

RURAL AND REGIONAL DISADVANTAGE IN THE HIGHLANDS AND ISLANDS

Executive Summary

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indigohouse



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Iomairt na Gàidhealtachd 's nan Eilean

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 explores 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.

The research involved analysis of secondary data sources, a desk-based review of policy and funding mechanisms, and qualitative research with 22 key stakeholders from the Highlands and Islands and elsewhere in Europe from across the public sector, industry and community bodies, and academia.

Understanding rural and regional disadvantage

Rural and regional disadvantage is commonly understood as a structural form of disadvantage where peripherality and population sparsity is associated with constrained economic growth. Peripherality – or remoteness from economic centres – 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.

OECD and EU policy frameworks point to the need to address rural disadvantage by targeting accessibility and connectivity, and to build on rural community assets, diversity and opportunities. They also suggest the need for different policy approaches for remote rural areas. Two key examples of data analysis frameworks to better understand peripherality, and so target resources to ease rural disadvantage, are the European Peripherality Index¹ and the Nordic Regional Potential Index (RPI).²

These indices demonstrate the need for more nuanced, rural-proofed data which captures rural and regional disadvantage with a strong demographic element. However, this poses challenges for data quality and comparability, with evidence of inadequate data to provide sufficiently low level and fine-grained data for the Highlands and Islands.

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 2032.³ The body of evidence on rural and regional disadvantage highlights a need for greater emphasis on measures of inclusive growth that go ‘beyond GDP’ to capture wellbeing, considering rural diversity and innovation as well as disadvantage. Recent work on ‘Measuring Inclusive Growth in the Highlands and Islands’⁴ (2022) by HIE and the James Hutton Institute provides an example of the effective use of small area data to capture different dimensions of inclusive growth.

¹ [tps://www.econstor.eu/bitstream/10419/115681/1/ERSA2002_224.pdf](https://www.econstor.eu/bitstream/10419/115681/1/ERSA2002_224.pdf)

² <https://www.norden.org/en/nordicregion2020>

³ <https://www.gov.scot/policies/economic-growth/>

⁴ https://www.hutton.ac.uk/sites/default/files/files/Note_Measuring_inclusive_growth_in_the_Highlands_and_Islands_a_typology.pdf

Rural and regional disadvantage in the Highlands and Islands

The experience in the Highlands and Islands mirrors the body of evidence from elsewhere, with peripherality strongly associated with relatively poor access to services and poor connectivity, which in turn impacts on the potential for economic growth. The analysis identified a number of areas where the Highlands and Islands shows distinct features of disadvantage.

Between 2011 and 2020, population growth in the Highlands and Islands (0.3%) lagged that for Scotland overall (3.1%), with some remote and island communities experiencing considerable population decline. Overall, Scotland's remote rural population declined by 0.3% while accessible rural areas grew by 8.7%.

The population density in the Highlands and Islands (12 persons per square kilometre) is substantially lower than the rates for the rest of Scotland (133) and the rest of the UK (330). Rates are lowest in Lochaber, Skye and Wester Ross (4) and Caithness and Sutherland (5). All sub-regions within the Highlands and Islands have a lower population density than the least populated regions in England, and the lowest in Europe outwith the North of Scandinavia.

Sparsely populated areas are associated with high and increasing dependency ratios which can have an impact on community sustainability and growth as well as on 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 Innes Galloway to 28% in Shetland. The Scotland (25%) and UK (24%) projections are considerably lower.⁵

Research by HIE in 2018⁶ found that increasingly, young people are keen to remain, return or move to the Highlands and Islands, but often feel that compromises are necessary to do so. High-quality, well-paid jobs, affordable housing and lower living costs were critical factors for attracting young people, highlighting how current socio-economic factors can impact on demographic trends.

Although Highlands and Islands GVA is increasing (real GVA up 11.8% between 2010 and 2019), this is uneven and growing at a lower-than-average rate than other UK rural regions. In 2019, GVA per head was 95% of the Scottish level, although there is significant variation within the region.

