting impacts of rural disadvantage which can act in a vicious cycle** – depopulation, lack of the certain types of jobs and opportunities, but on the other hand lack of skills and workforce for other sectors, with lack of or inadequate enabling infrastructure – housing, transport, and energy.

These **structural aspects of disadvantage have been exacerbated in the Highlands and Islands by Brexit and COVID-19.** These have particularly adversely impacted on the tourism sector and parts of the food and drink sector. Unemployment rates have recovered significantly but vary across the region. Labour shortages are a key challenge for businesses.

Although business confidence has improved, the recovery from the COVID-19 pandemic is expected to take some time. The Highlands and Islands recovery is likely to lag Scotland in the short-term with economic scarring and loss of productive capacity which may be evident for years to come. Communities have shown resilience, though, with **demand for a new paradigm arising from the experience of COVID-19, based on innovation in the periphery.**

## 4 HOW WELL DOES POLICY CURRENTLY ADDRESS RURAL AND REGIONAL DISADVANTAGE?

### 4.1 INTRODUCTION

The analysis in the previous chapters showed how peripherality is understood to impact on rural and regional disadvantage in numerous ways. This chapter considers how current and recent policy and development approaches seek to address this disadvantage. It explores current policy approaches in the UK and Scotland, as well as those from elsewhere, considering examples of 'rural proofing' within mainstream policy. Qualitative evidence on policy requirements, drawn from the consultation phase of the study are also presented.

### 4.2 POLICIES ON RURAL ISSUES

#### 4.2.1 Comparing European policies tackling rural and regional disadvantage

Research undertaken in 2011 by the European Policies Research Centre (EPRC)<sup>75</sup> at the University of Strathclyde explored the theme of peripherality from a conceptual and policy viewpoint, looking at the relationship between, on the one hand, accessibility and population density and, on the other, socio-economic strength. The research identified locations where peripheral regions were '**a high priority in national policy**', namely Finland, Norway, and Poland. Sweden, Austria, Switzerland, France and Germany were categorised as having '*reasonably important peripheral regions*', where peripheral regions are **not the main focus** of policy. The UK and Italy were categorised as '*not prioritising peripheral regions*' in national policy although Italy subsequently developed a policy on "inner regions" - interior and mountain regions distant from service centres.<sup>76</sup> In the Netherlands, regional prioritisation was noted to have been more of a priority for policy in the past.

In Finland, the more remote Northern and Eastern areas were targeted for regional aid, via business development aid and development aid for the business environment, and EU funding. Additionally, there were travel aid schemes for businesses in sparsely populated areas. Norway also targeted funding to disadvantaged, peripheral and areas of low population density; it had a transport aid scheme and additional social security concessions – reduced student loan repayments, reduced income tax, higher child benefit and exemption from electricity taxation. In Poland, policy and development funds were targeted to diffuse growth to Eastern locations including activities focused on modernisation and diversification of rural areas and tourism. Overall, the key interventions were broad-based and universal for these locations rather than localised projects.

In the areas with 'reasonably important' peripheral regions, regional policy included a focus on peripheral regions either through specific policy instruments, broader policy instruments or more general coordination measures. Within this, examples can be found where regional policy instruments are lacking but instead there is scope to apply for funding based on poorer economic growth. Alternatively, some countries used very focused policy instruments targeted on specific areas or targeted tax relief for businesses in specific locations.

In the final group of countries, including the UK, Italy, and the Netherlands, peripherality is not a national priority, but has a regional priority, with regional policy instruments or entities/schemes targeting the most peripheral areas. In the UK, that included activities targeted in Wales, Cornwall and the Isles of Scilly and the Highlands and Islands using EU funds. The EPRC outlined the role of

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<sup>75</sup> <https://eprc-strath.org/publication/peripheral-regions-a-marginal-concern/>

<sup>76</sup> <https://www.oecd.org/cfe/regionaldevelopment/1.2%20Promoting%20Growth.pdf>

HIE in developing sustainable growth through investment in infrastructure, providing business support and investing in large, transformational projects.

It is important to note in the economies that have prioritised rural disadvantage the most, the policy levers used are through amendments made to mainstream national policies, while in areas where this is prioritised least there is a use of targeted funds. This is particularly important for the UK, as the main mechanism of targeting funds - using EU funds with a strong rural focus to infrastructure investment in particular - is being replaced with a 'levelling up' approach that, based on current evidence, appears to have a relatively weak rural focus (see Chapter 5).

#### 4.2.2 Other approaches to rural proofing policy

The OECD framework for Rural Well-being<sup>77</sup> emphasises the importance of designing rural policies through a place-based approach. That goes a step beyond 'rural proofing', namely, the application of a rural lens to adapt sectoral or national policies to rural places. Policy design should be conducted with specific places in mind, considering the assets and leading industries of each, limits to the local labour mobility, and linkages to cities that make each place unique.

Examples were given of:

- Land use - restrict land use practices that create environmental externalities. Preserve high-value land that provides natural or cultural benefits.
- Infrastructure/accessibility - improve connectivity of rural regions to urban regions through broadband, roads, and rail.
- Resources - maintain environmental quality and restrict activity that is not sustainable. Work to valorise rural amenities used by urban residents.
- Public services - develop innovative ways to deliver high-quality public services in health, education, business support and workforce training. Plan/support local countercyclical revenue stabilisation.

To help the EU to achieve its vision, **The Rural Pact**<sup>78</sup> – a framework for co-operation among local, regional, and national authorities and stakeholders – was developed to strengthen governance for rural areas. The Rural Pact was officially launched in December 2021<sup>79</sup> highlighting the aim of mobilising public authorities and stakeholders to act on the needs and aspirations of rural communities. An **EU Rural Action Plan** is also proposed to foster territorial cohesion and boost opportunity. The plan is articulated around flagship initiatives rooted in a number of themes, each supporting convergence of different EU policy areas. The themes were:

- Creating an innovation ecosystem
- Boosting sustainable transport links and digitalisation
- Increasing environmental, climatic, and social resilience
- Supporting economic diversification

Planned activities include<sup>80</sup> setting up a rural revitalisation platform to enable collaboration between communities, project holders and local authorities and research and innovation activities by and for rural areas, sharing knowledge. Other flagship initiatives aim to develop rural mobility through

<sup>77</sup> [https://www.oecd-ilibrary.org/sites/d25cef80-en/1/3/2/index.html?itemId=/content/publication/d25cef80-en&\\_csp\\_=b742f7b6d3156322b4ff6d200a99c890&itemIGO=oe&itemContentType=book](https://www.oecd-ilibrary.org/sites/d25cef80-en/1/3/2/index.html?itemId=/content/publication/d25cef80-en&_csp_=b742f7b6d3156322b4ff6d200a99c890&itemIGO=oe&itemContentType=book)

<sup>78</sup> [https://ec.europa.eu/info/strategy/priorities-2019-2024/new-push-european-democracy/long-term-vision-rural-areas\\_en#theruralpact](https://ec.europa.eu/info/strategy/priorities-2019-2024/new-push-european-democracy/long-term-vision-rural-areas_en#theruralpact)

<sup>79</sup> [https://ec.europa.eu/info/news/long-term-vision-eus-rural-areas-launch-rural-pact-2021-dec-20\\_en](https://ec.europa.eu/info/news/long-term-vision-eus-rural-areas-launch-rural-pact-2021-dec-20_en)

<sup>80</sup> [https://ec.europa.eu/info/sites/default/files/strategy/strategy\\_documents/documents/ltvra-c2021-345-annex\\_en.pdf](https://ec.europa.eu/info/sites/default/files/strategy/strategy_documents/documents/ltvra-c2021-345-annex_en.pdf)

improved transport and also through digital connectivity. These themes strongly fit with the issues of peripherality explored in Chapter 2 and the evidence of transport and digital disadvantage in the Highlands and Islands evidenced in Chapter 3.

### 4.3 'RURAL PROOFING' IN THE UK

#### 4.3.1 Rural proofing of mainstream services

In the UK, the current approach to rural development centres on 'rural proofing' mainstream policy to ensure that the requirements of rural areas are considered.<sup>81</sup> In March 2021 Defra produced their 'Rural Proofing in England 2020' report which outlined the commitment to –

- Strengthening the rural economy
- Developing rural infrastructure
- Delivering rural services
- Managing the natural environment

The 2020 Rural Proofing report identified the Shared Prosperity Fund and the Levelling Up Fund (discussed in Chapter 5) as the key mechanisms by which rural economies would benefit through additional investment, alongside the Agricultural Transition Plan<sup>82</sup> which set out the changes being made to agricultural policy in England from 1 January 2021. Recent consultation has also been conducted in Scotland on agricultural transition post CAP.<sup>83</sup>

Rural infrastructure development was to be enhanced through investment in rural connectivity and through the Affordable Homes Programme, the updated fuel poverty strategy, and the Energy Company Obligation scheme. Investment was also pledged in social infrastructure, including village halls, arts and culture, and rural places of worship. Defra pledge to deliver effective rural services by meeting additional delivery costs, overcoming accessibility challenges, and promoting workforce recruitment and retention. A new community services formula will better recognise the specific needs of rural areas, including schools funding and police funding. Other measures include Post Office subsidy, home-to-school transport; the Community Pharmacist Consultation Service; and digital service delivery. Defra pledge that, by the financial year 2023 to 2024, every patient in England will be able to access a 'digital first' primary care offer. Defra are also investing in natural capital assets including the £640 million Nature for Climate Fund, £50 million Woodland Carbon Guarantee, and £80 million Green Recovery Challenge Fund.

In 2017, Defra developed guidance on rural proofing policy<sup>84</sup> to tell policy makers and analysts in government how to assess and consider the impacts their policies would have on rural areas. This extended to both direct and indirect impacts, the scale of impacts, actions required to better fit policies to rural areas, and consideration of the impact of policy on outcomes.

The Guidance identified the need for policy to consider rural impacts through examining access to services and infrastructure, business, employment, housing, planning and education as well as potential environmental impacts, distributional and equalities impacts and any devolution and funding impacts.

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<sup>81</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/982484/Rural\\_Proofing\\_Report\\_2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/982484/Rural_Proofing_Report_2020.pdf)

<sup>82</sup> <https://www.gov.uk/government/publications/agricultural-transition-plan-2021-to-2024>

<sup>83</sup> <https://www.gov.scot/publications/agricultural-transition-scotland-first-steps-towards-national-policy-consultation-paper/>

<sup>84</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/600450/rural-proofing-guidance.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/600450/rural-proofing-guidance.pdf)



A number of indicators of interest were identified for looking at policy impacts:

- Travel distance from services
- Business: Number of businesses; Number of start-ups; Business composition (by area); Average turnover; Business by industry type
- Employment: Employment; Unemployment; Economic inactivity; Workplace based annual earnings.

The Levelling Up White Paper,<sup>85</sup> published on 2 February 2022, sets out the UK Government's approach to addressing geographic inequality across the UK. The paper takes a broad and wide-ranging approach to reducing geographic inequality across the UK, recognising that "Levelling Up" is more than an economic issue. It includes analysis of regional disparities across the UK, though does not, in any detail, consider disparities within regions, so analysis is largely at the Scottish level.

The paper identifies six "capitals" as fundamental to regional development:

1. **Physical capital** – infrastructure, machines, and housing.
2. **Human capital** – the skills, health, and experience of the workforce.
3. **Intangible capital** – innovation, ideas, and patents.
4. **Financial capital** – resources supporting the financing of companies.
5. **Social capital** – the strength of communities, relationships, and trust.
6. **Institutional capital** – local leadership, capacity, and capability

It further identifies 12 medium term missions as policy objectives:

1. **pay, employment and productivity will have risen in every area of the UK**, with each containing a globally competitive city, with the gap between the top performing and other areas closing.
2. **domestic public investment in Research & Development outside the Greater Southeast will increase** by at least 40% and at least one third over the Spending Review period, with that additional government funding seeking to leverage at least twice as much private sector investment over the long term to stimulate innovation and productivity growth.
3. **local public transport connectivity across the country will be significantly closer to the standards of London**, with improved services, simpler fares, and integrated ticketing.
4. **the UK will have nationwide gigabit-capable broadband and 4G coverage, with 5G coverage for the majority** of the population.
5. **the number of primary school children achieving the expected standard in reading, writing and maths will have significantly increased**. In England, this will mean 90% of children will achieve the expected standard, and the percentage of children meeting the expected standard in the worst performing areas will have increased by over a third.
6. **the number of people successfully completing high-quality skills training will have significantly increased in every area of the UK**. In England, this will lead to 200,000 more people successfully completing high-quality skills training annually, driven by 80,000 more people completing courses in the lowest skilled areas.
7. **the gap in Healthy Life Expectancy (HLE) between local areas where it is highest and lowest will have narrowed**, and by 2035 HLE will rise by 5 years.

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1052706/Levelling\\_Up\\_WP\\_HRES.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052706/Levelling_Up_WP_HRES.pdf)

8. **well-being will have improved in every area of the UK**, with the gap between top performing and other areas closing.
9. **pride in place, such as people's satisfaction with their town centre and engagement in local culture and community, will have risen in every area of the UK**, with the gap between the top performing and other areas closing.
10. **renters will have a secure path to ownership with the number of first-time buyers increasing in all areas**; and the government's ambition is for the number of non-decent rented homes to have fallen by 50%, with the biggest improvements in the lowest performing areas.
11. **homicide, serious violence, and neighbourhood crime will have fallen**, focused on the worst-affected areas.
12. **every part of England that wants one will have a devolution deal** with powers at or approaching the highest level of devolution and a simplified, long-term funding settlement.

While much of the policy detail relates to England, the paper makes clear that the Levelling Up Agenda is for the whole of the UK. All the twelve missions have relevance in rural areas, though are not considered through a specific rural lens, apart from multiple references to digital connectivity and a proposal to create a UK wide "Islands Forum" to consider and address the issues of island locations.

The overall thrust of the UK government approach is to have rural policy embedded within policy through 'rural proofing' rather than to have a separate rural policy.<sup>86</sup> This is not prominent in the Levelling Up White Paper and poses **challenges for related funding as there is limited evidence that the indicators used in the Levelling Up Fund the Community Renewal Fund, and the Shared Prosperity Fund, have been adequately rural-proofed.** This is explored further in Chapter 5.

#### 4.3.2 Rural proofing of local government funds in England

The Rural Fair Share Campaign in England is a cross-party group of MPs who support an impartial, objective, needs-based approach, and a fair share of available national resource to both local government funding and the funding by central government of other essential public services. It argues that urban areas receive some 61% (£107) more per head in Settlement Funding Assessment grant than their rural counterparts; that rural residents pay on average 21% (£105) per head more in council tax than their urban counterparts and get 14% less per head in social care support.<sup>87</sup>

After their lobbying in 2012, a one-off "Efficiency Support for Services in SPARSE areas grant" was awarded to rural local authorities, worth £8.5m that year. Additional funding for 2021-22 for the Rural Services Delivery Grant now stands at £85m.<sup>88</sup> The Rural Services Network welcomed the increased funding but pointed out that not all councils delivering services in rural areas are eligible for the grant, and that it does not resolve the historical underfunding of rural local authorities.<sup>89</sup>

The formula which distributes funding to different local authorities in England was under review at the time of writing, and the Rural Fair Share Campaign were again lobbying for a fairer share for rural areas.

<sup>86</sup> <https://www.parliament.uk/globalassets/documents/lords-committees/rural-economy/Government-response-Time-for-a-strategy-for-the-rural-economy.pdf>

<sup>87</sup> <https://ruralfairshare.org.uk/>

<sup>88</sup> <https://www.gov.uk/government/news/funding-boost-provides-councils-with-certainty-to-plan-for-year-ahead-with-51-billion-funding-package>

<sup>89</sup> <https://www.rsnonline.org.uk/rsn-responds-to-provisional-settlement-2021-22>



Population, remoteness, and deprivation are the three common cost drivers that the UK Government's Fair Funding Review consulted on between December 2017 and early March 2018.<sup>90</sup> The Government set out a proposal to include rurality as a common cost driver within the Foundation Formula. Their intended approach draws a clear distinction between factors which affect the demand for services (e.g., cost drivers) and factors which affect the cost of delivering a particular service (e.g., the need to provide multiple service hubs across sparsely populated locations or travel between different locations). **The responses received highlighted that sparsity and remoteness can have a significant effect on the cost of providing some services**, rather than being factors which drive additional demand. The Rural Fair Fund review has not yet concluded but the government response to the consultation favoured not including remoteness in the foundation formula, but through an area cost adjustment after the main formula has been applied. It remains to be seen if this additional cost adjustment will fully reflect the additional costs to rural local authorities.

### 4.3.3 How rural proofed is Scottish policy?

#### *Mainstreaming rural policy*

In Scotland, the National Council for Rural Advisers (NCRA) report of September 2018<sup>91</sup> recommended that the strategic importance of the rural economy was recognised through mainstreaming it within all policies and decision-making processes. The NCRA, convened in June 2017 at the request of the Cabinet Secretary for the Rural Economy, with a remit to:

- provide advice on the potential implications of Brexit for rural Scotland, and;
- provide advice and recommendations on future rural policy and support which would help create a vibrant, sustainable, and productive rural economy.

They advised the development of an interim Rural Economic Framework aligned to the National Performance Framework. This would enable transition to a new approach and delivery model for rural policy, development support and investment. A Rural Economy Action Group (REAG) was created to help drive change with the following specific tasks:

- Monitor and ensure implementation of actions arising from the National Council of Rural Advisers (NCRA) and other rural development research
- Identify barriers and facilitators to progress and work to influence policy and priorities in light of these
- Propose a suite of indicators (qualitative & quantitative) that will enable the value of the rural economy to be captured and monitored
- Establish reporting mechanisms that build an understanding of the contribution of the rural economy to achieving the purpose and outcomes in the National Performance Framework

Once established, the REAG met on two occasions. Although always intended to be a short-life group, the last minutes suggested a great deal of work was in progress at that time, including items such as 'Investigate the differing data on the Gender Pay Gap in South of Scotland' and 'Consider what further information on social landlord housing stock levels can be added to the analysis of housing association housing provision by rural and urban area', plus a further 10 actions.<sup>92</sup> It may be that this activity has been progressed in alternative ways, but the outcomes of the process are not clear, and indicate that a gap still exists in how rural proofing is measured and monitored.

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/764501/Needs\\_and\\_Resources\\_Technical\\_Consultation\\_Response.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/764501/Needs_and_Resources_Technical_Consultation_Response.pdf)

<sup>91</sup>

<https://www.gov.scot/publications/new-blueprint-scotlands-rural-economy-recommendations-scottish-ministers/>

<sup>92</sup> <https://www.gov.scot/publications/rural-economy-action-group-minutes-february-2020/>

Scotland's National Strategy for Economic Transformation, launched by Scottish Government in March 2022, sets out the policy priorities for Scotland's economy as well as the actions needed to achieve a wellbeing economy, and *"a society in which everyone can participate in economic success, in every community and in every region"*.<sup>93</sup> It sets out six programmes of action (as noted in chapter 2) and recognises that radical transformation in the way results are delivered is required to achieve fairer and more equal economic opportunities across Scotland.

While the strategy does not outline the critical interventions needed to support individual local economies, it does state an intention to ensure strong regional economic strategies and local economic development plans are in place, with Regional Economic Partnerships playing a key role in this. Delivery plans are currently being developed for each of the six programmes of action, and it is yet to be seen how regional and rural needs will be accommodated in terms of policy design and delivery in practice.

We now turn to what evidence there is currently of rural proofing in the Scottish context.

### *Recognising additional costs*

In Scotland, local government funding is adjusted to take account of the additional costs of providing services, so more remote rural local authorities receive a higher grant allocation per person.<sup>94</sup> The calculation also takes account of Council Tax and Business Rates. So, Na h-Eileanan Siar received a grant per person in 2021-2022 of £3,498 and Orkney Islands received a grant per person of £3,170 while the lowest grants were received by Aberdeen (£530 per head) and South Lanarkshire (£702 per person) which also had higher receipts from non-domestic Business rates per person.

Although local authority funding takes account of the additional costs of services, there are numerous examples of where mainstream services and policies are not adequately 'rural-proofed', explored below. First, we look at evidence of rural proofing in some key policy areas, before considering gaps in rural proofing.

### *Transport*

In Chapter 3 we saw the significant challenges for households that transport poverty poses, with transport one of the key additional household costs that people face living in remote rural areas. Chapter 2 also highlighted the importance of peripherality in understanding rural and regional disadvantage. Earlier we saw the key role of improved transport connectivity in the EU vision and OECD framework.

Consultees also discussed the impact of geographic distances and heavy reliance on travel and transport for access to work, markets, and services, and in turn the impact this had on cost of living and cost of business. However, some also caveated that the peripherality challenge varied by the diverse different locations in the Highlands and Islands, from the well-connected Inverness and Inner Moray Firth area to some of the most remote areas of the North-West and the Islands. As one islander commented:

*"We are so reliant on being joined through transportation. Transport is 60% of our energy requirements, so that puts us at a relevant disadvantage in terms of decarbonisation. We are more heavily reliant on ferries and short flights than many other places"* (Private sector).

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<sup>93</sup> <https://www.gov.scot/publications/scotlands-national-strategy-economic-transformation/>

<sup>94</sup> <https://www.gov.scot/publications/funding-local-government-scotland-2021-22/documents/>

Some reflected that travel is a natural consequence of the geography in rural areas, and so felt that if rural areas are to be supported and succeed then there should be mitigation through improvement of transport policy. Some highlighted that this disadvantage is felt much more keenly by lower income households, and those that are less mobile in remote communities relative to urban areas.

Rural transport is covered with the current National Transport Strategy<sup>95</sup> and the transport poverty map highlighted in Chapter 3 came from the Strategic Transport Projects Review in 2020 (STPR2) case for change in the Highlands and Islands<sup>96</sup>. The strategy highlights the aims of reducing inequalities, taking climate action, helping deliver inclusive growth and improving health and well-being.

The transport strategy emphasises the need to encourage alternative modes of transport to car use but accepts that car ownership is a necessity for many living and working in rural areas. The Strategy states that it takes a 'realistic and staged approach' to the use of vehicles in rural areas and recognises the practical realities of travel in many rural areas. The Strategy also highlights the need for the transport system to work for island communities and deliver what they need from island connectivity, recognising the importance of ferry and air services to overall journeys.