A skilled workforce is critical for economic growth, as skills development can reduce unemployment and underemployment, increase productivity, and improve standards of living. In the Highlands and Islands, there is strong economic participation, higher levels of self-employment and lower unemployment than nationally, although this is coupled with lower skilled employment and lower than average wages. Workers in rural areas across the region are more likely to be employed in multiple jobs, with part-time working also more common. While this may provide flexibility and indicate diversity in employment, lower income jobs are often not picked up in deprivation statistics which tend to be based on benefit dependency.

These factors also reflect the relatively narrow business base and dominance of small and micro (0-49 staff) businesses which account for around two-thirds (66.9%) of employment in the region (50.6% nationally). In the Highlands and Islands, just under half of employment (47%) is within four sectors: health; agriculture, forestry and fishing, retail and accommodation and food services sectors (47% versus 36% nationally).

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

⁶ <https://www.hie.co.uk/research-and-reports/our-reports/2018/may/31/yp-research/>

With wages being typically lower than average, they also have further to stretch. There are significant additional costs of living and of doing business in remote rural areas, particularly transport and fuel costs. Living in remote rural Scotland typically requires between a tenth and a third more household spending than in urban parts of the UK.⁷ This is likely to be an underestimate as it does not account for all additional costs, including domestic fuel costs.

There are also relatively poor and worsening access to services, high fuel poverty (ranging from 18% in Shetland to 25% in Inverclyde, compared with 12% for Scotland overall) and housing affordability and availability issues exacerbated by second homes and short-term lets. Highland and Argyll and Bute combined have almost 30% of all second homes compared with less than 7% of the overall housing stock. In the Highlands and Islands,⁸ 58% of data zones are classified as being at high risk of transport poverty (where people don't have access to essential services or work because of a lack of affordable transport options) compared to 38% across Scotland overall.⁹

While recent programmes have sought to increase access to superfast broadband and improve mobile connectivity across Scotland, in parts of the Highlands and Islands internet and mobile phone connectivity remains poorer than anywhere else in the UK. With the focus shifting to deployment of 5G, already available in many urban areas, it is likely that rural and remote communities in the Highlands and Islands will face further disadvantage in terms of the digital divide.

The factors above indicate the range of causes and effects of disadvantage in rural areas that can present barriers to development. Geographic distance and peripherality, and the related travel and transport requirements, infrastructure and the socio-economic make-up of the region all impact in different ways. The degree and extent of inter-connection between these factors can act in a vicious cycle and exacerbate and entrench disadvantage, and without a critical mass of population, it is difficult to make a strong case for change and investment in essential services and infrastructure.

This also has implications for businesses operating in rural communities, particularly in terms of driving up costs and competitiveness. Agglomeration effects tend to be more muted, and distance from markets, poor transport infrastructure and higher fuel prices add to the cost of transport and logistics. With a tight labour market, staff recruitment and retention is becoming more challenging, compounded by lack of housing and access to services. While broadband infrastructure is helping to address some of the challenges of physical distance, access, speed and reliability still lags that for more urban areas.

These structural aspects of disadvantage have been exacerbated in the Highlands and Islands, and in remote rural and island communities in particular, by Brexit and COVID-19. Although business confidence has improved, the Highlands and Islands recovery is highly likely to lag Scotland in the short-term with full recovery not likely until 2023. Economic scarring and loss of productive capacity may be evident for years to come with younger people potentially more adversely impacted.

Despite the challenges, local communities show resilience, developing community-led, collaborative approaches.¹⁰ Central to this is demand for a new paradigm based on innovation in the periphery – a sustainable way of living to address demographic challenges and offer flexible and collaborative working at the local level, more localised services and economic activity rooted in communities, supported by modern connectivity and technology to deliver wellbeing.

⁷ <https://www.gov.scot/publications/cost-remoteness-reflecting-higher-living-costs-remote-rural-scotland-measuring-fuel-poverty/>

⁸ Based on the following local authority areas: Highland, Comhairle an Eilean Siar, Moray and Orkney

⁹ <https://www.transport.gov.scot/media/47211/stpr2-highlands-and-islands-case-for-change-draft-report-for-publication.pdf>

¹⁰ <https://sefari.scot/document/rural-and-island-communities-response-to-covid-19>

How well does policy address rural and regional disadvantage?

Research suggests that for European economies that have prioritised peripheral areas, most have done so through changing mainstream national policies to benefit remote rural areas,¹¹ while in areas that have prioritised the periphery least there is a reliance on targeted funds. This is particularly important for the UK, as EU funds that had a strong rural focus are being replaced by a ‘levelling up’ approach to reducing geographic inequality across the UK.

While the current approach to rural development in the UK centres on ‘rural proofing’ mainstream policy to ensure that the requirements of rural areas are considered, this is not prominent in the Levelling Up White Paper. The twelve missions outlined in the paper all have relevance in rural areas but 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”. There is limited evidence that the indicators used for related funding – the Levelling Up Fund, Community Renewal Fund and the Shared Prosperity Fund - have been rural-proofed (see later).

There is evidence of a clear move to ensure a rural focus in mainstream policy in Scotland through ‘rural proofing’. At the most basic level, local authority funding takes account of the additional costs of providing services in rural areas in Scotland (with ongoing demand for more rural proofing of funding in England). The National Strategy for Economic Transformation¹² sets out a vision for a low-carbon, wellbeing economy that delivers sustainable and inclusive economic prosperity for Scotland’s people and places. While it states an intention to ensure strong regional economic strategies and local economic development plans are in place, it does not outline the critical interventions needed to support individual local economies.

The National Islands Plan¹³ (2019) is a far-reaching policy document with a clear rural focus, supported by a detailed implementation strategy.¹⁴ This dictates that all key policies should have an Island Communities Impact Assessment, with the main example so far being the Island Communities Impact Assessment on Fuel Poverty targets.¹⁵ The Scottish Government’s Population Strategy, published in 2021, proposes a ‘place-based approach’ to demography, considering the economy, infrastructure, housing and public services, and is another example of a policy area which has seen more targeted activity to rural and remote areas with particular demographic challenges.

Despite more recent mainstreaming there are also numerous examples of a lack of ‘rural proofing’ which further disadvantages rural and remote areas. For example, the extent to which transport appraisal is ‘rural proofed’ is a concern, as Cost Benefit Analysis approaches do not always capture the distinguishing features of transport projects in remote areas.¹⁶ SEFARI’s research in 2021 on Rural Lives¹⁷ 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, often seasonal incomes.

¹¹ <https://eprc-strath.org/publication/peripheral-regions-a-marginal-concern/>

¹² <https://www.gov.scot/publications/scotlands-national-strategy-economic-transformation/pages/2/>

¹³ <https://www.gov.scot/publications/national-plan-scotlands-islands/>

¹⁴ <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>

¹⁵ <https://www.gov.scot/publications/island-communities-impact-assessment-fuel-poverty-targets-definition-strategy-scotland-bill/pages/9/>

¹⁶ https://www.itf-oecd.org/sites/default/files/docs/transport-connectivity-remote-communities-scotland_2.pdf

¹⁷ https://www.rurallives.co.uk/uploads/1/2/7/3/127324359/453540_rural_poverty_report_2021_8.3.2021_optimised.pdf

Planning also has an important role to play in supporting rural development, with emphasis needed on flexibility to meet the specific planning needs of remote and rural areas, and supporting communities to be fully involved in developing Local Place Plans.

The research identified a number of aspects of existing policy which were felt to be urban focused, and which were insufficiently nuanced to mitigate against rural and regional disadvantage. It points to the need for policy to address housing, transport and digital connectivity and energy infrastructure, and for better implementation of existing policy including land reform, and support for co-ordinating community-led approaches. Several consultees emphasised the importance of understanding the very different and dispersed communities across the Highlands and Islands and to encourage a “bottom-up” approach to policy and resource allocation reflecting local needs.