The Strategy outlines that to ensure resources are used as efficiently as possible in achieving Priorities and Outcomes, robust assessment of potential transport options against objectives is undertaken during the appraisal process to ensure benefits - social, environmental, and economic - are maximised per pound of public expenditure and value for money across all investments is delivered. This is done through examining the business case for investment using the Scottish Transport Appraisal Guidance (STAG).<sup>97</sup> While government is required to consider the value for money of an investment, it can take account of the alignment of the project with policy goals and whether benefits are missing from the economic case.

The extent to which transport appraisal is 'rural proofed' is a concern. A paper on Transport Connectivity in Remote Communities in 2020<sup>98</sup> by James Laird found that some appraisals are technically challenging to achieve as capturing the full social and other benefits of investment may require a level of analytical resource that is not proportionate to the appraisal. This is particularly the case in some remote communities, as there are a number of distinguishing features of transport projects in such communities that are not easy to encapsulate in standard Cost Benefit Analysis methods. Some projects need a significant research effort to develop the appropriate methods and evidence base and are noted to be some years away from becoming a part of guidance, even if the expert community were able to address gaps in evidence. The paper noted the need to directly acknowledge the limitations of Cost Benefit Analysis.

### *Planning and infrastructure*

Planning has an important role to play in supporting rural and regional development and rural proofing planning is highlighted as particularly critical. There is need for flexibility to meet the specific planning needs of remote and rural areas. Communities should be supported to be fully involved in developing Local Place Plans.

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<sup>95</sup> <https://www.transport.gov.scot/media/47052/national-transport-strategy.pdf>

<sup>96</sup> <https://www.transport.gov.scot/media/47211/stpr2-highlands-and-islands-case-for-change-draft-report-for-publication.pdf>

<sup>97</sup> <https://www.transport.gov.scot/publication/guidance-on-the-development-of-business-cases/>

<sup>98</sup> [https://www.itf-oecd.org/sites/default/files/docs/transport-connectivity-remote-communities-scotland\\_2.pdf](https://www.itf-oecd.org/sites/default/files/docs/transport-connectivity-remote-communities-scotland_2.pdf)

Rural Planning Policy to 2050 was research funded by the Scottish Government, published in early 2020 to inform rural planning policy.<sup>99</sup> The research identified a number of required actions to support rural development, including greater flexibility across a number of areas to take account of the particular needs, challenges and opportunities of islands and sparsely populated areas. It was suggested that rural planning should be more permissive where there is a need for diversification to support communities and businesses. This included developing housing policies suited to rural areas, allowing settlements across the country to develop in line with more locally based diagnoses of where growth is appropriate and promoting the sustainability of living and working in rural areas, with consideration given to a national programme of rural transport enhancements. There was a need for continued support for the ongoing national roll-out of enhanced telecommunications infrastructure and for a clear steer on planning policy in regard to new waves of renewable energy development in areas of significance (e.g., National Scenic Areas, 'Wild Land Areas', peatlands).

There is also concern that planning policy needs further 'rural proofing'. The '20-minute neighbourhoods' concept is a policy ambition set out in the latest draft (November 2021)<sup>100</sup> for the Fourth National Planning Framework (NPF). It notes that *'To reverse past depopulation, planning can help to sustain communities in more peripheral and fragile areas in a way that is compatible with our low carbon agenda and resilient to climate change impacts.'* This is a difficult challenge, as 20-minute neighbourhoods rely on the planning of homes so that everyday local infrastructure including schools, community centres, local shops and healthcare are readily accessible to significantly reduce the need to travel. One of the stated outcomes for NPF4 set out in the November 2021 draft is 'increasing the population of rural areas of Scotland'.

It is proposed that the NPF will contribute to this outcome by requiring Local Development Plans to set out an appropriate approach to development in areas of pressure and decline and include proposals for future population growth, informed by an understanding of population change over time. Development proposals that contribute to the viability, sustainability and diversity of rural economies are supported.

In a conference paper in January 2021, Debbie Mackay of Savills suggested that "the long-term strategy will be driven by the overarching goal of addressing climate change" and that "clear choices will need to be made to direct development to locations which reduce the need to travel and are already well served by sustainable transport options". She also noted that the repopulation of rural Scotland would be very hard to envisage within this framework.<sup>101</sup> Greater flexibility may be needed in planning policy to support rural population growth and community sustainability. In particular, the analysis in the previous chapter highlighted the additional costs faced by households in the Highlands and Islands, with significantly higher travel costs and associated transport poverty.

### Skills

Skills Development Scotland has produced a Climate Emergency Skills Action Plan (CESAP).<sup>102</sup> That plan notes that the transition to a net zero economy will be a significant and long-term challenge. Key activities include establishing:

- A Climate Emergency Economic and Investment Leadership Group to provide leadership, oversight, and drive for the national economic ambition
- An Implementation Steering Group (ISG) of industry experts and skills partners to facilitate delivery of the CESAP

<sup>99</sup> <https://www.gov.scot/publications/rural-planning-policy-2050-research-inform-preparation-npf4/pages/8/>

<sup>100</sup> <https://www.transformingplanning.scot/national-planning-framework/draft-npf4/>

<sup>101</sup> <https://www.savills.co.uk/insight-and-opinion/savills-news/309892-0/future-scottish-planning-policy-requires-rural-proofing---says-savills>

<sup>102</sup> <https://www.skillsdevelopmentscotland.co.uk/media/47336/climate-emergency-skills-action-plan-2020-2025.pdf>

- A dynamic, dedicated Green Jobs & Skills Team to support the implementation of the CESAP and produce labour market intelligence on future green jobs requirements
- The Joint Skills Alignment Team across SDS/SFC commissioned to ensure alignment with the green economic ambitions as set out in the CESAP

There is also a Skills Investment Plan for the Highlands and Islands<sup>103</sup> focusing on:

- Meeting the skills needs of employers
- Planning for the future and understanding the impact of investment
- Building the workforce of the future
- People attraction, retention, and place attractiveness

The plan sets out a range of outcomes to monitor for progress, including reduction in skills shortages and skills gaps, higher skilled workforce, higher levels of productivity, reversed decline in population, year-on-year positive net migration and business start-ups (monitored through the ongoing Regional Skills Assessment process). They will also measure improved understanding of future skills needs, and improved regional skills evidence base as well as the effective allocation of skills funding and increased number of FE/HE student numbers in subject areas aligned to key sectors/occupations.

This balances the strategic needs of a green recovery with the local needs of employers and workers in the Highlands and Islands, with a focus on attracting and retaining people, which brings us to broader policies on population.

### *Population*

In March 2021, the Scottish Government published its first population strategy: A Scotland for the future: opportunities and challenges of Scotland's changing population.<sup>104</sup> The policy document outlines four 'building blocks' for demographic change:

- A family friendly nation - Scotland is the best place to raise a family
- A healthy living society - Scotland's population is healthy, active, and able to live longer, healthier lives
- An attractive and welcoming country - Scotland is able to attract people with the skills to make a positive contribution to our economy, communities, and public services
- A more balanced population - Scotland's population is balanced and distributed across the country

The policy paper proposed a 'place-based approach' to demography, considering the economy, infrastructure, housing, and public services. This emphasis on place-based approaches runs through most recent government policy (including the Growth and City Deals examined under funding in Chapter 6).

There is a long list of policy initiatives to being a **family friendly nation**, ranging from the provision of baby boxes through to children's rights and child protection to the Scottish Child Payment and work on the Living Wage and the Gender Pay Gap. Mention is made of rural challenges, with a commitment to developing cross-government networks to ensure key policies for rural and island communities (e.g., on rural economy, women in agriculture). It is also noted that rural maternity services, in particular, are under pressure to centralise. However, there is a lack of detail about how specifically rural challenges are to be addressed in the policy.

<sup>103</sup> <https://www.skillsdevelopmentscotland.co.uk/media/46066/skills-action-plan-for-highlands-and-islands.pdf>

<sup>104</sup> <https://www.gov.scot/publications/scotland-future-opportunities-challenges-scotlands-changing-population/documents/>

Policies on **healthy living** are focused on increasing healthy life expectancy and enabling older people to participate, contribute and thrive. The Population paper notes the challenges faced in rural and remote areas with older populations that are set to continue ageing. Some of these areas, particularly those located in the West coast (e.g., Argyll and Bute, Western Isles), were expected to experience overall population decline in future years (as reported in Chapter 3) and typically do not benefit from migration trends in the way that Scotland's major cities do.

The actions set out in the policy do not address these areas of challenge specifically, though it is also proposed to 'consider establishing a Demographic Commission'. This is an example of the 'aspirational' language used within the policy document.

The policy notes that **migration** can help alleviate some of the challenges associated with Scotland's demographic change. Without migration Scotland's population would be in decline with deaths exceeding births. EU exit and the COVID-19 pandemic have provided further challenges to migration, alongside UK government policy that does not actively support in-migration. This policy area is one in which more targeted activity to rural and remote areas with particular demographic challenges has been undertaken. Since the publication of the policy, the latest Programme for Government<sup>105</sup> has been published, including the following commitments:

- By Summer 2022 a new £5 million **Islands Bond fund** will provide up to £50,000 each for up to 100 households by 2026, by providing financial support for island residents to remain in their community, or to encourage people to move there.
- A Rural Visa Pilot<sup>106</sup> proposal will be developed, to support people to move to and work in our rural communities, submitting a proposal to the UK Government in 2022.
- **Islands Programme** – commitment to invest £30 million over the next five years to support the delivery of the National Islands Plan.
- **Develop a Remote, Rural and Island Housing Action Plan** – to support the commitment to deliver 110,000 energy efficient, affordable homes by 2032 (at least 10% of which are to be in remote, rural and island communities and at least £45 million as part of the overall affordable housing supply programme funding in this parliamentary session).
- **R100** - As part of R100, survey work has now concluded in preparation for 16 new subsea fibre cables being laid to connect 15 of Scotland's islands. These cables will begin to be laid in spring 2022 and completed by the end of 2022 – bringing superfast broadband to some of the most remote communities.
- **NPF4** – The future NPF will have 6 key outcomes to which it must contribute, including 'increasing the population of rural areas of Scotland'. The draft [NPF4](#) was published in November 2021.
- **Jobs Dispersal** – Scottish Government continues to explore opportunities for hybrid working for staff over the coming months.

The Population Strategy notes the challenge of uneven population spread, with some communities facing significant population growth while many others, notably the west coast authorities and those in rural areas are facing depopulation as people **move to larger towns and cities for employment and education opportunities**. Migration is heavily concentrated amongst younger people leading to increasingly ageing population in some communities.

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<sup>105</sup> <https://www.gov.scot/publications/fairer-greener-scotland-programme-government-2021-22/documents/>

<sup>106</sup> <https://www.gov.scot/publications/designing-pilot-remote-rural-migration-scheme-scotland-analysis-policy-options/documents/>

Numerous policies were highlighted as dealing with the challenge including the Infrastructure Investment Plan, National Planning Framework 4, The Place Principle, Community Wealth Building, Licensing for Short-term lets, the Affordable Housing Supply Programme, Land Reform, CAN DO Places programme, the Digital Scotland Broadband programme, Connection Scotland Initiative, Scottish 4G Infill, National Transport Strategy (STPR2) and Town Centre Action Plan Review. **This provides an insight to how difficult it can be to track rural policy if mainstreamed across numerous individual policy documents.**

### *Housing Policy*

The Scottish Government issued 'Housing to 2040'<sup>107</sup> in March 2021 in which it set out its long-term vision for housing in Scotland, across all tenures. The most relevant commitment and actions for rural areas were set out in the meeting of the Convention of Highlands and Islands in October 2021<sup>108</sup>:

- To deliver a further 110,000 energy efficient, affordable homes by 2032 – at least 70% of which will be in the social rented sector and 10% in remote, rural and island communities.
- The development of a Remote, Rural and Island Housing Action Plan to meet the housing needs of these communities and help to retain and attract people.
- Continuation of the Rural and Island Housing Fund with the availability of £30m available over the lifetime of the current Parliament.
- Introduction of a new Rented Sector Strategy to improve accessibility, affordability and standards and ensure that all new homes achieve zero emissions (consultation paper now published).<sup>109</sup>
- To develop a new Housing Standard, set in law, to cover all homes, new or existing, including agricultural properties, mobile homes and tied accommodation.
- Extend the use of modern construction methods to help overcome some of the delivery challenges
- Scale up opportunities for self-provided housing
- Support the better use of existing housing including the development of a new fund for local authorities to apply to bring empty homes back into use.
- Take steps to regulate short-term lets to empower local authorities to strike a better balance between local housing needs and the concerns of residents with that of the tourism industry (legislation now approved with local authorities to establish schemes by October 2022, with the licence scheme operational by April 2023).
- Give local authorities the powers they need to manage second homes, where this is a problem in their area
- New Permitted Development Rights for the conversion of agricultural buildings to residential and commercial uses. These came into force on 1 April 2021 and will help support the provision of new homes in rural areas and help succession planning on farms.

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<sup>107</sup> <https://www.gov.scot/publications/housing-2040-2/documents/>

<sup>108</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/minutes/2021/10/convention-of-the-highlands-and-islands-meeting-papers-october-2021/documents/paper-4---housing-in-remote-rural-and-islands-areas/paper-4---housing-in-remote-rural-and-islands-areas/govscot%3Adocument/Paper%2B4%2B-%2BHousing%2Bin%2BRemote%2BRural%2Band%2BIsland%2BAreas.docx>

<sup>109</sup> <https://www.gov.scot/publications/new-deal-tenants-draft-strategy-consultation-paper/>



- Work with Community Land Scotland and others to bring forward more land for housing in rural areas
- Adopting an infrastructure-first approach to neighbourhood planning, meaning that more homes will be encouraged in areas where there is, for example, already capacity in schools or health services. It also means including blue-green infrastructure.
- Through the new NPF4 and the development planning system identify a greater choice of land for community-led and self-provided housing, affordable housing, and new build homes.
- Identify how our planning policies can help to sustain and grow crofting communities.
- Improve the condition and quality of existing properties, including agricultural tenancies and tied accommodation, through the new Housing Standard.
- Consider how the concept of 20-minute neighbourhoods in rural and island communities could apply, delivering homes in existing communities with access to the services and amenities that the community needs.

As shown in chapter 3, the unit cost of new housing supply is 10% higher in remote rural areas and 5% higher in other rural areas, compared with urban areas. The extent to which the actions set out in the Housing to 2040 and upcoming Remote, Rural and Island Housing Action Plan will help to level out costs is yet to be seen.

### *The National Islands Plan*

One policy with a clear rural focus is the National Plan for the Scottish Islands,<sup>110</sup> published in December 2019 in response to the Islands (Scotland) Act 2018.<sup>111</sup> The plan has 13 strategic objectives with around 10 or more policy pledges for each objective. Objective 2 alone had 25 pledges. This is a far-reaching document supported by a detailed implementation strategy.<sup>112</sup> The strategic objectives set out focus strongly on key areas of disadvantage considered in Chapter 3:

1. Address population decline and ensure a healthy, balanced population profile
2. Improve and promote sustainable economic development
3. Improve transport services
4. Improve housing
5. Reduce levels of fuel poverty
6. Improve digital connectivity
7. Improve and promote health, social care, and wellbeing
8. Improve and promote environmental wellbeing and deal with biosecurity
9. Contribute to climate change mitigation and adaptation and promote clean, affordable, and secure energy
10. Empower diverse communities and different places
11. Support arts, culture, and language
12. Promote and improve education for all throughout life
13. Support effective implementation of the National Islands Plan

<sup>110</sup> <https://www.gov.scot/publications/national-plan-scotlands-islands/>

<sup>111</sup> <https://www.legislation.gov.uk/asp/2018/12/enacted>

<sup>112</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2019/12/national-plan-scotlands-islands/documents/national-islands-plan-implementation-route-map-2020-2025/national-islands-plan-implementation-route-map-2020-2025/govscot%3Adocument/national-islands-plan-implementation-route-map-2020-2025.pdf>

The Implementation Route Map covers the period from 2020-2025 and so it is difficult to say at this stage what impact the policy is having on disadvantage, with many outcomes having a medium- or long-term timescale. Those with a shorter timescale include ‘the needs of Scotland’s islands are taken into account by the Ministerial Task Force on Population’, ‘An increase in island employers who support apprenticeships’ and ‘A recognised increase in young people choosing to train for management and permanent employment in the island tourism sector’. Although detail on the progress on employment is less evident, the new Population Strategy suggests progress on some actions.

One example of the effective ‘rural proofing’ of policy, legislated for as part of the National Islands Plan, is that all key policies should have an Island Communities Impact Assessment. The main example so far is the Island Communities Impact Assessment for the Fuel Poverty (Targets, Definition and Strategy) (Scotland) Bill, introduced in 2019.<sup>113</sup> That involved a commitment from the Scottish Government to:

- review how delivery schemes can work better locally and funding for island communities
- develop a remote rural, remote small town and island Minimum Income Standard (MIS) uplift, with the uplift for island areas to be determined separately
- ensure that representatives from island local authorities are fully involved in island proofing the final Fuel Poverty Strategy
- produce an Island Community Impact Assessment (ICIA) on the final Fuel Poverty Strategy
- undertake further work by the Fuel Poverty Advisory Panel on self-reporting for the enhanced heating regime

The impact of the 2019 Fuel Poverty Act on rural disadvantage remains to be seen. However, even with the MIS uplift it is estimated that between 2018 and 2019, rates of fuel poverty and extreme fuel poverty increased in remote rural areas (from 33% to 43% and 23% to 33% respectively), increasing the gap when comparing overall urban to overall rural areas.<sup>114</sup>

A more short-term example of rural proofing was the £2million fund<sup>115</sup> launched to support Island communities – The Island Green Recovery Fund. This money was split between:

- the Zero Waste Scotland<sup>116</sup> fund which received £300,000 to disburse to enable the introduction of packaging free shops
- the Energy Saving Trust fund which received £300,000 to support carbon neutral initiatives
- the Inspiring Scotland fund<sup>117</sup> that secured £900,000 aimed at supporting community recovery projects and
- the Highlands and Islands Enterprise fund which provided £500,000 to support green economic recovery.

### *Inclusive Growth, the Wellbeing Economy and Community Wealth Building*

Scotland’s 2015 Economic Strategy<sup>118</sup> set out the two pillars of increasing competitiveness and reducing inequality which underpin the concept of Inclusive Growth, and this remains a core strand

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<sup>113</sup> <https://www.gov.scot/publications/island-communities-impact-assessment-fuel-poverty-targets-definition-strategy-scotland-bill/pages/9/>

<sup>114</sup> <https://www.gov.scot/publications/scottish-house-condition-survey-2019-key-findings/pages/6/>

<sup>115</sup> <https://www.gov.scot/news/building-resilience-for-island-communities/>

<sup>116</sup> <https://www.zerowastescotland.org.uk/content/single-use-items-are-targeted-island%E2%80%99s-green-recovery-programme>

<sup>117</sup> <https://www.inspiringscotland.org.uk/what-we-do/our-funds/islands-green-recovery-programme>

<sup>118</sup> <https://www.gov.scot/publications/scotlands-economic-strategy/pages/2/>

of Scotland's wellbeing framework, its National Outcomes and policies.<sup>119,120</sup> The Scottish Government's 2022 National Strategy for Economic Transformation builds on the concept of inclusive growth in setting out the vision for '*A wellbeing economy: thriving across economic, social and environmental dimensions*' by 2032.<sup>121</sup>

Research by IPPR and Mark Diffley in 2019 for the Poverty and Inequality Commission<sup>122</sup> found that the Scottish Government had identified a broad platform of 'inclusive growth' initiatives since 2015, ranging across fair work, enterprise and skills reform, early years expansion, initiatives to narrow the attainment gap and promote fair access to higher education, and Fair Start Scotland. However, **there was a lack of clear and measurable outcomes for these major areas of policy action**, though they do note that the Scottish Centre for Regional Inclusive Growth<sup>123</sup> will have a role in filling that gap. The James Hutton Institute and HIE work outlined earlier will also be important in understanding sub-regional experiences.

Community wealth building (CWB)<sup>124</sup> is a people-centred approach to local economic development, which redirects wealth back into the local economy, and places control and benefits into the hands of local people. This can have a critical role within a wellbeing economy built on inclusive growth.

There are five core principles to Community Wealth Building:

- progressive procurement – developing local supply chains of businesses likely to support local employment and keep wealth within communities
- fair employment and just labour markets – Using anchor institutions to improve prospects of local people
- shared ownership of the local economy – supporting and growing business models that are more financially generative for the local economy
- socially just use of land and property – developing the function and ownership of local assets held by anchor organisations, so local communities benefit from financial and social gain
- making financial power work for local places – increase flows of investment within local economies by harnessing and recirculating the wealth that exists.

The Scottish Government are committed to exploring the potential for CWB as an approach to delivering inclusive growth, with six CWB projects in development across Scotland, in Ayrshire, Clackmannanshire, the Outer Hebrides, the South of Scotland, Glasgow City Region and as part of the Tay Cities Deal (the City/Growth deals are examined further in Chapter 5). The Outer Hebrides CWB opportunities were examined in a report in March 2021<sup>125</sup> by the Centre for Local Economic Strategies, which identified 21 recommendations for taking forwards CWB, including building capacity in the local community through training and civic engagement, consideration of procurement and benefits, maximising financial opportunities and making social productive use of assets and developing fair employment and just labour markets and plural ownership of the economy. This suggests future opportunities of CWB but also the need for initial groundwork to enable this.

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<sup>119</sup> <https://nationalperformance.gov.scot/>

<sup>120</sup> <https://www.gov.scot/publications/fairer-greener-scotland-programme-government-2021-22/pages/3/>

<sup>121</sup> <https://www.gov.scot/policies/economic-growth/>

<sup>122</sup> <https://povertyinequality.scot/wp-content/uploads/2019/06/Poverty-and-Inequality-Inclusive-Growth-final-report.pdf>

<sup>123</sup> <https://www.inclusivegrowth.scot/our-work/>

<sup>124</sup> <https://www.gov.scot/policies/cities-regions/community-wealth-building/>

<sup>125</sup> <https://www.cne-siar.gov.uk/media/17452/S%2019B%20-%20Appendix%20-%20Community%20Wealth%20Building%20in%20the%20Outer%20Hebrides%20Action%20Plan.pdf>

While inclusive growth is at the forefront of policy, with scope to benefit areas of rural disadvantage, the outcomes have not yet been fully evidenced. The **NCRA recommendation to develop rural outcomes, indicators and actions that are embedded in the National Performance Framework and National Economic Strategy is still important**, with the need to pick up where the Rural Economy Action Group left off.

While the policy examples above suggest **some focus on 'rural issues' within mainstream policy**, and some examples of policy more geared towards rural and remote areas, there are a number of examples where policy has not been adequately 'rural proofed' to address the specific disadvantages experienced in rural and remote areas.

#### 4.3.4 Where is rural proofing needed?

Chapter 3 showed a number of areas where rural and regional disadvantage was observed, where rural proofing is required to address structural disadvantage. This included the challenges of lower wage, less skilled jobs alongside higher living costs (particularly transport and fuel) and housing affordability pressures. Relatively poor digital and mobile connectivity and poorer access to services compound these issues.

##### *Top-down or bottom up?*

In terms of policy areas, consultees tended to focus on two main areas of discussion. Overall, current policy in Scotland was seen as inadequate (although to varying degrees) to tackle the key areas of disadvantage identified – most commonly cited as housing, depopulation, and lack of young people, transport, and energy. The other key area of argument was about the perceived centralisation of policy and resources, and lack of empowerment and understanding of local communities needs and wants. Although this was countered to some extent by others who felt that the mechanisms exist, but the implementation is lacking and requires more proactive development and support.

Respondents to the **National Islands Plan Survey**<sup>126</sup> published in July 2021 felt they had little influence over decisions made by local and national government, although views did vary between those on different islands, and between younger and older residents. Similarly, in terms of **rural and island proofing** several consultees felt that while it happens in theory, in practice the outcomes of the island impact assessments (as required under the Islands (Scotland) Act 2018) do not necessarily influence policy.

Some consultees referred to public sector organisations moving services specifically from the islands to the mainland with the effect of removing “middle manager” professionals from the area. A topical theme at the point of undertaking the research was the proposal by Highlands and Islands Airports Ltd (HIAL) to centralise air traffic control systems using a remote air traffic management system (the proposal has now been shelved). Consultees drew on the example to illustrate their point, suggesting that Scottish Government and HIAL *'seemed determined to proceed with centralisation regardless'* (public sector). One consultee also made the point that while rural and island proofing is a Scottish Government tool (whether used in practice or not), it is not a concept recognised by the UK government and this will become increasingly important with funding streams shifting from the EU to UK government.

Throughout most of the discussions, there was a theme of **urban bias in policy** and **'rural being the problem'**. Several consultees talked about negative stereotyping from statutory bodies and what they believed to be flawed perceptions of communities' lack of viability and being 'money pits'.

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<sup>126</sup> <https://www.gov.scot/publications/national-islands-plan-survey-final-report/>

Several consultees emphasised the need for methods to enable understanding of the very different and dispersed communities across the Highlands and Islands and to resist ‘top down’ approaches. This was commonly discussed in the context of funding support and bidding processes, with several consultees across sectors concerned about policy and funding streams being centralised with others making decisions about what is best for small rural communities. It was also highlighted in the context of service delivery and local governance (both its large scale and the way it is organised), which some said made taking forward initiatives with effective local community engagement challenging. As one argued:

*“In terms of the bottom-up, top-down thing, I think the problem that we have in Scotland, ... it's like a massive problem is ... the size of our local governance [its] just like massive compared to anywhere else in Europe. We're talking about places like Highlands, ... the size of an entire country in parts of Europe” (Academic).*

There were a number of specific policy areas identified in the qualitative research and the desk-based review where rural proofing was not felt to be adequate or evident.

### *Affordable housing*

Views from consultees on housing reflect the analysis presented in chapter 3, with almost all highlighting the **lack of affordable housing** as problematic, with a few even suggesting a housing supply crisis in the region. The 2017 Stimulating Housing Development Study commissioned by HIE<sup>127</sup> found that there was considerable cost in opening up housing development sites due to infrastructure requirements, and costs associated with planning, building and road construction regulatory burdens, some of which disadvantaged the rural and remote areas, particularly where there is rigid application of such regulations with little flexibility to try and accommodate the individual context. These constraints, exacerbated by lack of economies of scale meant the risks were often too great for private developers to supply in rural and remote areas. In this respect, ‘rural proofing’ housing development to accommodate remote rural areas needs considerable additional resource. This was echoed in views from some consultees who suggested that the lack of housing was to do with the policy and funding framework working against small communities and not supporting rural small scale, and more costly development. The difficulties of rural development were acknowledged, but many argued that the policy was not sufficiently nuanced for rural areas. As illustrated by one consultee: “

*The difficulty is the land itself is mostly rock which is really hard to build on. The cost per unit of building a house is ridiculous because you've got to get everything in there - you've got to get availability of the labour, everything is just amplified, when you go even more rurally” (Public sector).*

Many consultees were extremely frustrated about the lack of affordable housing (for some this meant social housing) and saw the responsibility for this lying with Scottish Government – they also discussed the ongoing problems of short-term lets, policies for which were argued to have been stalled. Some consultees argued that current housing policy and funding was more designed for urban places. This was also argued to be true for policy beyond housing and a function of policy development being led from the urban centres with lack of rural consideration:

*“to a policymaker, making a policy that is fine for 99% of the people and only negatively affects 1% is still an ok policy. It is always very difficult to compromise” (Private sector).*

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<sup>127</sup> <https://www.hie.co.uk/media/3033/stimulatingplushousingplusdevelopmentplus-plusreport.pdf>

In England, the Countryside Charity, Rural Services Network and English Rural are calling for affordable housebuilding as a key driver for rural recovery.<sup>128</sup> It is proposed as a solution that provides employment opportunities and keeps key workers within local communities, while supporting local schools and having wider potential benefits on reduced welfare benefit costs. They estimated that 10 rural homes would provide a £1.4m boost to the local economy.

There was a counter view from several consultees across sectors that argued that the overall high level policy framework was adequate in relation to housing, community, and economic development but it was the way in policy or legislation was understood and implemented which limited the potential. Reference was made to community empowerment and land reform, suggesting that while legislation is supportive, it is the practice and the way in which various ‘bureaucrats’ understand and implement policy which is unhelpful: As one respondent put it:

*“I think when you get into the bones of it, it’s the practice rather than the policy that I think gets in the way. So people have a perception that they can’t do things, or they’re just working off a different model that isn’t really flexible”* (Public sector).

### *Higher living costs*

In late 2011, the Scottish CAB Service surveyed consumers in Scotland about their experiences of online shopping, looking specifically at **the issue of delivery charges**.<sup>129</sup> The research estimated that at least 1 million Scots face surcharges, late delivery or are refused delivery altogether when they try to buy goods online. Scotland’s island communities paid nearly £19 extra (£18.60) to deliver goods bought online while those in the Highlands were charged an average of £15 extra per delivery.

Ten years later, this issue was still a concern, particularly with the COVID-19 lockdown necessitating home delivery. SPICe conducted research in response to a question raised in Parliament in June 2021 highlighting the need for policy to tackle the significant disadvantage faced in remote rural areas.<sup>130</sup> Their modelling estimated the extra cost of parcel delivery charges in Scotland, relative to the rest of the UK, as £45 million a year.<sup>131</sup> The work highlighted the disproportionate impact of these surcharges on constituencies in the Highlands and Islands, with the additional cost to the region totalling £39.9m, 89% of the total cost to Scotland.

Econometric modelling commissioned by the Scottish Government in 2021 also highlighted the substantially higher delivery prices that individuals in remote rural areas pay compared to those in urban areas.<sup>132</sup> The analysis found that individuals in the Highlands and Islands face the highest delivery prices on average and the lowest delivery probability. Prices in the region were on average 21% higher than in South Western Scotland, with the Outer Hebrides, Shetland and Orkney facing average surcharges of at least 25% compared to Glasgow. While remoteness played a greater role than rurality in explaining prices and delivery availability, council area appeared to be the key factor.

### *Financial hardship*

SEFARI’s recent research on Rural Lives examined financial hardship and vulnerability in rural areas and found evidence that the benefits system (both legacy benefits and Universal Credit) was unable to deal fairly with the volatility and irregularity of rural incomes.<sup>133</sup> The centralisation and digitalisation of the welfare system created further difficulties, given inadequate broadband and

<sup>128</sup> [https://rsnonline.org.uk/images/campaigns/pragmatix/2020\\_10\\_08\\_Report\\_to\\_CPPE\\_Engli.pdf](https://rsnonline.org.uk/images/campaigns/pragmatix/2020_10_08_Report_to_CPPE_Engli.pdf)

<sup>129</sup> [https://www.cas.org.uk/system/files/publications/Postcode%20Penalty%20with%20covers\\_0.pdf](https://www.cas.org.uk/system/files/publications/Postcode%20Penalty%20with%20covers_0.pdf)

<sup>130</sup> [Delivery Charges in Highlands and Islands - Tuesday 8 June 2021 - Hansard - UK Parliament](https://www.parliament.uk/hansard/commons/2021/june/8/delivery-charges-in-highlands-and-islands)

<sup>131</sup> <https://spice-spotlight.scot/2021/11/09/retail-revolution-and-postal-delivery-surcharges/>

<sup>132</sup> <https://www.gov.scot/publications/economic-analysis-postal-delivery-pricing-scotland/>

<sup>133</sup>

[https://www.rurallives.co.uk/uploads/1/2/7/3/127324359/453540\\_rural\\_poverty\\_report\\_2021\\_8.3.2021\\_optimised.pdf](https://www.rurallives.co.uk/uploads/1/2/7/3/127324359/453540_rural_poverty_report_2021_8.3.2021_optimised.pdf)

mobile coverage across rural areas and loss of public transport to get to centralised offices. Advice and support services were also centralised, with the need to travel long distances for work capability assessments.

The Rural Lives study also reported that public spending had reduced the funding available to support rural voluntary and community support organisations, while leaving them to try and fill emerging gaps in state social provision. Concerns were also raised about support for elderly people requiring social care. While the social care system is under great strain across the UK, the Rural Lives research suggested that social care in rural areas faced specific rural challenges relating to greater distances that care workers need to travel (often while being unpaid), leading to growing staff shortages and the higher costs of provision.

The study highlighted a number of policy challenges for rural areas, with the aim of delivering:

- Good/fair work in rural areas
- Access to affordable housing
- Access to affordable business premises
- Rural proofing the welfare state
- Support for sole traders and micros-businesses
- Rural proofing social care provision
- Shared visions and positive narratives
- Collaboration between services
- Enhanced social infrastructure
- Support face-to-face outreach for vulnerable groups

These ‘person-based’ measures need to be delivered through local, place-based support and advice projects with national policy informed by local experiences and needs.

### *Childcare*

All three- and four-year-olds, and eligible two-year-olds, are currently entitled to 600 hours of funded Early Learning and Childcare a year. From August 2020, this increased to 1140 hours with funded places provided at the same rate in urban and rural settings.<sup>134</sup> However, there is evidence that providers in rural areas are unable to meet needs. Recent research with childcare providers in Scotland found that there was a lack of choice in rural areas.<sup>135</sup> There is a shortage of early years provision (ages 0 to 3) and childminders. They had particular concerns around financial sustainability when operating in rural areas, for example the number of staff required to meet guidance and the cost of renting shared buildings. The financial viability of services was affected by lower numbers of children and changes in demand. There was a perception that many of the smaller services in rural areas had closed due to these issues. Providers suggested the need to support rural childcare services through start-up grants, top-up fees for settings with a small number of children and additional funding for staff wages and transport.

### *Addressing de-population*

Some consultees in the qualitative element of the research discussed their perception of inadequate policy relating to **depopulation** and supporting in-migration, specifically young people returning to or moving into rural areas. Several consultees referred to lack of specific policies to support young people back to rural areas, and one consultee referred to Scottish Government’s Population Task

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<sup>134</sup> <https://www.gov.scot/policies/early-education-and-care/>

<sup>135</sup> <https://www.gov.scot/publications/challenges-rural-childcare-provision-innovative-models-needs-agricultural-families/>



Force which they felt concentrated on attracting people to urban areas and ignoring rural areas where many businesses are unable to fill vacancies.

In April 2021, the Convention of the Highlands and Islands (COHI) established a working group on population, tasked with exploring actions and initiatives to tackle depopulation in the region. Recognising that the issues contributing to depopulation are complex, the group identified five areas of focus central to the challenge of ensuring sustainable populations in communities across the region - housing, jobs, critical infrastructure (transport and digital), access to public services and attraction and retention of young people. An update paper provided in October 2021 outlined various initiatives being undertaken by the organisations represented in the working group to address these areas of focus.<sup>136</sup> As well as an action to investigate the concept of “Repopulation Zones”, this included establishment of three Settlement Officers by HIE to assist people moving to the region, and a further Settlement Officer by Highland Council with a broader remit to identify land for house building and work with landowners, planners, and others in the council to facilitate house building and support population attraction.

### *Transport and infrastructure*

A 2016 HIE study into transport connectivity in Argyll and Bute explored how transport links could be transformational in reducing travel times to and from the region to help unlock economic potential.<sup>137</sup> However, it is also noted that transport infrastructure benefits to communities can take a long time to be delivered, with social impacts that are difficult to capture. This means potential investment impacts can be difficult to evidence in a formal economic appraisal, as noted earlier in relation to the STAG Guidance.

Comparison from international consultees showed that **Nordic states** have experienced similar patterns of depopulation, but the policy to locate higher-paid public sector jobs in these areas was seen to attract a higher proportion of younger people in their thirties back into rural areas who had previously left to pursue higher education. This combined with much greater investment in infrastructure (bridges and ferries) was argued by some consultees as strategies that should be pursued in Scotland.

Most consultees from island communities identified **transport policy** as problematic for their communities, particularly in relation to ferries (lack of investment and pricing policy), and capacity of air travel. Other challenges identified with transport policy was the split between national trunk road and local roads responsibilities between Scottish and local government, and the general lack of funding from ‘cash-strapped’ local authorities. The Argyll and Bute transport connectivity research also highlighted that the local authority has the highest number of roads in local authority responsibility.

A few consultees noted the Scottish Government political alliance between the SNP and Greens could jeopardise much needed road investment in parts of the region. Again, several consultees emphasised the urban bias in transport policies e.g., infrequent bus services mean individuals are less able to make full use of free bus travel concessions, or active travel plans with prioritisation of cycling provision were argued to have an inbuilt urban bias and much less application in rural and remote areas.

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<sup>136</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/minutes/2021/10/convention-of-the-highlands-and-islands-meeting-papers-october-2021/documents/paper-5---population-update/paper-5---population-update/govscot%3Adocument/Paper%2B5%2B-%2BPopulation%2BUpdate.docx>

<sup>137</sup> <https://www.hie.co.uk/research-and-reports/our-reports/2016/june/28/argyll-and-bute-transport-connectivity-and-economy-research/>

Several consultees identified the challenging **energy infrastructure policy and arrangements**. While on the one hand a few consultees identified the positive moves to climate change policy from UK and Scottish Governments, there were still significant disadvantages identified which were argued to be limiting economic growth and rural communities' prospects where green energy is being or could be produced. In this respect, a few consultees highlighted the contradiction where in many of the areas producing green wind energy which is input to the grid, the local households and businesses do not benefit from this energy production, and they are paradoxically penalised through higher grid tariffs. This inequality is further compounded by many of these remote and rural communities being in the most northerly and exposed areas of Scotland/UK resulting in higher domestic energy demands.

Consultees further cited the slow (or complete lack of) progress on development of energy inter-connectors to link to the mainland which would enable high voltage transfer of energy to the mainland, with resultant economic and financial benefit to those communities. Infrastructure investment is brokered between the network provider (in this case SSE) and the national grid which determines whether investment is worthwhile. Island communities that produce wind energy are having charges levelled on them for exporting electricity, while producers in other parts of the UK are paid for exporting it. However, another island community is set to benefit from a high voltage inter-connector which will see a financial gain to the island and various community windfarms from the sale of green energy.

Another **regulatory constraint** for the energy and wider research and development/innovation sector was mentioned by both private and public sector consultees. They felt that the Office for Gas and Electricity Markets (OFGEM) and the Maritime and Coastguard Agency (MCA) regulations don't just hinder progress and innovation, completely stop it. In this case, the local authority is strongly advocating the idea of a 'regulatory sandbox' so that the innovators in the area can be given the space to innovate and develop.

**These are just a few examples of the additional disadvantages rural locations experience where mainstreaming policy is applied without adequate rural proofing or adjustment, or additional resources for rural areas, often further entrenching disadvantage.**

#### **4.4 CONCLUSIONS**

Looking at policies elsewhere, of **those economies that have prioritised rural disadvantage most did so through amendments made to mainstream national policies**, while in areas where this is prioritised least there is a reliance on targeted funds. This is particularly important for the UK, as the main mechanism of targeting funds using EU funds with a strong rural focus is being replaced by a 'levelling up' approach that has a weak rural focus.

There is evidence of a clear move to ensure a rural focus in mainstream policy in Scotland although there are also numerous examples of a lack of 'rural proofing' which further disadvantages rural and remote areas.

Consultees argued that policy and funding need to be better directed through a clear vision for rural development, which some consider could be better achieved through a formalised regional economic partnership – and this has now been established in the Highlands and Islands. However, this regional approach will have to be reconciled with the call from many for the decentralisation of policy and resources to encourage a bottom-up approach reflecting and respecting local and diverse communities.

Consultations pointed to the need for policy to address housing, transport, and energy infrastructure issues, but also better implementation of existing policy, including land reform and within this, greater support for the co-ordination of community-led approaches. Consultees identified a number of aspects of existing policy which was said to be urban focused and was insufficiently nuanced to mitigate against rural and regional disadvantage.

Reducing disadvantage through green recovery depends on increased connectivity, good quality jobs, community wealth building and a greater emphasis of skills. Communities also need affordable housing and access to childcare, health services etc. This includes building an 'enabling infrastructure' for housing, transport, skills, digital and energy across the Highlands and Islands region.

The CPRE (The Countryside Charity), The Rural Services Network and English Rural are calling for affordable housebuilding as a key driver for rural recovery, while the recent UK-wide Rural Lives study highlighted the need for 'rural proofing' of the welfare state and social care provision alongside access to good/fair work and business support as well as collaboration between services and improved social infrastructure.

Planning also has an important role to play in supporting this enabling infrastructure, with emphasis on flexibility to meet the specific planning needs of remote and rural areas. Communities should be supported to be fully involved in developing Local Place Plans.

While inclusive growth is at the forefront of policy, with scope to benefit areas of rural disadvantage, the outcomes have not yet been fully evidenced. The NCRA recommendation to develop rural outcomes, indicators and actions that are embedded in the National Performance Framework and National Economic Strategy is still important.

## 5 FUNDING MECHANISMS TO ADDRESS RURAL AND REGIONAL DISADVANTAGE

This chapter explores how far current funding mechanisms address rural and regional disadvantage. Firstly, targeted and ‘place-based’ funding mechanisms are explored, and then the changing funding landscape in Scotland and the UK is reviewed. Previous EU funding arrangements are examined, possible impacts in changes to State aid are discussed, and the provision of regional funding, including post-EU funds, are reviewed, including funding outcomes so far. Lastly, the methodological issues relating to how these funds have so far been allocated is considered.

### 5.1 TYPES OF FUNDING MECHANISMS

This section compares various methods of funding allocation used in Scotland and the UK, including the previous EU funds and regional funding post EU exit. It considers how well these different funding streams address rural and regional disadvantage.

#### 5.1.1 Using weighted criteria for needs assessment

Research by London Economics (LE) Wales for the Independent Commission on Funding and Finance for Wales looked at different approaches to funding allocation, including different needs assessments.<sup>138</sup> The study outlined three broad types of formulae: simple per capita based approaches; the highly complex approaches used in Australia, the UK and elsewhere; and intermediate approaches, often the outcome of bargaining processes, that draw on a number of needs drivers and do not rely solely on a per capita basis.

The LE Wales study noted that data is an important foundation for any needs-based formula. In general, the problem of finding sufficient data of reasonable quality increases as the complexity of the formula increases; as the sophistication of the statistical techniques used increases; and as the size of the relevant geographic area declines. This poses very pertinent and significant challenges in relation to the Highlands and Islands.

Potential problems with data include the availability of only poor proxies for real needs measures; small sample sizes (e.g., where the number of regions in a country is small); lack of data at the small area level; and poor-quality data at the small area level because, for example, of the significant impact of boundary effects. **The Highlands and Islands has some small, but relatively disadvantaged areas, which impacts on overall data quality and this needs to be considered in using data for needs assessment.**

In determining what indicators to include in a needs-based formula, and what weights to attach to each of these, regression analysis is often used. LE Wales identified a number of considerations for needs-based indicators:

- Indicator should be correlated with the ‘target’ measure, and it should be possible to justify how the indicator is expected to relate to the level of need, and therefore expenditure
- Indicator should be free from local authority influence – either independently collected or independently verified
- Indicator should be measured consistently across local authorities;
- Frequency of update of the indicator should also be considered;
- Availability of data for the indicator at local authority level

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<sup>138</sup> <https://londoneconomics.co.uk/wp-content/uploads/2011/09/36-The-use-of-needs-based-formulae-in-the-allocation-of-public-resources.pdf>

- Indicator should not exhibit excessive volatility
- Indicator should not provide an incentive to local authorities to behave perversely – i.e., to undertake activities only because they lead to a higher grant allocation

Later we consider the extent to which the Levelling-up Fund, Community Renewal Fund and Shared Prosperity Fund needs assessment methodology meet these criteria. First, we examine some variations on targeted funding based on simpler assessments of need.

### 5.1.2 Targeted funding – Funding Further Education

The funding mechanism used by the Scottish Funding Council (SFC) for student places provides an example of how the redistributive effects of funding might disadvantage rural areas.<sup>139</sup> SFC funds colleges to deliver training activities using a credit-based unit cost model. This simplified model was introduced by the SFC in 2015-16 to ensure a clearer relationship between the activity delivered by colleges, learning hours, and funding. There are adjustments based on types of activity/subject prices groups, to reflect the fact that some courses (e.g., engineering) have higher costs in materials and so are more expensive to deliver. SFC also uses a demographic model based on various data sources regarding the likely student population. The data fed into that model included historic information regarding the flow of students between local authorities, as well as local authority level information on the share of the Scottish S3 to S6 school-roll, those aged 16-19 not in a positive destination and those aged 20-24 on Job Seekers Allowance, the share in employment, long-term employment, and most deprived areas (according to the SIMD).

The basic level of funding is based on the subject price group, credits from the demographic model and then additions based on support for extended learning support, social inclusion, and rurality.