While inclusive growth is at the forefront of policy and central to place-based approaches, with scope to benefit areas of rural disadvantage, the outcomes have not yet been fully evidenced. In 2018, the National Council for Rural Advisers recommended the need to develop rural outcomes, indicators and actions that are embedded in the Scottish Government’s National Performance Framework and National Economic Strategy. At the time of reporting, this is still to be addressed.

Funding mechanisms to address rural and regional disadvantage

Place-based funding

There are clear benefits to place-based funding and targeted funds, particularly where there is community involvement in priority setting. Data is an important foundation for any needs-based formula however, the availability of robust, reasonable quality data diminishes when looking at small areas, and poor proxies for real needs become key measures. This can exacerbate and entrench disadvantage, and impact on funding and resource allocation at the local level. When looking at a needs-based approach to funding allocation, consistency of indicators across geographies is important.

Place-based funding approaches provide scope to go beyond ‘rural proofing’ to look at the needs of individual areas, with EU LEADER funding providing a model of community-led development on which to build and learn from. City and Regional Growth deals are a key vehicle for place-based investment within Scotland. 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. In addition, funding is allocated based solely on a competitive bidding process, rather than a needs-based criteria.

Until recently, the Highlands and Islands benefited from the EU funding allocations based on a broad ‘GDP per head’ funding allocation. This approach identified large areas of need, giving more scope for regional priority setting. A ‘Regional Aid Map’ informed past investment using EU funds, with less developed regions, sparsely populated areas and areas with lower-than-average GDP or higher than average unemployment granted assisted area status between 2014 and 2020. This meant remote rural areas, including the Highlands and Islands, were identified as in need of additional assistance by EU State aid rules. There are no plans as yet for a Regional Aid Map to be in place for new Subsidy Control legislation.

Post-EU funding

The research explored arrangements that were put in place by the UK government to support regional development post EU exit – the Levelling-Up Fund, Community Renewal Fund (CRF) and UK Shared Prosperity Fund (UKSPF) were considered.

The £4.8bn Levelling-Up Fund¹⁸ targets investment towards infrastructure to support town centre and high street regeneration, local transport projects, and cultural and heritage assets. Funding is delivered by local authorities with allocations determined on a competitive basis, with an index based on a combination of metrics used to prioritise and allocate support. This included need for economic recovery and growth, improved transport connectivity and regeneration, although these varied across UK nations. There have been two rounds of bidding to date (bids for the second round to be submitted early July 2022), with a third round anticipated.

The CRF¹⁹ aimed to provide £220m of funding to help places across the UK prepare for the introduction of the UKSPF. It focused on supporting people and communities most in need across the UK, creating opportunities to trial new approaches and innovative ideas at the local level. Additional support for priority places was determined by a series of indicators of economic prosperity – productivity, skills, unemployment, population density and household income.

The UKSPF launched in April 2022 “to level up and create opportunity across the UK for people and places”. There are three priority investment areas: communities and place, local business and people and skills. Spending is to ramp up to around £1.5bn a year and “at least match current receipts from EU structural funds”.²⁰ It moves away from the challenge funding model of the CRF, with each area having a conditional funding allocation to be confirmed on approval by the UK Government of an investment plan. While this move is welcome as it gives the potential for a more planned and strategic approach, the relatively small funding allocations, together with the short timescale for submission of investment plans (by 1 August 2022) counteracts this.

Funding for the UKSPF was allocated in two stages, first to the four nations of the UK (to at least match previous EU structural funds), and then to local areas within each nation. For stage two, different methodologies and weightings were used for each nation, but all included a combination of per-capita measures alongside a needs-based index drawn from the CRF. In addition, Scotland used a population density measure and Wales their Index of Multiple Deprivation.

Funding allocations from the UK Levelling Up and Community Renewal Fund

Since the start of the current European Structural and Investment Funds (2014-2020) Programmes, the Highlands and Islands of Scotland benefited from over £120m worth of support from the European Regional Development Fund (ERDF) to fund projects in natural and cultural heritage, low carbon, green infrastructure and the circular economy, sustainable employment and SME support and innovation across a range of areas; and over £65 million from the European Social Fund (ESF) to support employability pipelines and skills development and combat poverty and social exclusion.²¹

¹⁸ <https://www.gov.uk/government/publications/levelling-up-fund-prospectus>

¹⁹ <https://www.gov.uk/government/publications/uk-community-renewal-fund-prospectus>

²⁰ <https://www.gov.uk/government/publications/uk-shared-prosperity-fund-prospectus/uk-shared-prosperity-fund-prospectus>

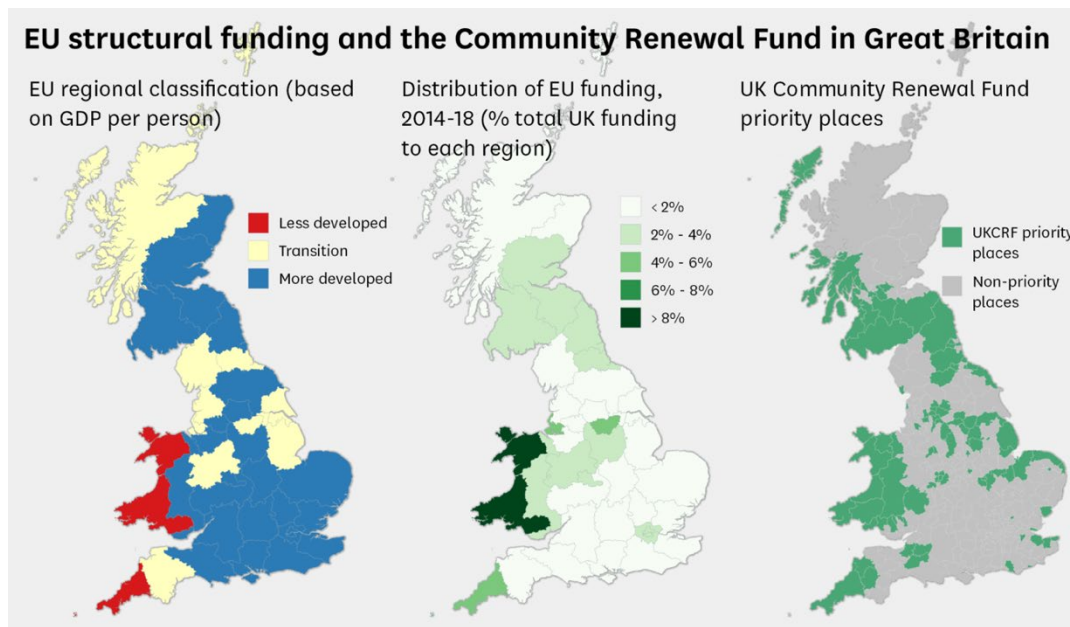
²¹ <https://www.gov.scot/binaries/content/documents/govscot/publications/minutes/2021/02/convention-of-the-highlands-and-islands-meeting-papers-october-2020/documents/paper-8-replacement-of-the-european-structural-and-investment-fund-esif-post-eu-update/paper-8-replacement-of-the-european-structural-and-investment-fund-esif-post-eu-update/govscot%3Adocument/Paper%2B%2B-%2BReplacement%2Bof%2Bthe%2BEuropean%2BStructural%2Band%2BInvestment%2BFunds%2B%2528ESIF%2529%2BPost%2BEU%2BExit.pdf>

The Highlands and Islands has had some limited success so far in securing funding through the UK Levelling-Up and CRF funds - total funding received from the two funds in 2021-2022 is around £22.75m, with c£2.89m from the CRF. However, this is limited to Highland, Argyll and Bute, Inne Gall and the North Ayrshire islands.²²

For the first round of the Levelling-Up Fund and the CRF, projects needed to be delivered by March 2022 and meet specific eligibility criteria (such as demonstrating strategic fit and fitting State Aid rules). The timescales for Levelling-up and CRF will have excluded disadvantaged communities who were unable to pull together bids in the short timescale.