Although there is additional funding available based on rurality, the calculation of credits from the demographic model tends to favour urban areas where there is a larger share of the school roll as well as fewer positive destinations, higher unemployment and more deprivation as defined by the SIMD. The analysis in Chapter 3 on rural and regional disadvantage found that rural and remote areas see more young people in employment, typically lower-wage employment and disadvantage that is not well captured by the SIMD. **Given that rural disadvantage is not well reflected within the SIMD and consequently in the basic system of credits, it may have the effect of entrenching rural disadvantage.**

### 5.1.3 Targeted funding – EU funds

European structural funding supported economic development across all EU countries and was intended to promote smart, sustainable, and inclusive growth.<sup>140</sup> In Scotland, the structural funds were composed of two similar sized funds: the European Regional Development Fund (ERDF) and the European Social Fund (ESF). Across 2014-20 Scotland was allocated a maximum of €476 million from the ERDF and €465 million from the ESF.

The **ERDF** focused its investments on several key priority areas: innovation and research; the digital agenda; support for small and medium-sized enterprises (SMEs) and the low-carbon economy.<sup>141</sup> The ERDF resources allocated to these priorities depended on the category of region. As highlighted in Chapter 2, EU funding for infrastructure was also informed by the European Peripherality Index.

<sup>139</sup> [http://www.sfc.ac.uk/web/FILES/guidance\\_sfcgd192018/SFCGD192018\\_Annex\\_D\\_SFC\\_Funding\\_Models.pdf](http://www.sfc.ac.uk/web/FILES/guidance_sfcgd192018/SFCGD192018_Annex_D_SFC_Funding_Models.pdf)

<sup>140</sup> <https://archive2021.parliament.scot/parliamentarybusiness/currentcommittees/111232.aspx>

<sup>141</sup> [https://ec.europa.eu/regional\\_policy/en/funding/erdf/2014-2020](https://ec.europa.eu/regional_policy/en/funding/erdf/2014-2020)

EU Structural Funds saw locations categorised based on GDP per person compared with the EU average.<sup>142</sup> This resulted in the assessment of areas as being in one of three categories:

- Less developed regions (GDP/head < 75% of EU-27 average)
- Transition regions (GDP/head between  $\geq 75\%$  and  $< 90\%$  of EU-27 average)
- More developed regions (GDP/head  $\geq 90\%$  of EU-27 average).

Less developed and transitional regions tended to be more remote and rural compared to the 'more developed' areas. The Highlands and Islands was categorised as a transitional region for the 2014-20 funding round, along with Northern Ireland and a number of UK regions. West Wales and the Valleys, and Cornwall and the Scilly Isles were identified as less developed regions. These locations are compared later to those prioritised for the Levelling-up and Community Renewal Funds.

The allocation of structural funds is based on an EU-wide formula that defines three categories of regions by GDP per capita. Depending on the categorisation, the formula used to calculate **regional** allocations differs. For the region categories found in Scotland ('more developed' and 'transition') the formula is based on population, employment levels, education indicators, GDP, and rurality.

The use of geographical level of analysis can be important but can disguise hardship – if successful geographies are combined with less successful areas as is the case with broader city-regions, for example. In the example of the Highlands and Islands, there is considerable variation across the region in terms of productivity, **but the whole region was granted 'transitional regional status' for EU funding. This enabled such regions to use their own approaches to target resources to areas in need, within their defined priority areas.** More generally, if there are pockets of deprivation in otherwise successful locations, a 'GDP per head' measure would not capture this, and this would be problematic for the Highlands and Islands.

The **Rural Development Funds** were part of the Second Pillar of the Common Agricultural Policy (CAP). The main aims of the CAP were to support farmers and improve agricultural productivity, ensuring a stable supply of affordable food, safeguard European Union farmers to make a reasonable living, help tackle climate change and the sustainable management of natural resources, maintain rural areas and landscapes across the EU, and keep the rural economy alive by promoting jobs in farming, agri-foods industries, and associated sectors.<sup>143</sup> ERDF support was specifically targeted to rural areas, with part of the monies funding LEADER (see below). It must also be acknowledged that CAP funding under Pillar One to farmers and crofters in the Highlands and Islands in the form of farm subsidies<sup>144</sup> was considerable and any reduction in the level of funding that replaces the CAP will have a significant impact on rural economies. If the funding to replace Direct Payment and other funds is significantly reduced, this will have an impact on rural economies.

#### 5.1.4 Place based funding - Community Led Local Development and LEADER

Community led local development (CLLD)<sup>145</sup> is an approach to development that gives local communities the power to tackle their own local challenges. It involves local people – individuals, businesses, and community groups - coming together to form a partnership, identify their own issues and solutions, and create an action plan to address their concerns. The focus of activity is on building knowledge and skills, supporting new ideas and encouraging cooperation, with a view to creating viable and resilient communities.

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<sup>142</sup> [https://ec.europa.eu/regional\\_policy/sources/images/map/eligible2014/uk.pdf](https://ec.europa.eu/regional_policy/sources/images/map/eligible2014/uk.pdf)

<sup>143</sup> <https://www.legislation.gov.uk/asp/2020/17/notes/data.xht?view=snippet&wrap=true>

<sup>144</sup> <https://www.europarl.europa.eu/factsheets/en/sheet/109/first-pillar-of-the-common-agricultural-policy-cap-ii-direct-payments-to-farmers>

<sup>145</sup> <https://www.ruralnetwork.scot/community-led-local-development>

For the last 30 years, CLLD in rural Scotland has been delivered mostly through the LEADER programme, funded by the ERDF. LEADER funding was delivered through Local Action Groups (LAG), groups of local stakeholders in rural communities who decided which goals and elements of the programme they considered relevant and deliverable in their local area.

An evaluation of LEADER, undertaken by the SRUC, identified the consistent, core principles of the approach<sup>146</sup>:

- area-based local development strategies
- a bottom-up approach
- public-private partnerships
- facilitating innovation
- integrated and multi-sectoral actions
- networking
- co-operation

**The clear benefits of the approach related to the building of community capacity so that local action was delivered to meet local needs.** The focus on innovation was felt to deliver projects that would not otherwise have been possible. Community empowerment was also a significant benefit, particularly the ability to “reach rural, remote and peripheral communities, specifically funding for rural economic development”.

It would be reasonable to expect the outcomes above to significantly contribute to reducing rural disadvantage, though the 2014 SRUC process evaluation report<sup>147</sup> recognised a lack of information available in Scotland on the actual difference LEADER and its projects have made to life in rural communities.

Tangible benefits were identified in the later SRUC report<sup>148</sup> in relation to **project inputs and investment, jobs, and businesses**. Wider outcomes and longer-term benefits for communities are harder to ascertain. The evaluation clearly identified a range of benefits, including delivering local action based on local needs; empowering communities and bringing diverse interests to the Local Action Group; developing capacity and skills within the community; delivering sustainable projects beyond the life of the funding; creating and safeguarding jobs; encouraging a longer-term, strategic focus; building supply chain networks and community networks through business and service development.

The SRUC recommendations made for LEADER and the transition to future provision noted some challenges, including the need to better articulate longer-term impacts/outcomes. Initially it was felt important to retain the devolved decision-making of the Local Action Groups and adopt appropriate monitoring and evaluation approaches.

LEADER closed for applications after the last EU funding window (2014-2020) and many consultees voiced concern that at this stage there didn’t appear to be an equivalent replacement to LEADER that would help remote small communities in local economic and social development. Some argued that Scottish Government should step in quickly, but a few also suggested there appeared to be an ongoing impasse between the Scottish and UK Governments, and in the meantime local authorities, private organisations and communities are anxiously awaiting the outcome, and its potential impacts.

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<sup>146</sup> <https://pure.sruc.ac.uk/en/publications/the-role-of-the-leader-approach-post-brexite>

<sup>147</sup> <https://www.gov.scot/publications/process-evaluation-leader-2014-2020/pages/1/>

<sup>148</sup> <https://pure.sruc.ac.uk/en/publications/the-role-of-the-leader-approach-post-brexite>



The Scottish Government has confirmed funding of £3m to test future approaches to Community Led Local Development (CLLD) in rural and island communities over 2021-22.<sup>149</sup> These ‘test of change’ pilots will help inform how we grow sustainable and thriving communities and ensure local voices shape and drive their development. The ‘tests of change’ have to look at how to better align community-based activity to meet community priorities and respond to particular and distinct local opportunities and challenges.

The ‘Rural Communities Testing Change (RCTC)’ Fund launched in two tranches. As part of the first tranche of funding, there were two funding streams made available to LAGs to allow them to build on the positive legacy of LEADER while using their experience to properly innovate and test change. The second tranche of the fund is the Rural Communities Ideas into Action Fund. Through this, 120 projects have been approved for grant funding of up to £50,000.<sup>150</sup>

### 5.1.5 Devolved decision-making

Some consultees with experience of the previous European Union (EU) LEADER funding stream praised the ‘bottom up’ approach utilised. While design and project implementation was entirely up to the community there was still strong governance in the form of administration, monitoring of spend and outcomes by the EU. By contrast, an example was provided of the Scottish Government rural tourism infrastructure funding where a very detailed, long funding bid was perceived as being required, with very hands-on scrutiny of the exact detail and implementation of the project, all of which was said to disadvantage small rural communities compared to previous EU funding experiences. The argument across several consultees was ‘*let communities get on with it*’ so long as spending is scrutinised, and overall outcomes are proven.

Consultees highlighted other examples of devolved decision-making, including Community Partnership Planning, and the means by which this is supported. One public sector consultee described a local authority Place Based Planning model where all community stakeholders were asked to be involved in local decision-making required for a particular place – whether about land-based decisions, economic development or health and social care.

Also described was the distribution of flexible funding pots to communities by the public sector during the COVID-19 pandemic, to use for their best interest. This included a £350m fund to support welfare and wellbeing, a £40m Supporting Communities Fund and £20m Third Sector Resilience Fund.<sup>151</sup> Some consultees stated that these funds enabled ‘micro-innovation’ through a community driven, rapidly devolved approach so that vulnerable people were successfully identified and supported. One reviewed this relatively short timebound approach over the pandemic as:

*“[I] found there was actually this positive feeling about how the Scottish Government was responding to rural policy, how they were acting, which was quite quickly, with a bit more risk, just having to throw money, it's a less prescriptive, maybe ... trust communities, to do things for themselves a wee bit more”<sup>152</sup> (Academic).*

While many consultees agreed with the approach to decentralise policy development and control to communities (and resist centralisation), there was also a minority view that suggested a focus on communities could reinforce existing inequalities as this approach would tend to favour the more vocal, better organised communities that already had access to various resources. This linked to the

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<sup>149</sup> <https://www.ruralnetwork.scot/community-led-local-development>

<sup>150</sup> <https://www.inspiringscotland.org.uk/wp-content/uploads/2022/01/RClA-projects-list-for-fund-announcement.pdf>

<sup>151</sup> <https://www.gov.scot/news/helping-communities-affected-by-covid-19/>

<sup>152</sup> The consultee referred to a relevant publication – see <https://sefari.scot/document/rural-and-island-communities-response-to-covid-19>

suggestion that more development and support was required to ensure equity of opportunity for all small rural communities, and to harness the opportunities that exist:

*“I think all the legislation over the last few years has increased community confidence. But I am not sure all communities fully understand the opportunities that are available just yet”.*  
(Community/Charity)

One aspect of peripherality raised by some consultees across sectors was the impact of **distance from decision makers**. This argument suggested that rural and remote areas are disadvantaged due to the focus of power, centralisation of decision making and different cultures, both in London (in the UK context), and Edinburgh/the central belt (in the Scottish context) to which both were equally referred. This closely reflects points made about ‘top-down’ and ‘bottom-up’ policy development and decision making. One consultee noted that the HIE area structure has been helpful in this sense to ensure connection with local communities, but that more has to be done from the ‘centre’ (Scottish and UK Governments) to recognise that rural communities and businesses have different drivers and needs to urban areas.

**There are clear benefits to place-based funding and targeted funds, particularly where there is community involvement in priority setting. EU funds benefited the Highlands and Islands through enabling community-led development which is seen as critical to tackling rural disadvantage.**

#### **5.1.6 Place-based funding – City Region and Regional Growth Deals**

In Scotland, the main vehicle for place-based investment is through City Region and Regional Growth Deals with the Scottish Government committing over £1.9 billion alongside UK Government funds (see below).<sup>153</sup>

The City Region deals first evolved to stimulate investment and create more effective regional economies, as it was recognised that cities and their regions make up around two thirds of Scotland's economy. The Scottish Government wanted to understand the opportunities for and barriers to inclusive growth in the regions, and to identify actions and activities – tailored to the challenges and opportunities in each region - that could be supported. These should be actions that would unlock economic potential, reduce inequality, and contribute to decarbonising Scotland's economy, ensuring the benefits of economic growth can be experienced by all a region's citizens. These deals are a key strand of delivering inclusive growth.

Funding for local economic development through City Region and Growth Deals is allocated through national (SG and UK) funds alongside local authority and partnership funding. The deals are agreements between the Scottish Government, the UK Government and local government designed to bring about long-term strategic approaches to improving regional economies. They are delivered by regional partnerships led by authorities working with the private sector, education and skills providers, and enterprise and skills agencies which allows partners to target funds towards rural communities based on their assessment of the most pressing sustainability concerns.

The City Region and Growth Deals have so far included rural areas as part of City Regions and also Islands as part of the Island Growth Deal, as well as separate local authority deals. Across the Highlands and Islands there are the following deals:

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<sup>153</sup> <https://www.gov.scot/policies/cities-regions/city-region-deals/>

- The **Inverness and Highland City Region Deal** will deliver £315m of investment, including £135m from the Scottish Government and £53m from the UK Government, designed to boost the region's growing business sectors such as tourism and life sciences. The deal promotes innovation and international links, as well as new partnerships between the region's many small businesses. In addition, it aims to realise ambitions of becoming the best digitally connected rural region in Europe.
- The **Moray Growth Deal** will invest more than £100m in the region's future, including £32.5m from both the UK and Scottish governments. The deal will support projects that focus on employability and skills programmes, manufacturing innovation, tourism as well as vital improvements to digital connectivity and regeneration.
- Both the UK and Scottish governments have each committed £25m to the £70m **Argyll and Bute Growth Deal**. The deal's proposals will take advantage of existing regional strengths in tourism, food and farming, distilling and defence. These include investment in aquaculture, tourism, skills, housing, digital connectivity, engineering, and the low carbon economy.
- The **Islands Growth Deal** covers the three island local authorities of Orkney, Shetland, and the Western Isles, and is worth a combined £335m to the islands. The UK and Scottish governments have each committed £50m over a 10-year period. The deal's proposals aim to create up to 1,300 jobs and tackle the depopulation concerns facing many parts of the three island archipelagos. They plan to put the islands at the forefront of the transition to net zero and support thriving, sustainable communities.

Audit Scotland work noted a lack of clarity in the City Deal process in terms of how it determines priorities and how outcomes are assessed.<sup>154</sup> It is not clear how the contribution made by the Scottish Government and UK Government has been arrived at for each deal, and **funding is allocated based solely on a competitive bidding process, rather than a needs-based criteria. It is also not clear how targeted towards need individual projects are, though local collaboration in delivery is key in determining local needs.**

## 5.2 REGIONAL AID AND EU REPLACEMENT FUNDS

As outlined earlier, prior to the UK's exit from the EU, EU funds were targeted based on a broad assessment of need based on GDP per head, with community-led approaches mainly delivered through LEADER funding under the Rural Development Fund. Large infrastructure projects were also informed by analysis of peripherality. This section examines the transition from EU funding to UK-based funding, firstly considering the changing context of State aid and potential impacts, then exploring replacement funding mechanisms in detail.

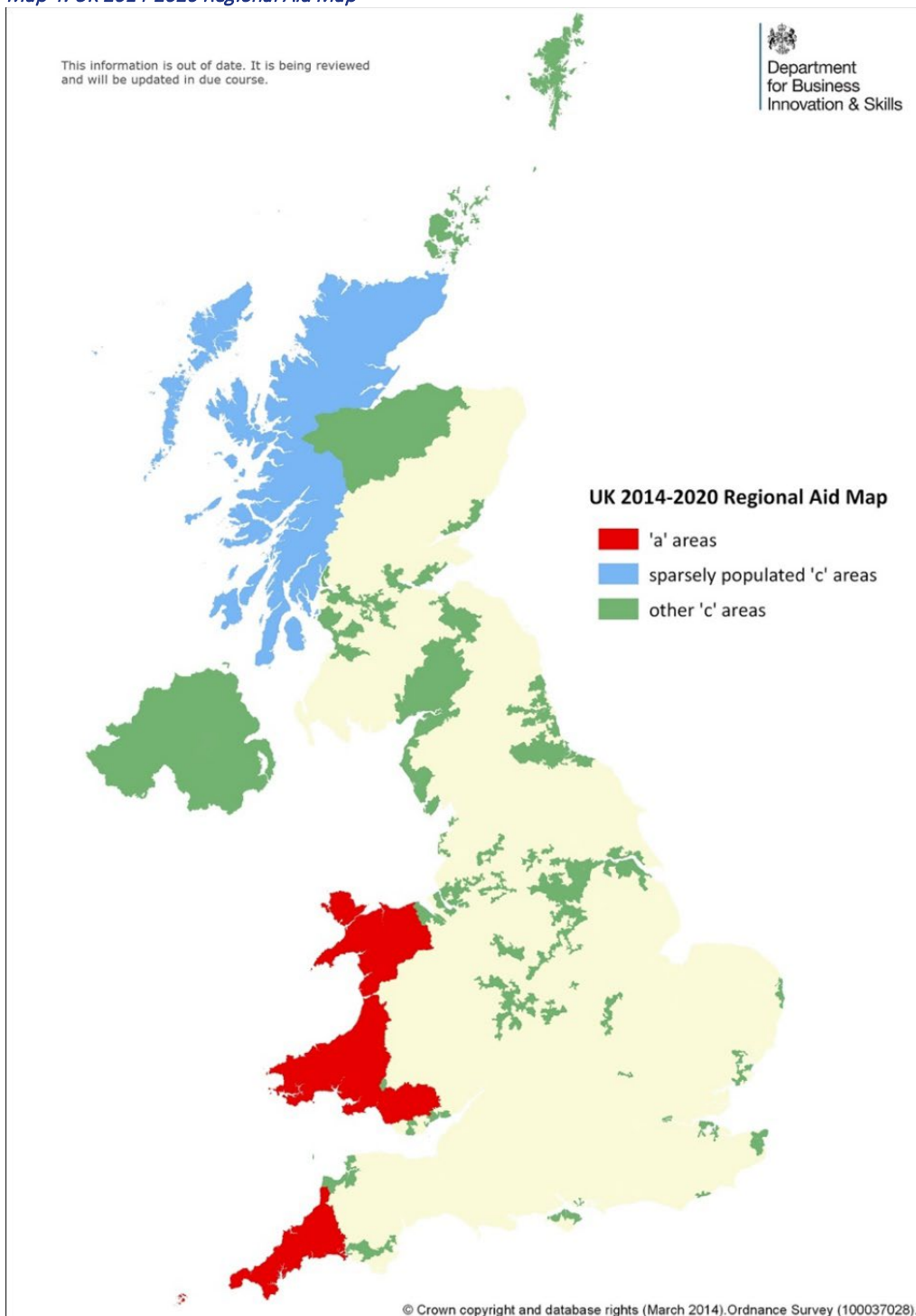
### 5.2.1 Associated legislation and State Aid

State Aid is a European Commission (EC) term which refers to forms of public assistance given to "undertakings" on a discretionary basis, which have the potential to distort competition and affect trade between member States of the European Union. EC regulations, frameworks and guidelines determined what aid can be given under which circumstances. Public bodies such as HIE had a range of powers to grant State aid to businesses and organisations through registered block exemption schemes and using De Minimis aid.

<sup>154</sup> <https://www.audit-scotland.gov.uk/news/city-deals-lack-measures-of-success>

Certain areas of the EU, known as Assisted Areas, were considered economically underdeveloped, and were eligible for specific levels of aid particularly aimed at creating investment and job creation. As shown in the map below, there were three types of Assisted Area in Scotland, all with differing aid intensity levels between 2014 and 2020: (a) less developed regions, (b) sparsely populated areas and (c) other areas with lower-than-average GDP or higher than average unemployment. All areas in the Highlands and Islands were within categories 'b' and 'c'.

*Map 4: UK 2014-2020 Regional Aid Map*



Source:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/227107/AA\\_Map\\_Consultation\\_Stage\\_1\\_05\\_08\\_2013\\_version\\_3.pdf#page15](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/227107/AA_Map_Consultation_Stage_1_05_08_2013_version_3.pdf#page15)

Following the UK's exit from the European Union, the EU State aid regime was effectively revoked from UK law from 1 January 2021, with the UK Internal Market Act 2020 then determining provisions in connection with the functioning of the UK's internal market including subsidy control measures.

The provisions of the UK Internal Markets Act<sup>155</sup> which passed into law in December 2020 had significant implications for the governments, parliaments, regulators, courts and businesses in all parts of the UK, and concerns have been raised about its implications for devolved policy making.<sup>156</sup> The part of the Act relating to subsidy control amends Schedule 5 of the Scotland Act 1998 to remove power over subsidy controls from devolved legislatures, taking the powers to Westminster instead when the UK ceased to follow EU state aid rules. The subsidy regime is being developed by the UK Government separately. The Subsidy Control Bill is currently awaiting Royal Assent, with subsidy control now substantially returned to the UK and a reserved matter so that **much of the autonomy that the Scottish government had when the UK was under the EU state aid regime has been transferred to the UK government.**<sup>157</sup> This means that decisions about the design of the Levelling Up Fund, Community Renewal Fund and Shared Prosperity Fund have been made in Westminster.

The House of Commons Library (HoCL) analysis of the Subsidy Control Bill noted that, as part of the changes to subsidy control, an agreement was reached and included in the UK-EU Trade and Cooperation Agreement (TCA). EU state aid rules continue to apply to subsidies affecting trade in goods and wholesale electricity between Northern Ireland and the EU.<sup>158</sup> Otherwise, the principles of the TCA broadly require that subsidies benefit wider society and contribute to public policy objectives. Subsidies must be proportionate and necessary, must stimulate change in behaviour of the beneficiary, and be the right instrument to achieve the objectives. The benefits of a subsidy must outweigh any negative impact on competition and investment in the UK and internationally.<sup>159</sup>

The HoCL research explained that to implement the UK's commitments in the TCA, the Subsidy Control Bill created the independent Subsidy Control Unit within the Competition and Markets Authority (CMA). This body will advise public authorities on applying the subsidy control principles. Its advice will be non-binding and the ultimate decision to grant a subsidy will rest with a granting authority. The UK regime will be enforced through the Competition Appeal Tribunal, which will effectively hear judicial reviews against subsidy decisions made by a public authority.

The Bill exempts low risk subsidies with minimal effect on competition and trade from the main subsidy control requirements. These include subsidies with a value under a threshold of £315,000 over a three-year period, called "minimal financial assistance". Subsidies of "particular interest" are those deemed potentially more distortive. The Government will define these categories of subsidies in secondary legislation, but these are likely to cover a small number of particularly high-risk subsidies, possibly financial incentives to relocate businesses, or restructuring subsidies to ailing companies, for instance. **This may be a more contentious area for the Highlands and Islands if there is a wish to encourage existing businesses to relocate to the Highlands and Islands from elsewhere.**

The Government will also create "streamlined subsidy schemes". These will be made when it judges that certain categories are compliant with the principles of the regime. Such schemes could cover different sectors and categories of subsidies, including research and development, skills, disadvantaged areas, and culture.

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<sup>155</sup> <https://www.instituteforgovernment.org.uk/publications/internal-market-act>

<sup>156</sup> <https://www.gov.scot/publications/brexit-uk-internal-market-act-devolution/pages/5/>

<sup>157</sup> <https://www.lawscot.org.uk/media/371606/subsidy-control-bill-second-reading-briefing.pdf>

<sup>158</sup> <https://researchbriefings.files.parliament.uk/documents/CBP-9270/CBP-9270.pdf>

<sup>159</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/982648/TS\\_8.2021\\_UK\\_EU\\_EAEC\\_Trade\\_and\\_Cooperation\\_Agreement.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/982648/TS_8.2021_UK_EU_EAEC_Trade_and_Cooperation_Agreement.pdf)

There may be scope to explore the Highlands and Islands – and the remote and rural areas in particular – as being eligible for this ‘streamlined subsidy’ approach due to the disadvantages that peripherality brings. However, as yet there are no plans for a distinct Regional Aid Map to be in place for new Subsidy Control legislation.

The HoCL research noted that various state aid experts argued that a light-touch system, or one with only an advisory role for a regulator, would be insufficient for domestic policy purposes. They have discussed the benefits of a lightly regulated, less burdensome system versus the need to have clear guidance and procedures that give legal certainty to granting authorities and businesses that benefit from subsidies. This is generally seen as an opportunity to shape policy to support the UK’s own strategic priorities. There is a more general view that a well-functioning regime requires full buy-in from devolved administrations, which contest subsidy control being a reserved power (as highlighted above).

## 5.2.2 UK Regional Funding Programmes post EU Exit

This section outlines the arrangements that were put in place by the UK government to support regional development post EU exit, looking broadly at how the funds work and how the Highlands and Islands have benefited from these funds so far, compared with previous EU funding. Later sections examine in detail the needs assessment methodology of these funds.

Two funds were put in place for the period 2021-2022 – The Levelling-Up Fund and the Community Renewal Fund (CRF). **The Levelling-Up Fund**,<sup>160</sup> announced in the 2020 Spending Review, aimed to invest in infrastructure that improves everyday life across the UK. The £4.8 billion fund was to support town centre and high street regeneration, local transport projects, and cultural and heritage assets up to 2024/25. Funding is delivered by local authorities, with the Scottish and Welsh Territorial Offices consulted in the assessment of relevant bids. **The amount of funding each area received was determined on a competitive basis to ensure value for money.** In the first funding round, bids were prioritised that could demonstrate investment or begin delivery on the ground in the 2021-2022 financial year. An index was used to prioritise support to access funding based on a combination of metrics including need for economic recovery and growth, need for improved transport connectivity and need for regeneration.

The second round of bidding is now open, with applications to be submitted early July 2022. The metrics and relative weightings used in the place prioritisation model are unchanged from the first round. However, a change in local government restructuring is accommodated (Northamptonshire), calculations were re-run with updated data (where available), and there was a move to a two-year average for all metrics covering the post-2019 period.<sup>161</sup> As no local authority was allowed to move down to a lower priority category, this (and the Northamptonshire mergers), resulted in an expansion in the number of places in priority one and two categories. **There was no change in priority placing for any of the local authorities in Scotland.** A third round of bidding is anticipated but no further details on this are available at present.

**The CRF**<sup>162</sup> aimed to provide £220 million additional funding through a single bidding round to help places across the UK prepare for the introduction of the UK Shared Prosperity Fund in April 2022. The UK Community Renewal Fund aimed to support people and communities most in need across the UK, creating opportunities to trial new approaches and innovative ideas at the local level. To

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<sup>160</sup> <https://www.gov.uk/government/publications/levelling-up-fund-prospectus>

<sup>161</sup> <https://www.gov.uk/government/publications/levelling-up-fund-round-2-updates-to-the-index-of-priority-places/levelling-up-fund-round-2-index-update-note>

<sup>162</sup> <https://www.gov.uk/government/publications/uk-community-renewal-fund-prospectus>



nurture innovative thinking and offer flexibility, projects align with one, or deliver across several, of the following investment priorities:

- Investment in skills
- Investment for local business
- Investment in communities and place
- Supporting people into employment.

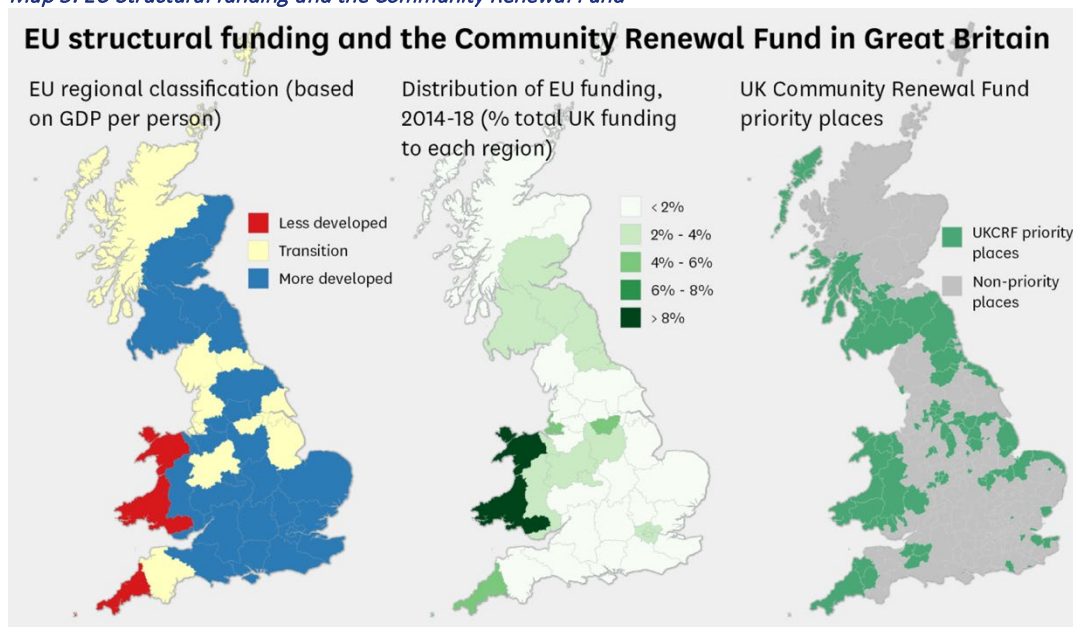
Funding for the Community Renewal Fund has so far been short-term, with projects funded in 2021 needing to be completed by the end of March 2022.<sup>163</sup> Projects need to meet specific eligibility criteria (such as demonstrating strategic fit and fitting State Aid rules), with additional support for priority places determined by a series of indicators of economic prosperity.

Detailed analysis of the needs assessment methodology for both the Levelling-Up and Community Renewal Funds is discussed towards the end of the chapter. The maps below show the regions prioritised under the Community Renewal Fund and how they compare with the previous EU regional classifications, and the priority areas by category for the Levelling-Up fund.

As illustrated in the maps, **the communities prioritised in area-based analysis for the two funds already point to an inability of the indicators selected to fully capture remote and rural disadvantage.** Comparatively little EU structural funding went to some of the UK Community Renewal Fund priority places, particularly those on the coast in the East and Southeast of England.

*It should be noted that the central map below is based on the absolute share of funding provided to each region rather than per capita levels. On a per capita based, the share of EU funding provided to less sparsely populated areas, including the Highlands and Islands, would be higher.*

**Map 5: EU Structural funding and the Community Renewal Fund**



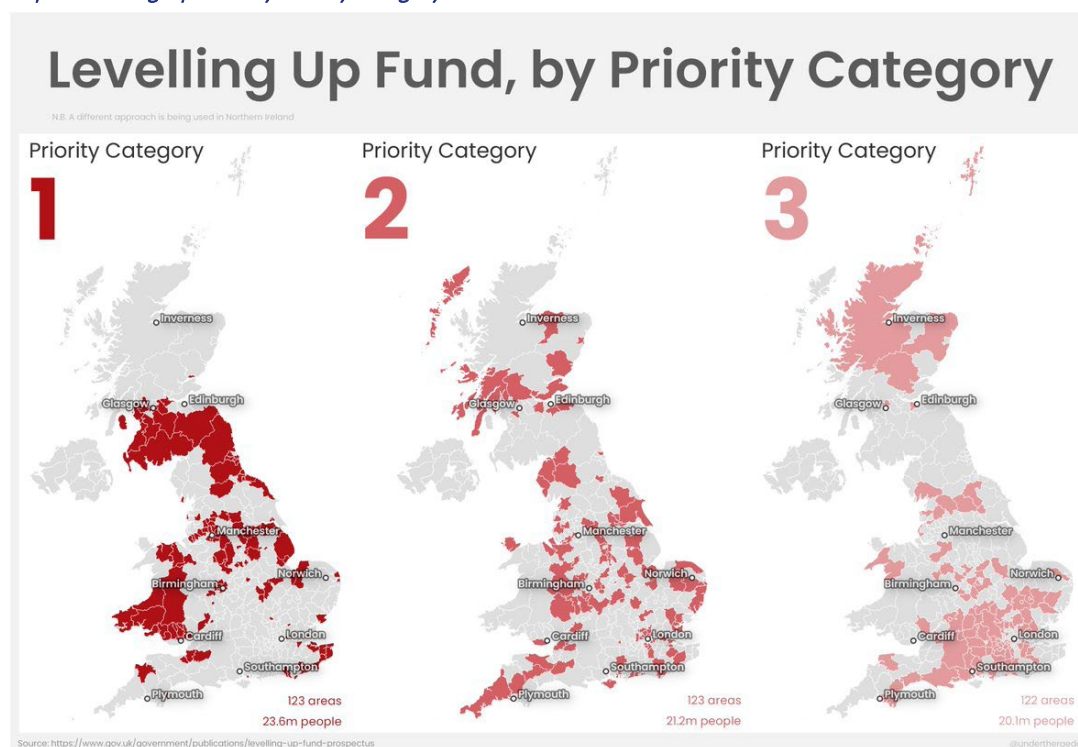
Source: <https://commonslibrary.parliament.uk/eu-structural-funding-will-the-uk-community-renewal-fund-bridge-the-gap/>

<sup>163</sup> <https://www.gov.uk/government/publications/uk-community-renewal-fund-prospectus/uk-community-renewal-fund-prospectus-2021-22>



The Highlands and Islands was a transitional area under the EU funding regime, however no local authorities in the region received priority 1 status for the Levelling-up Fund and only Argyll and Bute and the Outer Hebrides were priorities for the Community Renewal Fund.

*Map 6: Levelling Up Fund by Priority Category*



Source: <https://twitter.com/undertheraedar>

While the Highlands and Islands has had some success in securing funding through the EU-replacement funds, so far this is limited to Highland, Argyll and Bute, the Outer Hebrides, and the North Ayrshire islands.<sup>164</sup> By contrast, under EU funding, the whole of the Highlands and Islands was included as a transitional region, with the scope to fund projects across the entire region.

There were just eight projects funded across Scotland in the first round of the Levelling-Up Fund, with a primarily urban focus:

- Aberdeen City - Aberdeen City Centre Master Plan (£20m)
- City of Edinburgh - Granton Gas Holder (Waterfront Cultural Regeneration) (£16.48m)
- Falkirk - Westfield Roundabout (Transport Infrastructure Improvement Project) (£20m)
- Glasgow City - Pollok Stables and Sawmill (Heritage and Community Centre Development) (£13.05m)
- Highland - Inverness Zero Carbon Cultural Regeneration (£19.86m)
- North Ayrshire - B714 (Transport Infrastructure Improvement Project) (£23.69m)
- Renfrewshire - AMIDS South (Travel Links Improvement Project) (£38.73m)
- West Dunbartonshire - Artizan Shopping Centre, Glencairn House & Connecting Dumbarton (£19.9m).

A total of eight projects were funded in Argyll and Bute by the Community Renewal Fund (CRF) for 2021-2022, two projects were funded in the Outer Hebrides and one project funded in Highland. The funds are smaller, with a maximum of £3m per lead authority. Argyll and Bute received just over

<sup>164</sup> <https://www.gov.uk/government/collections/new-levelling-up-and-community-investments>

£2m in funds while the Outer Hebrides got £166K across two projects and Highland received £233K for one project. North Ayrshire Council also secured funding of c.£457K for the Islands Green Programme, which would also be in the Highlands and Islands (Arran and the Cumbraes). By comparison, Dumfries and Galloway received £1.48m and The Scottish Borders £1.34m.

The table below summarises the outcomes of bids with priority areas highlighted in grey. The most successful local authorities (in terms of the % of their bids that were funded) were all priority places. That included Argyll and Bute, with 73% of bids funded. By contrast, the Outer Hebrides and Highland were mainly unsuccessful (despite the Outer Hebrides being a priority place). Five other priority places had between 21% and 43% of projects funded. Moray, The Orkney Islands and Shetland Islands all had no projects funded.

No bids	Mainly successful	Mainly unsuccessful	No funding	Other priority places
Angus	Argyll and Bute (73%)	Highland (14%)	East Dunbartonshire	Falkirk (21%)
East Renfrewshire	North Lanarkshire (71%)	Na h-Eileanan Siar (14%)	Moray	Inverclyde (43%)
Stirling	Scottish Borders (57%)	West Dunbartonshire (14%)	Orkney Islands	North Ayrshire (38%)
Midlothian	East Ayrshire (57%)		Shetland Islands	Dumfries and Galloway (30%)
			West Lothian	Glasgow (33%)

Note: those highlighted in grey are priority areas

More information is needed on the criteria for the assessment of bids, as it is not clear if the lack of success for the Outer Hebrides and other priority places related to the timing of the bidding, the capacity of organisations, or the strategic fit of the bids. A number of non-priority areas did not have bids and others had no successful bids, so the extent to which those without priority may succeed in accessing funding remains to be seen.

Consultees articulated the benefits associated with previous EU funding streams, which saw the region having good access to regional economic and social funding streams as a result of its transitional status.

Criticisms of the Community Renewal and Levelling Up funds centred around the criteria used, the short timescales for bidding, and the short period between the phase of funding starting and the deadline for project completion. Consultees suggested that the way these bids were invited pointed towards the UK Government prioritising urban deprivation. A public sector consultee felt their local authority geography did not match the design of the Levelling Up fund, suggesting that the funding bid for three large projects in one bid would have been much better deployed across a multiple of smaller projects due to their vast and dispersed geography/communities. Another consultee stated that the process for the Community Renewal Fund was unfair for community organisations who would not have the capacity to bid for or deliver within the short timeframes (for projects that had to be completed by the 31 March 2022). A private sector innovation-based company described the invaluable contribution that EU funding had made to their enterprise and expressed concern that while there are some potential replacements, including funding through Innovate UK, it will nowhere near replace that secured through EU funding.

### 5.2.3 The Shared Prosperity Fund

The new UK Shared Prosperity Fund (UKSPF) was launched in April 2022 by the UK Government to replace EU structural funds. The November 2020 spending review described the overall purpose of the UKSPF as “to level up and create opportunity across the UK for people and places”.

The spending review also said that UKSPF spending will ramp up to around £1.5bn a year and “at least match current receipts from EU structural funds.”<sup>165</sup> This was re-iterated in the pre-launch Guidance to the Fund.<sup>166</sup> The guidance also said that the UK Government was committed to working with devolved administration Ministers and was undertaking further engagement to determine the scope of this role.

The UKSPF launched with a prospectus providing further detail on eligible activities within the three investment priorities of communities and place, local business and people and skills.<sup>167</sup> It set out the process for developing investment plans and managing funding allocations.

The UKSPF has moved away from the challenge funding model of the Community Renewal Fund, with each area having a conditional funding allocation, to be confirmed on approval by the UK Government of an investment plan.

The move away from challenge funding is welcome, giving the potential for a more planned and strategic approach, but the relatively small funding allocations, together with the short timescale for submission of investment plans (by 1 August 2022) counteracts this. The funds are also based largely on annual allocations whereas EU funding was multi-annual, multi-year programmes which was said to give project flexibility, sustainability, and community confidence.

The UKSPF will see Scotland allocated £32 million in 2022-2023, £55 million in 2023-24 and £125 million in 2024-25. Of this, £24m (11%) has been allocated to the Highlands and Islands. The Scottish Government has calculated a sum of £162 million per year would be needed to replace the European Regional Development Fund and European Social Fund, increasing to £183m per year when LEADER funding and the EU Territorial Cooperation Programmes are added in.<sup>168</sup>

Not only is Scotland, as a whole, receiving less through the UKSPF than it did through EU Structural Funds, but the proportion of Scottish funding allocated to the Highlands and Islands is significantly lower than received through previous EU Funds. The Highlands and Islands is receiving around £18m less over three years than it would have done if the funding allocation of UKSPF was proportionate to previous ESF / ERDF allocations (using allocations in the ERDF / ESF Programme Documents).

Within the £24m allocation for the Highlands and Islands, £4m is ring-fenced for the Multiply programme (adult numeracy skills), leaving around £20m of core funding. Across the region, total funding ranges from around £1.8m to both Orkney and Shetland, £2.2m to Na h-Eileanan Siar, £4.3m to Moray, £4.5m to Argyll and Bute and £9.4 to Highland. The relatively low level of funding in comparison to previous EU funds poses a significant risk to investment in the Highlands and Islands. Additional funding specifically for infrastructure investment may be secured through competitive bids to the second (or subsequent) round(s) of the Levelling Up Fund.

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<sup>165</sup> <https://www.instituteforgovernment.org.uk/explainers/structural-funds>

<sup>166</sup> <https://www.gov.uk/government/publications/uk-shared-prosperity-fund-pre-launch-guidance/uk-shared-prosperity-fund-pre-launch-guidance#how-places-access-the-fund>

<sup>167</sup> <https://www.gov.uk/government/publications/uk-shared-prosperity-fund-prospectus/uk-shared-prosperity-fund-prospectus>

<sup>168</sup> <https://www.gov.scot/news/eu-replacement-funding-gbp-151-million-less-in-first-year/>

#### 5.2.4 Methodology for needs assessment in UK Regional Funds post EU Exit

This section examines the technical guidance associated with UK Regional Funds introduced post EU exit, to consider how well the criteria used to prioritise funding captures rural and regional disadvantage.

##### *The Levelling Up Fund*

As the UK moves away from European funding sources, the decision on how to distribute UK funds to different geographies has become more significant. The UK Levelling Up Fund<sup>169</sup> assesses three dimensions in its funding criteria –

- Indicator 1: Need for economic recovery and growth
- Indicator 2: Need for improved transport connectivity
- Indicator 3: Need for regeneration

Given the aims of the fund, it is striking that no local authorities in the Highlands and Islands were in the top priority area for the Levelling up fund. **However, this may in part be due to the indicators and weightings selected for the UK ‘Levelling up’ fund. These were not the same for England, as for Scotland and Wales, so introduced some variability:**

- The need for economic growth is assessed using GVA per hour worked, estimates of unemployment rate in the 16+ population and proportion of the 16-64 population without NVQs or other formal qualifications. However, **different weightings are applied**: these three measures account for 88.9% of the overall Scottish score but only 50% of the English score.
- Despite remoteness being a key factor for both Scotland and Wales and improved travel infrastructure being a key element of the fund’s aims, **a measure of transport connectivity has not been used for Scotland** (and Wales) due to the lack of comparable data. For England, DfT data on journey times to employment by cycle, car and public transport is used. This measure holds a weight of 25% in the English score.
- The need for regeneration is **assessed by two indicators in England, but only one in Scotland**. A measure based on ratio of long-term empty dwellings (empty for 6 months or more) to total dwellings chargeable for council tax accounts for 11.1% of the Scottish score. The English regeneration score also includes a commercial vacancy indicator, with the two indicators jointly accounting for 25% of the total score (made up from 75% commercial vacancy rate/25% empty dwellings).

A review of the methodology by the Fraser of Allander Institute (FAI) at Strathclyde University in June 2021 highlighted a number of concerns.<sup>170</sup> The main findings were that:

- Whilst using a range of indicators to assist with allocation of funding is to be welcomed, this exercise demonstrates the difficulty of using a set of indicators to capture the different types of need in different areas;
- The Levelling Up Fund methodology is not sufficiently transparent – much more must be done in future to ensure that appropriate detail is provided;

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<sup>169</sup> <https://www.gov.uk/government/publications/levelling-up-fund-additional-documents/levelling-up-fund-prioritisation-of-places-methodology-note#comparison-of-category-split-across-england-scotland-and-wales>

<sup>170</sup> <https://fraserofallander.org/publications/lets-level-with-everyone-how-do-we-identify-regional-inequalities-in-the-uk/>

- The Levelling Up Fund methodology is not capturing need for transport connectivity in rural areas in Scotland and Wales, due to the inconsistent nature of the indices in different nations;
- Policy makers should pay special attention to areas most impacted by the COVID-19 restrictions, while regional data fails to reflect these disproportionate impacts.

Particular methodological issues are highlighted in relation to the approaches used for “need for regeneration” and “improved transport connectivity” measurement. First, on regeneration, Fraser of Allander suggest that it is debatable whether the vacancy rate of residential properties usefully captures this, particularly away from the urban areas of the country. They also suggest that, only taking account of transport connectivity for England is controversial, especially given (i) it is likely to be more of an issue particularly for Scotland and (ii) a measure of population sparsity, reflecting rurality, was used in determining priority areas for the Community Renewal Fund. The lack of an indicator that captures population sparsity would certainly appear to disadvantage rural areas.