The allocation of priority areas for both funds appear to have disadvantaged rural areas of the Highlands and Islands that would previously have been in receipt of EU funds. The maps below show the whole of the Highlands and Islands as a transitional area under the EU funding regime, with the scope to fund projects across the entire region. No local authorities were priority level 1 for the Levelling-Up fund and only Argyll and Bute and Inne Gall were priorities for the CRF. 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.

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.

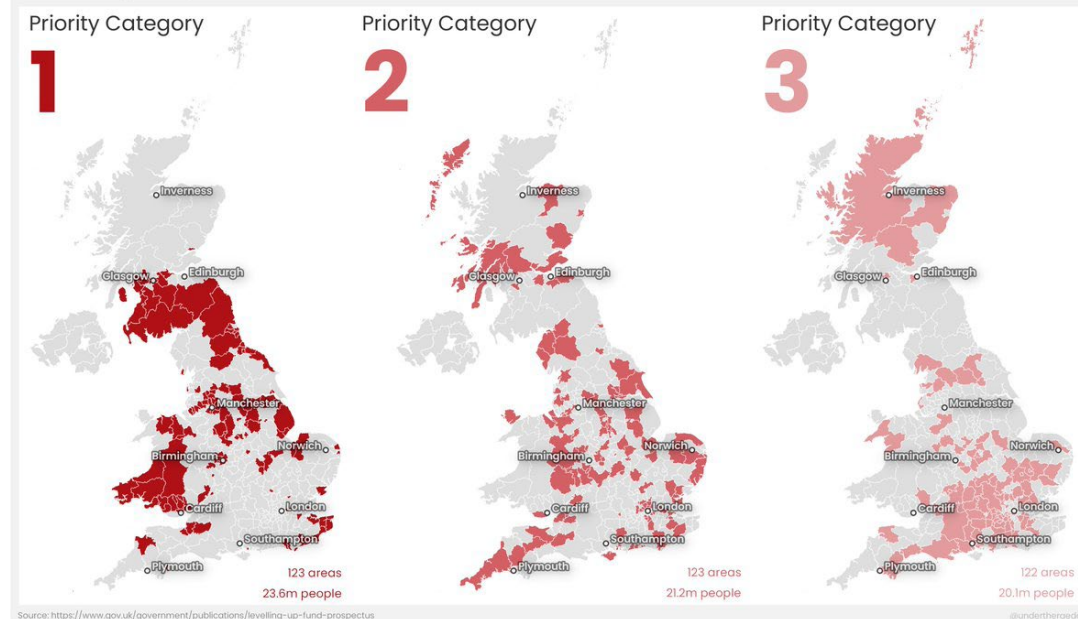


Source: <https://commonslibrary.parliament.uk/eu-structural-funding-will-the-uk-community-renewal-fund-bridge-the-gap/>

²² <https://www.gov.uk/government/collections/new-levelling-up-and-community-investments>

Levelling Up Fund, by Priority Category

N.B. A different approach is being used in Northern Ireland



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

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 Government²³ has calculated that a sum of £162 million per year would be needed to replace the ERDF and ESF, increasing to £183m per year when LEADER funding and the EU Territorial Cooperation Programmes are added in.

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 estimated to be 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).

Identifying need - post-EU funds

As well as outcomes in funding allocations, the review examined the indicators used to prioritise funding for the Levelling-Up fund, CRF and UKSPF, to consider how well they capture rural and regional disadvantage. A number of concerns with the indicators and methodologies used persist. The indicators selected for the UK Levelling-Up fund were not the same for England, as for Scotland and Wales, so introduced some variability. Despite being a fund which focused partly on transport, no indicator of transport connectivity was used for Scotland or Wales, and the indicators more broadly fail to consider peripherality or demography.

GVA per hour worked was used in both the Levelling-Up and CRF indices. 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. This is why the inclusion of population change and population density, alongside GVA per hour worked

²³ <https://www.gov.scot/news/eu-replacement-funding-gbp-151-million-less-in-first-year/>

(and other rural-focused indicators) would provide a more rural-proofed picture of the capacity for economic growth. Although the CRF included a measure of population density, there was no inclusion of a measure of peripherality, which is shown to be a key factor in understanding rural and regional disadvantage. In addition, 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.