Further analysis for Highland Council<sup>171</sup> by the Fraser of Allander Institute in September 2021 also concluded that:

- The Levelling Up Fund indicators used to demonstrate the need for economic recovery and growth miss crucial economic factors that impact considerably on Highland's economic resilience. They suggest that working age population density, or the outlook for the population, are readily available indicators that could be considered for inclusion in any future assessment of need.
- The differential impact that COVID-19 is likely to have on certain parts of the country should also be considered in decisions on investment. FAI modelling showed that Highland was likely to be one of the areas hardest hit by the pandemic, given its sectoral make up. This is true of much of the Highlands and Islands.
- It is critical that the relative need for transport investment is captured for Scotland. Highland Council, and other remote and rural areas, would be given much higher priority if this was done.
- The need for economic regeneration is currently captured fairly crudely. Many other indicators, particularly around demography, are relevant for signalling the need for investment to change to projected outcomes.
- The geography of Highland and its 12 separate labour markets make it difficult to make the case that different packages of projects within the local authority would benefit each other (as FAI note is required).

**The analysis by FAI concurs with that in Chapter 2 in suggesting that that the selected metrics fail to capture the challenges to growth in rural areas, failing to consider peripherality or demography, as in other EU/Nordic approaches.**

The analysis in Chapter 3 also indicated that unemployment does not capture the more rural phenomenon of employment in low wage occupations, underemployment, and seasonality. The index fails to capture the impact of population change, with population decline and increased dependency ratios a significant challenge for inclusive growth in remote rural areas. **Therefore, consultation on indicators is critical.**

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<sup>171</sup> Levelling Up & Community Renewal: A focus on the Highland Council area, University of Strathclyde Fraser of Allander Institute, September 2021

The Rural Services Network commissioned research in 2021 to examine the Levelling Up Fund allocation.<sup>172</sup> They also found that the metrics used to prioritise fund allocations often **failed to reflect the reality for sparsely populated areas and remote communities**. The research found that the statistics used to evaluate the Levelling Up Fund prioritisation favoured non-metropolitan urban locations. Rural and low population density local authorities were less likely to be ranked as a high, or medium priority, than those of urban and higher density ones. This meant that the most rural fifth of England accounted for only eight per cent of levelling up priority areas. In response to this they recommended prioritisation based on assessing the standards of living achievable in different locations given local labour market conditions. Based on what they term a ‘real incomes basis’, they calculate the rural share of levelling up priority area should be eighteen per cent.

The National Innovation Centre for Rural Enterprise<sup>173</sup> puts forward a model for ‘rural-inclusive’ Levelling Up proposing that improved flows from national or urban investments, release more benefits from rural areas to cities and wider economies and communities. So, healthier rural economies can provide wider contributions to prosperity in many regions, urban centres, economies, and communities. **To facilitate these benefits, the Government needs to invest in and support rural areas, sectors and enterprise and not focus only on competitive cities or towns.**

### *The Community Renewal Fund*

The indicators used for the Community Renewal Fund<sup>174</sup> were different from the Levelling Up Fund:

- a) Productivity - The natural logarithm of the nominal smoothed Gross Value Added (GVA) per hour worked (2018)
- b) Skills - The proportion of those aged 16–64 with no qualifications (NVQ) (2019)
- c) Unemployment Rate - The ONS model-based estimate of the unemployment rate among those aged 16+ (July 2019 - June 2020)
- d) Population Density - The natural logarithm of those aged 16-64 per squared km of land area (high water excluding area of inland water)
- e) Household Income - The natural logarithm of the Gross Disposable Household Income (GDHI) per head at 2017 prices (2017).

The inclusion of **a population density** measure in the set of indicators used for the Community Renewal Fund at least covers an element of the gap in the Levelling Up methodology. However, as discussed previously, the focus on unemployment rather than lower wage employment means that rural disadvantage is not fully captured. Household income also needs to be considered in relation to the significantly higher costs that households in remote rural areas face. **An appropriate weighting on the population density/sparsity could offset some of these impacts of peripherality.**

Using GVA per head or GVA per hour worked provides an average picture of prosperity which does not capture pockets of disadvantage. It is possible, for example, for the successful parts of a local authority or region to disguise the disadvantaged areas in the average GVA rate. An indicator of the proportion of jobs in lower paid sectors alongside the expected or real growth in GVA might better illustrate areas of uneven growth at risk of falling behind in terms of economic growth. GVA per head (although favoured in much analysis) is likely to be less accurate than GVA per hour worked, particularly when comparing locations with higher dependency ratios and fewer workers. That said, critics of GVA point to the potential for taxation to skew regional comparisons of GVA (compared

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<sup>172</sup> <https://rsnonline.org.uk/images/publications/towards-the-uk-shared-prosperity-fund.pdf>

<sup>173</sup> <https://www.ncl.ac.uk/nicre/news/item/levelling-up/>

<sup>174</sup> <https://www.gov.uk/government/publications/uk-community-renewal-fund-prospectus/uk-community-renewal-fund-prioritisation-of-places-methodology-note#relevance-to-the-uk-shared-prosperity-fund>



with the 'purer' GDP measure).<sup>175</sup> Finally, productivity-based indicators do not capture the loss of profits, where inward investment plays a significant role. **For this reason, economists often favour income-based measures alongside GDP and other wellbeing indicators to provide a more rounded picture of prosperity.**

Using other indicators alongside GVA per hour worked might also be helpful in understanding the impact of recent changes to the regional GVA. The creation of a new structure at the NUTS2 level has affected the allocation of every component of GVA in terms of how Scotland as a whole is shared out between the (now) five sub-regions. This has meant that there are changes to the North-Eastern and Highlands and Islands sub-regions, even though geographically they are unchanged.

These changes from the reallocation between NUTS2 sub-regions are, in some places, accentuated by some of the other methodological changes made by ONS. Of these the most significant are a change to the measurement of the financial service industries, which improved the accuracy of the allocation by using compensation of employees instead of just employment numbers (which only affects the production and balanced measures), and a change to the Annual Business Survey data to remove public sector businesses (which affects all measures across a range of industries). There was also a change to the classification of housing associations (in real estate) from private to public sector, which may have caused small changes due to the different treatment of these sectors in regional allocation.

The net effect is a change to the total GVA of the Highlands and Islands. Looking at the figures for 2016 published in 2017 and 2018, Highland and Island's share of Scottish GVA changed from 8.1% to 9.1%. In comparison, North-East Scotland changed from 13.1% to 14.2%, East Scotland from 38.5% to 41.8% (having lost Scottish Borders but with a big increase in Edinburgh), and South-West Scotland's 40.2% going to 25.7% in West Central Scotland and 9.2% in Southern Scotland (34.9% combined). When we look at GVA per head, the figures appear to be magnified through comparison with Scotland as a whole due to the smaller population in the Highlands and Islands.

**There are a number of reasons why GVA may not provide the best regional comparison of economic capacity, ranging from the skewing effects of tax and inward investment to population size and economic profile. Presenting population change and population density, alongside GVA per hour worked (and other rural-focused indicators) would provide a more rural-proofed picture of the capacity for economic growth.**

### *The Shared Prosperity Fund*

The UKSPF used a number of approaches in determining funding allocation. Firstly, and as discussed previously, there was a top-sliced element which saw £559m of the total £2.6bn funding pot earmarked for 'Multiply', the UK Government's adult numeracy programme. Within this £129m was further reserved centrally for delivery of a new digital platform. The remaining £430m was allocated using the same methodology as for the remaining £2.06bn of core UKSPF budget.

The methodology for the core budget was based on the premise that all places across the UK would receive a conditional allocation from the UKSPF of at least £1m, comprising of both revenue and capital funding, contingent on UK Government approval of investment plans.

Funding has been allocated in two stages, first to the four nations of the UK, and then to local areas within each nation. Allocations to England, Scotland, Wales and Northern Ireland were designed to be at least a real-terms match of the estimated EU structural funds (ERDF and ESF) provided to each

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<sup>175</sup> <https://fraserofallander.org/scottish-gdp-guide/#measuring-the-economic-activity-of-scottish-regions-gross-value-added-gva>



part of the UK for the 2014-2020 funding round, although there is much debate around the extent to which this has been achieved, particularly in considering whether remaining funds from the 2014-2020 programme should be counted within this.

Four very different methodologies were used for funding allocations to local areas within each of the four UK nations (as set out below). For Northern Ireland, there is no allocation below the national level.

For the other three nations, part of the allocation used a simple per capita measure alongside a needs-based index drawn from the Community Renewal Fund methodology. Per capita measures tend to concentrate funding on more heavily populated areas, so favouring urban areas. The per capita weighting used differs for Scotland (60%), England (70%) and Wales (40%) so creating an instant inequality. For Scotland and England, the per capita measure is the dominant weighting which does point towards an urban bias.

All three nations have a 30% weighting based on the needs-based index used for the Community Renewal Fund. However, earlier analysis of the CRF methodology highlighted that the set of indicators used mean that rural disadvantage is not fully captured given the focus on unemployment rather than lower wage employment, use of household income without consideration of higher living costs in remote rural areas, and the challenges of using GVA per hour worked as a measure of productivity when trying to capture disadvantage across relatively large geographic areas.

A population density measure has been included for Scotland, to reflect concerns about the remote nature of some parts of the country and the special needs of the Highlands and Islands. The UKSPF prospectus cites recognition of “the higher cost of delivering services in rural areas and the unique rurality of some Scottish authorities and island communities”. While the inclusion of this measure is positive, it is questionable whether it is sufficient to offset the potential population-centric bias arising from the high per capita weighting, even given the additional population density measure within the range of CRF indices.

For Wales, the per capita weighting is markedly lower (40%), with remaining allocation based equally on the CRF needs-based index and the Welsh Index of Multiple Deprivation. The rationale for this was based on a commitment to co-produce and co-design with the Welsh Government, and acknowledgement that stakeholders in Wales have “a much better picture of the local situation than is known in Whitehall”.

For Scotland and Wales, the national level funding is allocated to constituent local authorities based on the steps outlined in the table below. For England, the national level funding is first allocated to Local Enterprise Partnership (LEP) regions to match the estimated real terms ERDF and ESF average provided to each LEP for the 2014-2020 funding round. LEP allocations are then distributed to local authorities within each region based on the method below. This was designed as such to ensure consistency with the delivery of previous EU funds, within what were classed largely as more developed areas.

*UKSPF allocation methodology to local authorities in each nation:*

England	Scotland	Wales	Northern Ireland
70% on a per capita basis	60% on a per capita basis	40% on a per capita basis	No allocation below the nation level
30% based on the needs-based index used for the Community Renewal Fund (CRF)*	30% on the needs-based index used for the CRF	30% on the needs-based index used for the CRF	
	10% on the population density measure contained with the CRF**	30% using the Welsh Index of Multiple Deprivation	
Allocate additional funding to local authorities who have been allocated less than £1m of core funding.	Each local authority received more than £1m so no additional top up required.	Each local authority received more than £1m so no additional top up required.	

\*CRF indicators are productivity, skills, unemployment rate, population density, household income.

\*\*While the CRF index contains a measure of population density also, and this has remained unchanged.

Research cited earlier in the chapter by LE Wales (for the Independent Commission on Funding and Finance for Wales) highlighted the need for consistency in indicators used in needs-based models. This is not the case with the SPF given the differing methodological approaches and indicators used to allocate SPF to local areas across the UK.

As outlined in section 5.2.3, not only is Scotland, as a whole, receiving less through the SPF than it did through EU Structural Funds, but the proportion of Scottish funding allocated to the Highlands and Islands is significantly lower than received through previous EU Funds. No adjustment has been made to ensure the level of funding previously allocated to sub-regions within Scotland has been matched, as is the case for LEP areas in England.

### 5.3 OTHER INDICATORS USED TO ASSESS NEEDS

Although not currently used within these funding mechanisms, the Scottish Index of Multiple Deprivation (SIMD) is the Scottish Government's standard approach to identify areas of multiple deprivation in Scotland. There are a number of reasons why this indicator should be used with care when assessing funding applications, particularly when comparing rural and urban areas.

Inevitably, SIMD data has been built up from data based on concentrations of socio-economic experiences at a geographic level. This means that experiences within more remote areas with less concentrations of people may be less well-captured in SIMD.

Data zones in rural areas tend to cover a large land area and reflect a more mixed picture of people experiencing different levels of deprivation. This means that SIMD is less helpful at identifying the smaller pockets of deprivation found in more rural areas, compared to the larger pockets found in urban areas. The Scottish Government suggests that SIMD domain indicators can still be useful in rural areas if analysed separately from urban data zones or combined with other data.<sup>176</sup>

<sup>176</sup> <https://www.gov.scot/collections/scottish-index-of-multiple-deprivation-2020/>

SIMD data in 2016 was subject to a review<sup>177</sup> to consider rural deprivation with case studies on fuel poverty in Dumfries and Galloway and child poverty in the Orkney islands. That review found evidence to suggest that people living in rural areas experience deprivation differently from those living in towns and cities. Key issues highlighted were:

- higher consumption of fuel for heating and transport
- less accessible key services including healthcare, childcare, and broadband
- difficulty accessing affordable housing
- limited opportunities to earn adequate income compared to urban areas.

The review identified a lack of indicators at the data zone level which may be useful for examining deprivation in rural areas. This includes information about the different types of work people are employed in, multiple job ownership, skill levels and number of hours worked; broadband connectivity; and the cost of living (e.g., housing, fuel, transport, food etc.) which is typical of the area.

Examples of desirable measures identified in the review included the following:

- % of affordable homes
- Average house price compared to average local income
- Distance to the nearest large supermarket (capturing price of food)
- Postage cost for a specific parcel size
- Average fuel use (heat and travel).

The review also noted that differences in the level of deprivation within data zones are missed. This issue has particular relevance to rural areas, where the data zones are large. A way of addressing this issue might be to include a measure which captures variation within data zones.

The 2020 SIMD data now includes broadband connectivity but does not include any of the additional indicators highlighted above. This is due to the lack of data at data zone level. **This inevitably means that the SIMD domains continue to capture urban deprivation well, while failing to capture key aspects of rural disadvantage.**

## 5.4 DATA CHALLENGES

Consultees were agreed around the inadequacy of data generally and specifically of Scottish Index of Multiple Deprivation (SIMD), the need for a better range of data at smaller scale, the difficulty of administration boundaries and averages masking of deprivation at lower levels of geography.

It was also highlighted that some administrative boundaries, such as local authority and other public body areas, are not designed for the purpose of data collection and analysis with the suggestion that there should be some capacity to generate modifiable aerial units to overcome such issues using digital mapping technology.

Several consultees pointed to the challenges of data collection and analysis for the Scottish Government Performance Framework and **measuring wellbeing** as part of its economic policy. It was noted that a clear definition and method of measurement was required which tackled the difficulties of data collection in rural areas. A few stated that currently a range of so-called unsatisfactory proxies are applied to measure the Scottish Government's National Performance Framework. An example was given of using prescription rates (e.g., relating to drugs for mental

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<sup>177</sup> <https://www.gov.scot/publications/scottish-index-of-multiple-deprivation-rural-deprivation-evidence-review-and-case-studies/>

health) as a proxy to measure on government performance in addressing mental health. One academic argued the use of simplistic or limited proxies only acts to reinforce the narrowness of our understanding of the lived experience in various places.

International consultees provided useful comparison with the **Nordic states approaches** discussed above in Chapter 2. They see wellbeing as core to better understanding the lived experience, to identify any inequalities that exist and explore how best to address them. Demographics were considered critical and there is careful tracking of health and life expectancy data. A range of standard socio-economic factors are also used in relation to employment and labour market participation, including enabling aspects of digital coverage and speed. There is a strong emphasis on understanding health and care provision and its delivery, accessing key local services are also mapped, including the closure of services and schools. **This is all to assist in the overall aim of ensuring equity of access to services and economic contribution, no matter where you reside.**

A Scottish academic agreed, arguing for:

*“some kind of citizen science, a rural observatory. ... I think that we could be developing better questions and national datasets, that answer specific rural questions, or at least provide a better steer towards that and that’s something we’re hoping to do in the next programme of research ... try and identify what we can include to better reflect this rural nuance in some of the national data sets” [Academic].*

Reference was made to the James Hutton Institute’s recent work using a definition developed by Nordregio for the Nordic countries. This sets out to define sparsely populated areas (defined with less than 10,000 people within 60 minutes travel time), with the aim of identifying populations that resided in truly remote places, and so provide another lens to demonstrate disadvantage. The key difference in this approach compared to traditional Scottish Government approaches of rural definitions, is that Nordregio and James Hutton Institute approaches focus on individuals rather than geography.

Finally, several consultees also highlighted of the valuable **role for community self-assessment** in being able to drill down to lower geographies and providing data that would otherwise not be available. Within this, the deliberative methodology adopted for the Joseph Rowntree Foundation’s work on a Minimum Income Standard was described. It employs a consensual method of data collection, starting with a baseline “basket of goods” with subsequent follow-ups. This has helped to shed a light on the higher cost of living in rural areas. There was also a word of caution that self-assessment approaches had to be governed through robust, open, and honest approaches

## 5.5 MORE APPROPRIATE INDICATORS TO REFLECT RURAL DISADVANTAGE

The UKSPF has three investment priorities of communities and place, local business and people and skills. Based on approaches used widely elsewhere and the analysis in Chapter 3, a range of potential indicators which arguably better fit the experience of rural disadvantage explored above are outlined below. These indicators take account of the strong relationship between peripherality and population sparsity and economic growth, as well as the key challenges to rural areas. However, it is recognised that some of these indicators are in themselves imperfect:

- Unemployment does not capture the more common rural phenomenon of employment in low-wage occupations. **Proportion employed in lower wage industries or average wage levels** would provide better insights on rural employment **in addition to an unemployment indicator** (e.g., change in unemployment rate).

- An indicator of the **proportion of jobs in lower paid sectors** alongside the **expected growth in GVA** might better illustrate areas of uneven growth at risk of falling behind (providing more insight than GVA per hour worked at one point in time).
- The current indices fail to capture the impact of population change, with increased dependency ratios a significant challenge for inclusive growth in remote rural areas. **Projected dependency ratio** would be a useful indicator of constrained growth, **alongside projected population change**.
- In order to capture rural disadvantage, **household income** needs to be considered in relation to the significantly higher costs that households in remote rural areas face. Weights could be calculated from **fuel poverty, transport poverty and Minimum Income Standard alongside the James Hutton Institute sparsity index**.
- **Digital connectivity** is of particular importance in encouraging inclusive growth within remote rural areas. **Transport connectivity** and the **accessibility of services** is also important to economic resilience as evidenced by the analysis of peripherality in Chapter 2. The **‘access to services’** domain of SIMD (though not without flaws) would be a useful indicator of connectivity.
- The indicator of **proportion with NVQ Level 4 + within the 16-64 age group** captures the level of skills across the workforce while the **proportion of those aged 16-19 years old in work rather than education** potentially highlights early career skills gaps (alongside participation rate of all 16–19-year-olds).
- Oxford Economics has produced a **COVID vulnerability index** based on economic diversity, business environment, and digital connectivity<sup>178</sup> which is used in the Skills Development Scotland Regional Skills Assessments. There may be scope to develop a similar COVID impact indicator at a national level.

These suggestions build on the examples provided by analysis and research across the EU and OECD which emphasise the important impact of peripherality and demography in remote rural areas on social and economic wellbeing.

## 5.6 CONCLUSIONS

Place-based approaches provide scope to go beyond ‘rural proofing’ to look at the needs of individual areas, with recent City and Regional Growth deals also offering this opportunity. EU LEADER funding provided a model of community-led development on which to build on and learn from. However, there is a lack of clarity around priorities and outcomes in UK/Scottish Government City and Growth Deals, which should ideally involve communities in governance structures and decision-making.

There is also evidence of a potential urban bias built into some funding streams, from local authority funding in England and Scottish Funding Council through to the more recent allocation of priority areas for Levelling Up, Community Renewal and Shared Prosperity Funds which appear to have disadvantaged rural areas of the Highlands and Islands that would previously have been in receipt of EU funds.

Until recently, the Highlands and Islands benefited from the EU funding allocation based on a broad ‘GDP per head’ funding allocation. While not perfect, this approach did identify large areas of need, giving more scope for regional priority setting.

There will be an (as yet unknown) impact of State aid rules – on devolved powers, with potential benefits but there are some concerns regarding flexibility versus robust processes.

<sup>178</sup> <https://www.skillsdevelopmentscotland.co.uk/media/47229/rsa-technical-note.pdf>

Post EU funding mechanisms such as the Levelling Up, Community Renewal and Shared Prosperity Funds use needs-based criteria and there is an obligation to ensure that the data used is consistently available at local authority level. These indices should also be 'rural proofed' to ensure that rural and remote areas are not further disadvantaged by the allocation methods employed. There is limited evidence to suggest this is being applied in practice.

The review of funding mechanisms puts forward suggestions for potential indicators that might better capture rural disadvantage in future. This included measures relating to transport and connectivity, population loss/dependency ratios, lower economic growth and lower wages and poor access/high costs of services.

## 6 HOW TO ADDRESS RURAL AND REGIONAL DISADVANTAGE

### 6.1 INTRODUCTION

Green Recovery has been identified as key to the delivery of inclusive growth in Scotland, as well as globally.<sup>179</sup> In 2020, The Scottish Government announced funding streams to help deliver a Green Recovery<sup>180</sup> and end Scotland's contribution to climate change, with a focus on delivering green jobs, tackling fuel poverty, and delivering a just transition to net zero. The National Strategy for Economic Transformation also sets out an ambition for a greener economy, demonstrating global leadership in delivering a just transition to a net zero, nature-positive economy, and rebuilding natural capital.

The natural capital of the Highlands and Islands provides significant opportunities for sustainable and inclusive growth in the region, contributing to green recovery and the growth of the blue or marine economy. With almost two-thirds of the UK's coastline and coastal waters, the region has an outstanding marine environment and is home to world class marine science and innovation. Given this comparative advantage, the Highlands and Islands is uniquely placed to take advantage of the considerable growth potential of the blue economy sector.<sup>181, 182</sup>

This section explores the literature on policies and progress on climate change and green recovery, and the blue/marine economy in Scotland and elsewhere. It also explores evidence of opportunities for development, including the views of consultees and case studies on rural development opportunities.