The research identified the need for consistency in indicators used in needs-based models. This is not the case with the UKSPF with four very different methodologies used for funding allocations to local areas within each of the four UK nations. The per capita weightings used differ for Scotland, England and Wales creating an instant inequality. All three nations have a weighting based on the CRF index, which as highlighted above does not fully capture rural disadvantage. 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. 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.

Based on approaches used widely elsewhere and the analysis presented, the research suggests a range of potential indicators which arguably better fit the experience of rural disadvantage and the three investment priorities of the UKSPF. 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 including transport and connectivity, population change, economic growth and lower wages and poor access/high costs of services. However, the availability of robust data on measures to adequately capture rural and regional disadvantage remains a challenge.

Opportunities for development

Scotland's National Strategy for Economic Transformation 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.^{24,25} In addition, a number of the leased seabed sites that form part of the Crown Estate's recent (2022) ScotWind Leasing²⁶ round sit off the coast of the Highlands and Islands, creating an opportunity for the region to help transform Scotland's energy market and move towards a net zero economy.

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 required in the Highlands and Islands.

²⁴ <https://www.hie.co.uk/research-and-reports/our-reports/2019/march/06/maximar-science-and-innovation-audit/>

²⁵ <https://www.hie.co.uk/research-and-reports/our-reports/2017/november/01/business-cluster-specialisation-in-the-highlands-and-islands/>

²⁶ <https://www.crownestatescotland.com/news/scotwind-offshore-wind-leasing-delivers-major-boost-to-scotlands-net-zero-aspirations>

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.

Collaboration and coordination are common themes emerging from elsewhere. Regional policy priorities included coordination/strategy to support local capacity, 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.

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 co-production, with governance structures that enable this. There was a key co-ordination role identified for an intermediary agency or actor co-ordinating governance efforts.

Significant development opportunities exist within the Highlands and Islands in relation to both green recovery and the blue economy, but enabling policies including housing, workforce and skills, transport and digital connectivity will be key to realising these.

Short-term priorities

There is a need for greater 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 medium and long-term investment. There are also concerns that the budgets promised will not replace the 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 to ensure that rural and remote areas are not further disadvantaged by the allocation methods employed. The Nordic Regional Potential Index provides an example of an index that has a strong rural focus embedded throughout. HIE and partners need to lobby strongly for demographic indicators, indicators of high rural costs (travel and fuel poverty) and indicators of community wellbeing (i.e. access to services) to be included in funding based on need. Where needs-based funding criteria are used, there is an obligation to ensure that the data used is consistently available.

Data gaps must be addressed to capture rural outcomes and more nuanced, rural proofed data. In particular, capturing local level well-being indicators to feed into the Scottish Government National Performance Framework is important. 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 employed during the COVID-19 pandemic and build on community resilience/governance structures. Many communities are not in a position to bid for funding due to the lack of capacity and/or skills, often associated with demographic/economic imbalances.

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.

Medium term priorities

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 rural 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 ferry charging) and the negative as well as positive impact this has on local communities.

Developing effective regional strategy - the Highlands and Islands has recently established a Regional Economic Partnership which may help address the potential for a lack of strategic co-ordination if UK funds are going directly to local authorities. 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 since urban policy can have as much impact on rural places as rural policy does. 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 the direct needs of rural community and business needs.

Significant investment is needed to address fundamental infrastructure concerns that contribute to peripherality – investing in the crumbling and inadequate 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 which should be enabled through recent Scottish Government legislation in this area. Where significant/critical skills shortages are identified, policy to attract key workers may be required (e.g. construction, social care).

Longer term

In the longer-term, the movement towards the net-zero ambition needs to see development in the periphery. So, rather than having to travel to services that are needed, services should exist within remote communities. This is a 'paradigm shift'²⁷ with an emphasis on local provision and sustainability, attracting young people, reversing 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.

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' (for older people) 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.

²⁷ <http://codel.scot/covid-19-economic-impacts-recovery-in-the-northern-periphery-arctic>