### 6.2 GREEN RECOVERY

#### 6.2.1 The challenges of green recovery

OECD research on making the green recovery work for jobs, income, and growth (October 2020)<sup>183</sup> noted that a green recovery will significantly enhance the resilience of economies and societies in the face of both the severe recession and accelerating environmental challenges. The types of measures being used include:

- grants, loans, and tax relief directed towards green transport, circular economy, and clean energy research, development, and deployment
- financial support to households and businesses for energy efficiency improvements and renewable energy installations
- new funding and programmes to create jobs and stimulate economic activity through ecosystem restoration
- control of invasive alien species and forest conservation

Initial OECD analysis suggested that governments had so far concentrated their green measures in the energy and transport sectors. Other sectors important for a green and resilient recovery, such as industry, agriculture, forestry, and waste management, had been less targeted. In terms of types

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<sup>179</sup> <https://www.oecd.org/coronavirus/en/themes/green-recovery>

<sup>180</sup> <https://www.gov.scot/news/scotlands-green-recovery/>

<sup>181</sup> <https://www.hie.co.uk/research-and-reports/our-reports/2019/march/06/maximar-science-and-innovation-audit/>

<sup>182</sup> <https://www.hie.co.uk/research-and-reports/our-reports/2017/november/01/business-cluster-specialisation-in-the-highlands-and-islands/>

<sup>183</sup> <https://www.oecd.org/coronavirus/policy-responses/making-the-green-recovery-work-for-jobs-income-and-growth-a505f3e7/>



of support measure used, tax reduction and grants/loans were the most commonly used, followed by subsidies to Research and Development (R&D). Few measures were so far dedicated to skills training.

The OECD identified major opportunities for green innovations, which included: technologies for renewable energy; energy storage, heating and cooling in buildings; electric, hybrid and fuel-efficient vehicles; and carbon capture, storage and use technologies. However, they suggested that the current level of innovation was not sufficient to reach ambitious climate and environmental objectives with further government stimulus needed.

The OECD report noted that ‘green’ sectors and activities offered significant prospects for job creation with more people employed per unit of investment in renewable energy (notably solar PV) than fossil-fuel generation. Nature-related jobs and organic agriculture were also highlighted as important sources of employment in a green recovery.

**However, skills gaps and shortages were already recognised as a major issue** in a number of sectors, such as renewable energy, energy and resource efficiency, renovation of buildings, construction, environmental services, and manufacturing. Skills gaps related to the low-carbon transition were identified to be particularly pronounced in developing countries.

**The OECD concluded that sustainable public investment was needed, alongside the ability to access/leverage private finance, as well as ‘infrastructure-type’ investments to attract private finance and development partners.**

There are difficult choices to make to deliver a green recovery<sup>184</sup> with the Institute for Government highlighting the need for coordination and target setting at a national level to guide policy. They also suggest the need to be realistic about what local supply chains can deliver and for a ‘green skills plan’ to identify what skills are needed. They further call for the involvement of local government in planning so that local conditions are factored in and for long-term regulatory stability to enable private investment. As outlined in Chapter 4, Skills Development Scotland and partners have produced a Climate Emergency Skills Action Plan (CESAP) which notes that the transition to a net zero economy will be a significant and long-term challenge.

### 6.2.2 Policies for a green recovery in Scotland

The Scottish Government’s updated Climate Change Plan 2018-2032<sup>185</sup> is a key strategic document on the green recovery from COVID-19. It identifies opportunities to address inequalities, create and maintain good, green jobs right across Scotland, and empower people and communities to make decisions about their future through community wealth building.

The Economic Recovery Implementation Plan<sup>186</sup> also sets out the plan to deliver a wellbeing economy built on the principles of sustainable economic growth, accompanied by tackling inequalities, and delivered as a green recovery to meet climate change targets and wider environmental objectives.

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<sup>184</sup> <https://www.instituteforgovernment.org.uk/sites/default/files/publications/Building-a-green-recovery.pdf>

<sup>185</sup> <https://www.gov.scot/publications/securing-green-recovery-path-net-zero-update-climate-change-plan-20182032/pages/4/>

<sup>186</sup> <https://www.gov.scot/publications/economic-recovery-implementation-plan-scottish-government-response-to-the-advisory-group-on-economic-recovery/>

A review<sup>187</sup> by SPICe in 2020 examined the most frequently recommended policies for a green recovery in academic literature, and the extent to which these themes are reflected in the Scottish Programme for Government 2020-2021 (for spending 2020-2026).

The research found the most recommended policies on green recovery were in the following activities:

1. Renewable and low-carbon energy: direct investment by government in low-carbon (mostly renewable) energy technologies, or specific targeted policies to incentivise private investment in such technologies
2. Green infrastructure (generally): “green infrastructure” that does not provide further details on the type of infrastructure recommended
3. Green infrastructure (transport): low-carbon infrastructure for transportation, such as walking, cycling, and public transport
4. Green infrastructure (buildings): anything related to improving carbon efficiency of public or private buildings, such as retrofits and standards for new construction
5. Restoring / improving natural capital: such as planting trees, peatland restoration
6. Reskilling and retraining workers: especially helping workers in carbon-intensive industries transition to jobs in low-carbon or other green industries (e.g., moving from one energy sector to another)
7. Short-term green jobs: jobs occurring and ending within the next 0-5 years, such as in infrastructure development or natural capital restoration, that bring people back into the labour force, but are not long-lasting positions
8. Conditional bailouts for carbon-intensive industries: the claim that if carbon-intensive industries are to be given bailouts, conditions must be attached for them to become lower carbon in the future. The reference is always to carbon-intensity, but could also include reference to industries with additional environmental impacts (e.g., biodiversity or water quality impacts)
9. Green research and development: any investment in furthering research into low-carbon solutions, particularly in the energy systems and in areas that are novel or have not yet reached economic viability (e.g., CCS, hydrogen, wave/tidal, geothermal)

The research found that the Scottish Programme for Government 2020-2021 showed more investment in green infrastructure and renewable and low-carbon energy with less emphasis so far on re-skilling.<sup>188</sup>

- Green infrastructure (generally) £2,132m
- Green infrastructure (building retrofits and renovation) £1,607m
- Renewable and low-carbon energy - £1,062m
- Green infrastructure (transport systems) - £1,005m
- Restoring/improving natural capital - £338m
- Short-term green jobs (0-5 years) - £100m
- Reskilling & retaining workers - £25m
- Green research and development - £5m
- Conditional bailout for carbon intensive industries - £0m.

This is a similar pattern to that found across the OECD research above.

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<sup>187</sup> <https://www.google.com/amp/s/spice-spotlight.scot/2020/12/16/guest-blog-how-to-achieve-green-recovery-from-covid-19-expert-views-and-their-alignment-with-scottish-government-proposals/amp/>

<sup>188</sup> <https://www.google.com/amp/s/spice-spotlight.scot/2020/12/16/guest-blog-how-to-achieve-green-recovery-from-covid-19-expert-views-and-their-alignment-with-scottish-government-proposals/amp/>

The blue economy has an important role to play in supporting a green recovery. Pre-pandemic analysis by the OECD of opportunities associated with the “blue” or “ocean” economy projected marked acceleration of ocean economic activities by 2030. These early estimates suggested the value added generated by marine-based activities could double in size within this timeframe, with marine aquaculture, fisheries, fish processing, offshore wind and port activities in particular having the potential to outperform the global economy.<sup>189</sup> Although estimates have since been revised down, the drivers underpinning demand for marine activity persist, and the OECD does articulate their view that “a sustainable ocean economy can offer better quality jobs, cleaner energy, improved food security and enhanced resilience.” They recognise that innovation, scientific and technological advances offer a catalyst for accelerating the rate and scale of growth, although ensuring protection and sustainability of the marine environment will also be critical in fostering this growth.

The Scottish Government recognises the importance of the blue economy as a key feature of post-COVID recovery and future strategy, sitting alongside ‘green recovery’, ‘green jobs’, ‘fair work’ and ‘achieving net zero ambitions’. They are committed to the development of a Blue Economy Action Plan<sup>190</sup> to strengthen the resilience of Scotland’s marine industries, and the marine science, research and innovation which underpins them. Their approach will encompass work across a broad range of marine sectors, including seafood, tourism, energy, transport, and science.

### **6.2.3 Investing in a green recovery**

The Scottish Budget 2022 to 2023,<sup>191</sup> announced in December 2021, lays the groundwork for transformational investment and innovation across three strategic priorities: tackling inequalities; securing a just transition to Net Zero; and investing in economic and public service recovery. Within this, at least £2 billion is committed to supporting a just transition in terms of protecting and restoring the natural environment, decarbonising homes, industries and transport, and positioning Scotland as a global leader in renewable energy, and green and digital technology.

Recent announcements (January 2022) by Crown Estates Scotland on the outcome of its application process for ScotWind,<sup>192</sup> highlighted the opportunity that Scotland has to transform its energy market and move towards a net zero economy. The offshore wind leasing round saw 17 projects being offered option agreements reserving the rights to specific areas of the seabed. As well as the environmental benefits, it also sees around £700m in options fees being passed to Scottish Government for public spending, and initial indications suggest a potential multi-billion-pound supply chain investment in Scotland. With a number of the leased seabed sites sitting off the coast of the Highlands and Islands, it is hoped that this translates into opportunity for the region.

## **6.3 OPPORTUNITIES FOR DEVELOPMENT IN THE HIGHLANDS AND ISLANDS**

### **6.3.1 Opportunities**

Through the Convention of the Highlands and Islands (COHI),<sup>193</sup> Scottish Government and partners across the Highlands and Islands have been working together to identify opportunities for sustainable economic growth across the region to capitalise on the region’s unique location and resources.

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<sup>189</sup> <https://www.oecd.org/ocean/topics/ocean-economy/>

<sup>190</sup> <https://www.gov.scot/policies/marine-and-fisheries-grants/blue-economy/>

<sup>191</sup> <https://www.gov.scot/publications/scottish-budget-2022-23/pages/1/>

<sup>192</sup> <https://www.crownestatescotland.com/news/scotwind-offshore-wind-leasing-delivers-major-boost-to-scotlands-net-zero-aspirations>

<sup>193</sup> <https://www.gov.scot/groups/convention-of-the-highlands-and-islands/>

Research commissioned by HIE on behalf of COHI in 2019<sup>194</sup> identified a number of regional transformational opportunities within the themes of natural capital, energy, advanced technology, and marine including:

- Marine Renewable Energy
- Seaweed and marine biotechnology
- The transition to zero carbon fuels including, hydrogen, carbon capture and positioning the region as a 'low carbon destination'
- A centre for aviation and advanced technologies
- On and offshore wind.

More recent discussions (October 2020) outlined a range of priorities for enabling recovery and future growth.<sup>195</sup> Key themes include:

- Enabling infrastructure for housing, transport, digital and energy is a necessity across the Highlands and Islands region
- Tourism recovery plans to support businesses to recover, encourage visitors to return or discover Scotland, and support communities to embrace opportunity and stimulate local employment
- Improving connectivity and digital skills to enable easier home working and reduced commuting, increase employment opportunities for those living in the Highlands and Islands and make the region more attractive as a place to live
- Take a lead role in Scotland's transition towards decarbonisation and a net zero economy - utilising the area's natural resources and existing supply chains and skills base
- Building resilience through effective and supportive, action-orientated relationships between communities, business, government, and the wider public sector
- Reducing disadvantage – through increased connectivity, delivering good quality jobs, community wealth building and a greater emphasis of skills.

On green recovery, COHI identify a number of key opportunities:

- Increased Renewables given there is considerable scope for offshore wind along the Highlands and Islands coastline, with benefits from advances in tidal and wave energy generation and the region's existing infrastructure, skills base, and supply chains from servicing the oil and gas industry
- Significant potential in considering the community benefit approach to onshore and offshore renewables to provide local authorities with strategic investment funds
- Heat decarbonisation and energy efficiency as much of the region is off the mains gas grid, offers the potential for testing and demonstrating unique, potentially exportable, decarbonised heat solutions and innovative energy efficiency measures
- Encouraging more widespread adoption of circular economy practices. Developing low carbon transport options, using the unique geography and abundant renewable resources to test short hop, sustainable aviation alongside the extension of electric vehicle infrastructure to support wider adoption of ultra-low emission vehicles

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<sup>194</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/minutes/2019/10/convention-of-the-highlands-and-islands-papers-october-2019/documents/paper-7-transformational-opportunities/paper-7-transformational-opportunities/govscot%3Adocument/Paper%2B7%2B-%2BTransformational%2Bopportunities.pdf>

<sup>195</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/minutes/2021/02/convention-of-the-highlands-and-islands-meeting-papers-october-2020/documents/paper-3-regional-impacts-and-economic-recovery/paper-3-regional-impacts-and-economic-recovery/govscot%3Adocument/Paper%2B3%2B-%2BRegional%2BImpacts%2Band%2BEconomic%2BRecovery.pdf>

- Supporting the biodiversity challenge and developing sustainable commercial opportunities through with peatland restoration, afforestation, and sustainable agriculture for the benefit of businesses, communities, and the public sector.

There is recognition of considerable opportunities across the Highlands and Islands which will need investment in skills and infrastructure to be delivered. These reflect the areas highlighted above in relation to policy priorities above, with short, medium, and long-term opportunities and needs explored below.

### 6.3.2 Views on opportunities

Consultations undertaken as part of this research study included an exploration of what needs to be done to address rural and regional disadvantage; and of short, medium, and longer-term priorities and opportunities. In terms of the short term there was unanimity in response in obtaining clarity around the transition in EU funding arrangements, but also to support existing sectors. In the medium to longer term most consultees identified the significant opportunities in the green and blue economy and maximising use of the natural capital.

It is worth noting that some consultees wished to record their frustration with what they considered are repeated conversations about the disadvantage of living and rural and remote areas and urged much **more concentration on strategy, action and ambition required to drive the economic opportunities forward.**

#### Short term

Some consultees listed the diversity of the existing local economies and pockets of innovation across the Highland and Islands, arguing that these must be supported and protected, with help to diversify and transition, where necessary, to sustainable alternatives. These included the ‘reinventing’ of the primary and traditional sectors of agriculture, fishing, and forestry along with tourism, food, and drink. Examples of the diversity of the economy and innovation in rural and remote locations were identified at Nigg (oil and gas), Orkney (energy), Oban (ocean sciences), Moray (spaceport), Thurso (battery manufacturing), and the Western Isles (BASF pharmaceuticals).

An over-riding concern for many of the consultees was how to transition from the previous EU funding support to the new UK funding framework. Other short-term priorities included housing (as the top priority) but also workforce and skills, connectivity – both transport and digital, and repopulation policies, including support for young entrepreneurs. ‘Location neutral’ policies and job opportunities were cited following on from the shift more remote working in response to COVID-19, with consultees reflecting on the potential this provides in attracting people on higher incomes into rural areas. In relation to housing specifically, the tension between tourism and housing was identified with some consultees suggesting models need to be found, or existing relevant models implemented, to protect housing for residents and key workers.

In order to address these priorities and mobilise these opportunities there was discussion of the need for an overall vision and transformation strategy, and regional organising framework to take forward a long-term vision to drive and co-ordinate policy, resource and action across the local authority areas. Within this, it was noted that there may be a lack of strategic co-ordination with UK funds going directly to local authorities, with the suggestion from a few consultees that this co-ordination should in some way be reinstated. Since the consultation, a regional economic partnership has been established for the Highlands and Islands.

### Medium to long term

There was a clear consensus among consultees that, in the medium to longer term, there should be a strong drive towards the green and blue economies in the region. This came from the position of being externally driven by climate change policy globally, but also to maximise the natural capital potential that exists in the region. There was, however, some frustration as to whether there is sufficient priority around maximising that potential due to the infrastructure investment required, particularly in the energy sector. As one consultee argued:

*“One way or another if we are going to maximise the benefits from all of the renewable sources we have around us we need the right infrastructure and investment there to support that or they will just go elsewhere. We need that infrastructure investment to be done in a way that we see the local communities benefiting, not just that they see the turbines out of their window, but everything is just bypassing us” (Private sector).*

Other consultees agreed that the opportunities were potentially wide ranging, could transform rural areas, drive population growth, and even change the way people think about rural areas:

*“There are opportunities in terms of possibly rural in-migration and the green recovery, wellbeing recovery, and thinking about, natural assets and I definitely think there's opportunities there that weren't there before.” (Academic).*

Many of the discussions were broad brush about developing the green and blue economic opportunities, but some provided a few specific examples of what could be expected:

- Continued development of wind farms including those in community ownership with the direct economic benefit that can bring
- Growth of wave and tide power supported through EMEC's innovation on Orkney
- Orkneys Harbours master plan to facilitate large renewable projects, and supporting other sectors e.g., aquaculture
- Hydrogen hub and Greenport plans at Cromarty Firth
- Institute of Net Zero
- Farming diversification including vertical farming
- Aquaculture and fishing diversification
- Carbon sequestration industry through tree planting/forestry
- Restoration of natural habitats including peatbogs and rewilding to bring back native woodlands and forest.

However, some consultees were also emphatic that existing sectors and the needs of communities should not be forgotten or left behind. Within this, ongoing support of micro-entrepreneurship was flagged. One consultee suggested that communities, local authorities, and funders need to be creative and bold with suggestions including moving more government departments or Non-Governmental Organisations (NGOs) to the Highlands and Islands. For example, one person questioned why the National Maritime Museum is not on one of the Scottish islands.

Some locations have clear advantages in terms of green recovery. For example, since 2003, Orkney has been home to the European Marine Energy Centre (EMEC), the world's first and foremost test site for real life deployment of marine energy devices.<sup>196</sup> Orkney has 774 onshore wind sites, roughly 8% of the UK total, and is home to 13 out of the UK's 19 wave tidal installations. EMEC was the first body to successfully produce hydrogen gas using electricity generated from tidal energy in 2017.

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<sup>196</sup> [https://www.orkney.gov.uk/Files/Committees-and-Agendas/Development%20and%20Infrastructure/DI2020/DI08-09-2020/I12\\_\\_Orkney\\_Islands\\_Economic\\_Review.pdf](https://www.orkney.gov.uk/Files/Committees-and-Agendas/Development%20and%20Infrastructure/DI2020/DI08-09-2020/I12__Orkney_Islands_Economic_Review.pdf)

The hydrogen gas generated is carbon neutral and can be used for transport, heating, agriculture and even transportation of electricity to the UK national grid. Orkney's so-called knowledge economy continues to expand around the developing renewables sector in the islands. Edinburgh's Heriot Watt University, based at the new Orkney Research and Innovation Campus (ORIC), has a long-established campus in Stromness that specialises in advanced research, postgraduate training and consultancy in marine energy and related fields. Developments like ORIC reflect the confident mood around the renewables sector in these green and clean isles.

Other locations face significant challenges alongside green recovery. In October 2020, COHI agreed that the acuteness of the issues in relation to population decline in Argyll and Bute, the Outer Hebrides and Caithness and Sutherland required a targeted, inter-agency policy response.<sup>197</sup> Proposed 'Repopulation Zones' will require National Government, Local Authorities and development agencies to focus deep and sustained effort into each Zone.

**Development opportunities in green recovery are well underway, with more focus on infrastructure than skills. Significant development opportunities exist within the Highlands and Islands but enabling policies identified in Chapter 4 will be key – addressing housing as the top priority but also workforce and skills, connectivity – all forms of transport and digital, repopulation policies including support for young entrepreneurs.**

## 6.4 DELIVERING DEVELOPMENT OPPORTUNITIES

As examined in Chapter 2, the concept of peripherality is being reconsidered to capture opportunities for dynamic responses and diversity. This reimagining of peripherality recognises the importance of community-led responses in driving development in the periphery. These, and other approaches to **delivering development for a green recovery** are explored below.

### 6.4.1 Community-led responses

Between May 2019 and October 2020, the Islands Revival<sup>198</sup> blog collected stories of population turnaround on islands around the world and identified ways of supporting such developments through policy and action. That work culminated in a 'declaration' that there was credible evidence of 'green shoots' of population turnaround on the Scottish islands, which as yet does not show up in official statistics.

The declaration outlined a belief that **creating sustainable populations** can be facilitated by a policy framework that is:

- Founded on community ownership of the development process
- Framed as a place-based approach which is holistic, integrated, and coherent
- Informed and shaped by local communities in ways that are meaningfully inclusive
- Delivered in genuine partnership between sectors at all administrative levels, and civil society
- Enabling of communities that may have limited capacity to engage meaningfully

Chapter 3 also provided examples of the lived experiences of the COVID-19 pandemic in rural and island communities and on the Northern Periphery and the Arctic. Predominant themes on rural

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<sup>197</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/minutes/2021/08/convention-of-the-highlands-and-islands-meeting-papers-march-2021/documents/paper-3-population---national-and-regional-update/paper-3-population---national-and-regional-update/govscot%3Adocument/Paper%2B3%2B-%2BPopulation%2B-%2BNational%2Band%2BRegional%2BUpdate.pdf>

<sup>198</sup> <https://islandsrevival.org/>



recovery included: building on new partnerships and supporting community anchor organisations; capitalising and rewarding community spirit; encouraging young people to move to rural areas; retaining and enhancing digital connectivity opportunities; strategic partnerships which deliver place-based solutions; supporting adaptable local businesses; supporting diversification of the rural economy; enhancing the knowledge base on local-regional vulnerabilities; and retaining a flexible, targeted and responsive approach to financial support.

A new paradigm is suggested based on **innovation in the periphery** - a sustainable way of living to attract young people, reversing demographic decline, and offering flexible and collaborative working at the local level across all sectors, with more localised services and economic activity rooted in communities, supported by modern connectivity and technology to deliver wellbeing.

Given the range of challenges in the areas most impacted by population loss, it is anticipated that initial areas of focus will be in relation to **economy and jobs, infrastructure (including digital connectivity) and public services and community development**. In these locations, green recovery will need to be delivered alongside considerable structural change to address such disadvantages. The COVID-19 research also provided examples of positive experiences and significant resilience in communities and that the community needs to be actively part of the solution.

#### 6.4.2 Innovative approaches

This section explores how rural and regional disadvantage has been addressed through innovative approaches, considering how policies have evolved to respond to rural and regional disadvantage. It explores what lessons this provides for the Highlands and Islands in responding to these challenges.

##### *Building local capacity and spatial justice*

The ESPON research on inner peripherality<sup>199</sup> outlined in chapter 2 identified the need for national policy to pay attention to 'areas at risk', monitor these areas and support access to funding. Regional policy priorities were to offer a coordination/strategic role to support local capacity, via strategies for attracting skilled workforce, fostering innovation and SME development and evaluation. Local policy priorities included **involving stakeholders to identify assets and limitations, developing place-based priorities, and building networks and institutional capacity**.

The EU Horizon 2020 research project 'Resituating the local in cohesion and territorial development' – RELOCAL<sup>200</sup> is based on case studies of local contexts (cities and their regions) that exemplify development challenges in terms of spatial justice. Case study locations were chosen to allow for a balanced representation of different institutional contexts.

As part of the study, the report on alternative scenarios for the case study regions<sup>201</sup> by Piras et al found a general pessimism about the capacity for local, bottom-up initiatives to effectively deliver spatial justice within a neo-liberal socio-economic system which actively perpetuates inequality. In order to address spatial injustices, policy needs to be separated from economic growth, particularly where population is in decline. The concentration of resources in urban centres, particularly large cities, undermines place based, bottom-up approaches, starving other areas of resources and agency and encouraging youth migration. **The absence of redistributive national policies was noted to prevent 'evening-up'.**

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<sup>199</sup> <https://www.espon.eu/sites/default/files/attachments/D5%20Executive%20Summary%20PROFECY.pdf>

<sup>200</sup> <https://relocal.eu/>

<sup>201</sup> [https://relocal.eu/wp-content/uploads/2020/07/RELOCAL\\_D8.3\\_020720.pdf](https://relocal.eu/wp-content/uploads/2020/07/RELOCAL_D8.3_020720.pdf)

The report also acknowledged a need for co-ordinated governance approaches both vertically, to **connect local development strategies to those at the regional, national and EU level**, and horizontally between institutions and other stakeholders. There was a key co-ordination role identified for an intermediary agency or actor co-ordinating governance efforts. It was also noted that **competitive funding can lead to inequalities where some places are advantaged** over neighbouring villages or districts.

One RELOCAL case study led by The James Hutton Institute considered strengthening communities on the Island of Lewis<sup>202</sup> and presented the spatially unjust picture of access to land in Scotland. It showed how the intervention had worked to address inequality on Lewis, through its support of community land buyouts and the establishment of trusts. New models of local governance had arisen in the form of community trusts, which supported local action, with the interactions of multiple institutions at different levels of governance fostering community development.

The case study highlighted that Highlands and Islands Enterprise had been instrumental in the process of facilitating community land buyouts (and thereby Land Reform) on Lewis. It concluded that community land buyouts facilitated place-based responses, but these opportunities were not necessarily equitable. It may have decreased spatial injustices between Lewis and the rest of Scotland but could be seen to have promoted greater spatial inequalities within Lewis, due in large part to different degrees of access to community energy across the Island. **Community land buyouts lead to greater autonomy, but this may not always equate to empowerment for all sectors of the community. They represent only a first step towards facilitating a place-based approach in community.**

### **'Beyond GDP'**

**The State of the Nordic Region 2020**<sup>203</sup> notes that a key feature of the region is the common Nordic identity with 'a unique trust in national, regional and local authorities'. This may well benefit collaboration and governance (see case studies below). Investment in education, innovation and research is generally high. Mobility and integration are priorities, ensuring that people can study, travel, work and start businesses wherever they want within the Nordic Region.

The three strategic priorities are identified as:

- A Green Nordic Region – to promote the green transformation of the societies, and work for carbon neutrality and a sustainable, circular, and bio-based economy.
- A Competitive Nordic Region – to promote green growth in the Nordic economies based on knowledge, innovation, mobility, and digital integration.
- A Socially Sustainable Nordic Region – to promote an inclusive, equal, and cohesive region with shared values, stronger cultural exchange, and increased welfare.

Analysis presents the Regional Potential Index (RPI) examined in Chapter 2, which ranks Nordic regions based on a series of indicators derived from the three thematic areas of demography, labour force and economy. There is also a focus "beyond GDP" **highlighting aspects of regional performance not captured by traditional economic indicators.**

Important trends in the Nordic region include increasing foreign-born migration and the decline in the young working age population, high employment rates, highly independent labour markets particularly in sparsely populated areas and a significant threat from automation (estimated to potentially affect a third of jobs).

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<sup>202</sup> [https://relocal.eu/wp-content/uploads/2019/06/33\\_UK\\_Case-3\\_Strengthening-Communities.pdf](https://relocal.eu/wp-content/uploads/2019/06/33_UK_Case-3_Strengthening-Communities.pdf)

<sup>203</sup> <https://pub.norden.org/nord2020-001/#>

Income inequality is relatively low in the Nordic countries but differences in household disposable income are increasing both within and between municipalities and regions (with the exception of Finland). Nordic regions are traditionally top performers on the EU's Regional Innovation **Scoreboard and smart specialisation, a tool to promote regional innovation**, has been widely adopted. One such area of innovation is the bioeconomy, where employment in new bio-based sectors such as textiles, bioenergy, and nature-based tourism, has grown by over 5% in many regions. The proportion of the population employed in traditional bioeconomy sectors such as agriculture, forestry, and fisheries, is decreasing.

Beyond GDP, while Nordic countries score well on measures of happiness, life expectancy and education, there are still important regional disparities, gender inequalities and socio-economic differences on these indicators. Education plays a particularly important role, not only in determining health and wellbeing, life expectancy and individual opportunity, but also for regional development. Cutting carbon emissions will rely heavily on innovation in the industrial, transport and building sectors, as well as efforts towards behaviour change.

On the Regional Potential Index, Oslo Region comes out on top in the 2020 ranking, followed by the Capital Region of Denmark and Stockholm Region. Rural regions have varied performance but not all negative.

### **Nordic Case studies**

Nordregio highlights a number of case studies in **sustainable rural development** across the Nordic region.<sup>204</sup> **Collaborative public service** delivery is highlighted as an example of good practice, with examples of local community initiatives, work between municipalities, regions and across borders. The areas of public policy covered included healthcare, welfare/social care, education, and transport. Collaborative governance is potentially useful for smaller regions and municipalities as they can potentially increase financial resources and administrative capacities, reduce transaction costs, and establish economies of scale and critical mass. Challenges to be overcome included navigating different governance and legal frameworks, competing policy priorities and delivery methods and the potential negatives that come with coalitions including potential loss of autonomy.

A project in the Nordic region looked at the 'silver economy'<sup>205</sup> looking specifically at policies and initiatives to promote this such as **healthy ageing, active ageing, and age-friendliness**. They note that there has been a general trend towards increasing employment rates in older age groups, connected to recent pension system reforms in several countries. One way of mobilising the potential of the 'silver economy' could be to improve the transfer of skills and expertise between younger and older generations of workers. Promoting education and training to improve the digital capabilities of older people has the potential to extend working lives while also enhancing well-being and independence. Recognising the needs of older consumers in terms of their requirements for new/different products and services is also important. The scope for **more collaboration and shared learning** between smaller municipalities, including across the border between Norway and Sweden, in order to pool resources and benefit from these greater synergies was identified, as well as the potential to learn from larger municipalities.

'Sustainable tourism' was also explored,<sup>206</sup> as it had been identified in a number of critical areas of concern from their analysis of development plans. The most mentioned issues included coordination and collaboration between tourism actors, expectations of economic growth, competence development, challenges (in general, and related to seasonality), sustainability concerns, nature

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<sup>204</sup> <http://pub.nordregio.org/pb-2021-2-public-service-delivery-in-the-nordics/>

<sup>205</sup> <https://nordregio.org/publications/unlocking-the-potential-of-silver-economy-in-the-nordic-region/>

<sup>206</sup> <http://pub.nordregio.org/sustainabletourism/#>

protection and reserves, and nature-oriented tourism, as well as how to better secure local benefits from the industry. The 'right to roam' emerged as a conflicting theme, with considerable attention in literature about tourism, but less so in policy documents. The broader negative effects of tourism and cruise tourism were also a much-debated topic where geographically relevant. There were expectations in plans that **tourism could be developed to be a more skilled sector with more valuable jobs**, but this depended on becoming a year-round industry.

Sustainability was articulated in development plans to include **economic sustainability as well as environmental and social tolerance**. Plans in Sweden, Iceland and Norway were 'greenest' in terms of a holistic concept of sustainability, with most detailed plans and goal setting. Many plans lacked a strategic view, so better collaboration and coordination was felt important. Policy measures like a tourist tax, or increased VAT on typical tourist products, and user fees at nature attractions did not have sufficient political support in either Norway or Iceland. To facilitate **better coordination and cooperation**, a platform was felt to be needed that included a variety of participants as a means to best emphasise that tourism development should serve the local community as a regional development tool.

A study of Attractive Rural Municipalities across the Nordic countries<sup>207</sup> highlighted a number of **features apparent in areas that had been more successful** in generating employment and strengthening demography. Key features included:

- Good access to, and provision of public services, adaptive/participatory planning, governance, and participation (including cheaper housing, education opportunities, more central location, effective immigration policy, devolved governance)
- Employment, jobs, entrepreneurship cultures and business development (tourism, specialisation, networks for entrepreneurs, infrastructure advantages)
- Quality of life, local community and the availability of culture, sport, and recreational amenities (safety, community, activities)
- Young people and their futures in the case-study areas (motivating young people to return, summer jobs, information campaigns)

There is a strong alignment between these key features of successful places and the key policy areas identified for the Highlands and Islands.

### ***Spatial planning in Wales***

The National Plan for Wales<sup>208</sup> provides an example of **spatial planning at a national level**, with the spatial strategy providing the overarching framework for deciding where to locate nationally significant developments in order to maximise their contribution to well-being goals.

The spatial strategy empowers local policy and decision-makers to develop the national priorities through Strategic and Local Development Plans and identify areas and issues of significance to their particular areas. National policies are set out that are critical to the successful delivery of the spatial strategy. Supporting rural communities and supporting the rural economy are two discrete policy aims of the National Plan.

In terms of economic growth, The Welsh Government supports sustainable growth in all parts of Wales. They identify three National Growth Areas where there will be growth in employment and housing opportunities and investment in infrastructure. The National Growth Areas are:

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<sup>207</sup> <http://norden.diva-portal.org/smash/get/diva2:1411400/FULLTEXT02.pdf>

<sup>208</sup> <https://gov.wales/sites/default/files/publications/2021-02/future-wales-the-national-plan-2040.pdf>

- Cardiff, Newport and the Valleys
- Swansea Bay and Llanelli
- Wrexham and Deeside.

The National Growth Areas are complemented by Regional Growth Areas which will grow, develop, and offer a variety of public and commercial services at regional scale. There are Regional Growth Areas in three regions:

- The South-West
- Mid Wales
- The North.

Place-making principles applied to urban development are for mixed use developments with a variety of housing, emphasis on walkability and higher density, well considered street networks and plot-based developments to encourage diversity, with green infrastructure.

Development and growth in towns and villages in rural areas should be of appropriate scale and support local aspirations and need. Strategic and Local Development Plans must develop policies that support rural areas. **The National Plan outlines the need for planning authorities to recognise the challenges facing their rural communities and set out policies to help address them.** These should consider the role that housing, employment areas and home-working, health and social services, places of education, emergency services, shops and infrastructure can play in tackling challenges and in helping create more sustainable places.

## 6.5 CONCLUSIONS

Green recovery has the potential to significantly enhance the resilience of economies and societies in the face of both the severe recession and accelerating environmental challenges. However, so far progress has tended to see more focus on spending on green infrastructure and job retention, with less on bringing about structural changes and skills development.

Skills gaps and shortages are already recognised as a major issue in a number of sectors, such as renewable energy, energy and resource efficiency, renovation of buildings, construction, environmental services, and manufacturing. Skills Development Scotland and partners have produced a Climate Emergency Skills Action Plan (CESAP) which notes that the transition to a net zero economy will be a significant and long-term challenge.

Discussions about short-, medium- and long-term opportunities were focused for many on the short-term concerns around loss of EU funding. For others the short-term priority was putting in place the policies and resources needed around housing, workforce, and repopulation to support existing businesses. The green and blue economies were seen to be significant and potentially transformational medium- and long-term opportunities for the region, but which required significant infrastructure development in some sectors, notably energy. A small number argued this transformation would require oversight and co-ordination structures at a regional level, and since the consultation was undertaken, a Regional Economic Partnership for the Highlands and Islands has been established.

Significant development opportunities exist within the Highlands and Islands, but the enabling policies identified in Chapter 4 will be key – addressing housing as the top priority but also workforce and skills, connectivity – both transport and digital, and repopulation policies including support for young entrepreneurs.

Collaboration and coordination are common themes emerging from elsewhere. Regional policy priorities were to offer a coordination/strategic role to support local capacity, such as strategies for attracting a skilled workforce, fostering SME development, innovation, and evaluation. Local policy priorities included involving stakeholders to identify assets and limitations, developing place-based priorities, and building networks and institutional capacity. Wales offers an example of spatial planning in national policy. The Regional Potential Index (RPI), which ranks Nordic regions based on a series of indicators that go “beyond GDP” shows how to capture regional performance in a holistic way.

Collaborative approaches have been effectively used in developing strategy and service delivery. Working together with public/private sector and community can help to build better places. More attractive places have the enabling infrastructure of services as well as employment and business opportunities, good quality of life and a clearly articulated message of why young people would want to stay/return.

It is important that ‘bottom-up’ approaches provide genuine scope for community coproduction, with governance structures that enable this. There was a key co-ordination role identified for an intermediary agency or actor co-ordinating governance efforts. However, it is also questioned whether local, bottom-up initiatives can effectively deliver spatial justice within a neo-liberal socio-economic system which actively perpetuates inequality.

Radical new approaches are also suggested encouraging innovation in the periphery to attract young people, reverse demographic decline, with more localised services and economic activity rooted in communities, supported by modern connectivity and technology to deliver wellbeing, and offering flexible and collaborative working at the local level across all sectors.

## 7 CONCLUSIONS AND RECOMMENDATIONS

### 7.1 SUMMARY

This study has identified a number of areas where the Highlands and Islands shows a range of distinct features of disadvantage, with sparsely populated areas associated with high and increasing dependency ratios. Although GVA per head is increasing in the Highlands and Islands, this is uneven and growing at a lower-than-average rate, compared with other rural regions. There is higher economic participation and lower unemployment but lower skilled employment and lower than average wages.

There are significant additional costs of living and doing business in remote rural areas (particularly transport costs and fuel costs). There are also the additional challenges which are likely to constrain growth of relatively poor and worsening access to services, housing affordability and availability, poor broadband and mobile connectivity and poor transport links – road, rail, air, and ferries. Connectivity to the islands is particularly challenging.

The data analysis indicates the need for more nuanced, rural proofed data to be used for funding decisions, to capture rural and regional disadvantage with a strong demographic element, as seen in the Nordic Regional Potential Index. There are also challenges with data quality and comparability, with some of the data having higher margins of error for the Highlands and Islands and sub-areas due to smaller sample sizes. Recent work for HIE by the James Hutton Institute on Inclusive Growth provides an example of the effective use of small area data, with other examples of using community narratives to show population change and scope identified to develop rural self-assessment approaches.

There are various means of ensuring that policy and funding mechanisms have a rural focus, with a recent trend towards ‘rural proofing’ policy. There is evidence of a clear move to ensure a rural focus in mainstream policy and associated funding in Scotland, but despite this there are also numerous examples of a lack of ‘rural proofing’ which further disadvantages rural and remote areas.

To address priorities and mobilise opportunities there was an identified need for an overall vision and transformation strategy, and regional organising framework to take forward a long-term vision to drive and co-ordinate policy, resource, and action across the local authority areas. Within this, it was noted that there may be a lack of strategic co-ordination with UK funds going directly to local authorities. There was a key co-ordination role identified for an intermediary agency or actor co-ordinating governance efforts. Since the consultation took place, a regional economic partnership has been established for the Highlands and Islands.

Emerging UK funding support needs to better prioritise rural areas generally and the Highlands and Islands in particular, to clarify the criteria and ease the timescale challenges in both bidding and making use of the funds. Where needs-based funding criteria are used, there is an obligation to ensure that the data used is consistently available. The indices should also be ‘rural proofed’ to ensure that rural and remote areas are not further disadvantaged by the allocation methods employed.

The review of funding mechanisms puts forward suggestions for potential indicators that might better capture rural disadvantage in future, including transport and connectivity, population density/sparsity, population loss/dependency ratios, lower economic growth and lower wages and poor access/high costs of services. The EU funds had a strong rural focus, and it is critical that the needs assessment for the replacement funds fully captures rural disadvantage.



The report has identified a range of opportunities for development particularly through green and blue economies. Reducing disadvantage through green recovery depends on delivering significant 'enabling infrastructure' for housing, transport, skills, digital and energy across the Highlands and Islands region.

A range of causes and effects of disadvantage in rural areas have been examined, with many of the causes related to geographic distance and peripherality, and the related travel and transport requirements.

Another key aspect of peripherality relates to the problems perceived over distance from decision makers and the centres of power. Flexible COVID-19 responses in terms of funding and community/agency responses offer some examples for the future. Collaborative, 'bottom-up', approaches have been effectively used in developing strategy and service delivery.

There was also a call from some to now concentrate on the strategy, action and ambition required to drive the economic opportunities forward rather than dwelling on rural disadvantage. Potential approaches to this development in the short, medium, and long term are outlined below.

## 7.2 SHORT-TERM

There is a **need for clarity and transparency** about the UK Shared Prosperity, Levelling Up and Community Renewal funds and potential impacts of the Subsidy Control Act on State aid. This poses a high level of uncertainty across the public and private sector, with an inability to plan for long-term investment. Interim funding arrangements have seen some local authorities in the Highlands and Islands not assessed as a priority even though they were previously eligible for EU funds. There are also concerns that the budgets promised will not replace funds lost, in terms of the overall funding envelope or the areas that might benefit.

**Funding mechanisms need to be fit-for-purpose and rural proofed.** The Nordic Regional Potential Index provides an example of an index that has a strong rural focus embedded throughout including demographic indicators and access to services, with the aim of ensuring equality of access to services. Population loss, low population density and high dependency ratios all highlight where peripherality will have an adverse impact on community sustainability, wellbeing, and inclusive growth. HIE and partners need to lobby strongly for demographic indicators and indicators of high rural costs (travel and fuel poverty) and indicators of community wellbeing (i.e., access to services) to be included in any needs-based assessment.

There is a **need to address data gaps to capture rural outcomes**. This includes a review of delivery on Rural Economy Action Group recommendations on data, and consideration of how community-based assessments and insights can be used to target resources. In particular, the need to capture well-being indicators to feed local data into the National Performance Framework is important. The data analysis indicates the need for more nuanced, rural-proofed data which better captures rural and regional disadvantage and includes a strong demographic element as seen in the Nordic Regional Potential Index. The 2021/2022 Census results offer potential but developing a longer-term **strategy for rural data provision** would be useful, incorporating community self-assessment and narrative approaches.

There is a need to **build capacity for truly community led development/place-based approaches** which can learn from the community response and governance structures to COVID-19 and build on community resilience/governance structures. Many communities are not in a position to bid for funding due to the lack of skills, often associated with demographic/economic imbalances. Without

addressing community capacity rural disadvantage will be exacerbated through lost funding opportunities.

There is a short-term priority to put in place the **policies and resources needed around housing, workforce, and repopulation** to support existing businesses. This should include a focus on policies to **assist young people** who wish to return to the Highlands and Islands. 'Location neutral' policies and job opportunities with the move to more remote working through COVID-19, offer the potential for attracting people on higher income into rural areas.

**Existing local economies and pockets of innovation** across the Highland and Islands need to be supported and protected, with help to diversify and transition where necessary to sustainable alternatives.

### 7.3 MEDIUM TERM

**What is the strategic vision for rural areas in Scotland?** There is currently no single vision of what rural Scotland needs, or how the most vulnerable communities will be supported, although numerous commissions and consultations have been undertaken providing a significant body of evidence to inform this. The current emphasis on 'rural proofing' does not provide the necessary strategic focus on rural areas. Lessons from elsewhere include the Nordic Vision, which offers an example of how a shared vision can be developed whilst Wales shows National Spatial Strategy in action.

**Policies need to be more 'joined-up'** - for example to resolve contradictory policies between tourism and housing (short-term lets) and the impact this has on workforce, and tourism and transport policy (North Coast 500 and ferries fare structures) and the negative as well as positive impact this has on local communities. There is also a need to consider the varying impacts across the region, local authorities, and communities and to co-ordinate opinion on what needs to change.

**Developing effective regional strategy** - The Highlands and Islands has very recently established a **Regional Economic Partnership**. There was muted support for this layer of governance among the consultees, with more support for collaborative working and community-led development. However, it was noted that there is potential for a lack of strategic co-ordination if UK funds go directly to local authorities. The huge opportunity that the Highlands and Islands has in relation to the green and blue economy, even the potential to totally reinvigorate the region is striking, but there is a sense of frustration that this will not be maximised through current arrangements, policy, and funding frameworks. There is a key co-ordination role identified for an intermediary agency or actor co-ordinating lobbying, prioritising, policy, and resource efforts in a way which respects the needs of individual communities and existing local authority structures.

There is also a need to rethink the **polarised urban/rural policy mindset** - it's a gradation, or spectrum and urban policy has as much impact on rural places as rural. This edges 'rural proofing' towards the **development of genuine place-based approaches** – not just investing in urban with the aim of reaching rural communities but approaches that meet community and business needs.

Significant investment is needed to address **fundamental infrastructure concerns** that contribute to peripherality – repairing crumbling road infrastructure, improving digital and mobile connectivity, delivering a sustainable ferry solution for island communities, improved air and rail capacity, investing in the port and harbour infrastructure needed to support the blue economy and green recovery, connecting islands to the grid to enable green energy expansion. Again, this suggests strategic, regional oversight and partnership working across the region to co-ordinate lobbying to

national government, prioritisation, policy, resource, and action. The Nordic Vision offers an example of investing in infrastructure to deliver sustainability and regional integration.

Policy needs to support affordable housing development to **attract and retain young people**, who also need local employment options with education, childcare, and community-based healthcare. This requires a holistic vision and supportive, flexible planning approaches to better fit remote and rural settings. In some areas, **policies on short-term lets and second homes** may be needed to support mixed communities. Where significant/critical skills shortages are identified, **policy to attract key workers** may be required (e.g., construction, social care).

#### 7.4 LONGER TERM

In the longer-term, the movement towards the net-zero ambition needs to see **development in the periphery**. So, rather than needing to travel to services that are needed, services should exist within remote communities. This is a 'paradigm shift' with emphasis on local provision and sustainability.

This long-term vision depends on investing in local areas, attracting and retaining young people and families as well as investing in the 'silver economy', and sustainable tourism. This is supported by technology allowing remote working, study, and health and social care, with community hubs providing a range of face-to-face services.

This longer-term vision needs investment targeted towards peripheral areas through support for businesses and communities. Investment would also be needed in active travel and electric vehicles to support the net-zero ambition.

