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# SECTORAL AND CROSS SECTORAL IMPACTS FROM COVID-19 ON SCOTLAND'S HIGHLANDS AND ISLANDS

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<https://core.interreg-npa.eu/>

## 1. INTRODUCTION

- 1.1 This report gives an overview of the economic impacts of Covid on Scotland's Highlands and Islands – including cross-sectoral impacts – and considers the longer term implications for the region of trends that have emerged or accelerated since the economic effects of Covid began in March 2020; and how these trends and those expected once the Covid-related restrictions have eased will impact on the region in the longer term. Considering these, and other factors, pathways are set out for how the region might minimise negative impacts in the future, and maximise opportunities to increase economic activity.
- 1.2 Alongside Covid, the following will be important to take into account in assessing opportunities and actions that might be taken to generate economic impacts in the short, medium and longer term:
- (i) The UK leaving the European Union at the beginning of 2021 (“Brexit”).
  - (ii) An ageing population.
  - (iii) Continuing pressures on public spending, which has been a dominant theme in the region since the recession related to the international financial crisis ten years ago.
  - (iv) Increasing internationalisation, with the growth of China and other countries, which has been relatively rapid over the past twenty years, impacting on many sub-sectors of the Highlands and Islands economy.
  - (v) The underlying population growth in the region that has continued since the mid-1960s – albeit that this has slowed in the past ten years since the recession and has not benefitted all parts of the region.
  - (vi) A continuing increase in the importance of tourism in most parts of the region.
- 1.3 The Highlands and Islands, as defined for the NPA Programme area, is the area covered by Highlands and Islands Enterprise with a total population of 469,365 in 2019, and incorporates the Local Authority areas of Highland (population 235,540 in 2019), Moray (95,520), Orkney (22,190), Shetland (22,990), the Outer Hebrides (26,830), and Argyll & the Islands (66,295), which comprises the bulk of the Argyll and Bute Local Authority area and the Islands of Arran and the Cumbraes (which are part of the North Ayrshire Local Authority area). These constituent areas are shown on the map below, together with the Dumfries & Galloway Local Authority area (148,790), which is the other part of Scotland which is within the NPA Programme area.
- 1.4 Some information on the impacts of Covid on Dumfries & Galloway is provided in this report, but the main focus is the Highlands and Islands. It is important to appreciate, however, that just as Dumfries & Galloway differs from the Highlands and Islands in a number of respects, so do certain sub-regions and local areas in the Highlands and Islands differ from the regional average – both in terms of their economies and their demographics. Examples are given in this report of these differences, but separate reports could have been produced for each sub-region in the Highlands and Islands with distinctive variations from the more general themes and impacts focussed on in this report (which is essentially a summary of key themes and opportunities within the time and resources that were available).



**Figure 1: Map of NPA area within Scotland**

- 1.5 Covid-related impacts began in March 2020 with the UK-wide “lockdown” introduced, which most importantly for the country’s economy, greatly limited social contacts and reduced economic activity where physical contacts had been a feature – other than activities related to “essential” services; including healthcare, food & drink supply, emergency property and equipment repairs, important household supplies, public transport related to continuing activity, etc. Education-related constraints began in March 2020 with school closures, and the longer term impacts from the different ways in which young people’s educations have needed to change are especially difficult to assess. The Scottish Government (and the Northern Ireland Government) has, to an extent, been able to introduce measures different from, or supplementary to, those pursued by the UK Government – although most of the factors relevant to the Highlands and Islands economy that are discussed and analysed in this report are shared with the Scotland and UK economies. The report considers the distinctive impacts in the region from trends that are national (and indeed international), as well as localised impacts and opportunities.
- 1.6 The report’s focus is on:
- Those economic impacts that have been, and/or are expected to be, particularly significant in the region.
  - Cross-sectoral impacts.
  - Resilience factors, adaptations and innovations.
  - Changes in perspectives that are occurring or will be important.
  - Ways in which negative impacts might be minimised (or “normal” circumstances re-established as quickly as possible) and potential opportunities maximised.
- 1.7 Examples are provided of impacts and measures potentially applicable across the region – but such examples should be considered in the wider context of the national and international trends that will greatly influence the region’s economy and demographic structure into the medium and longer term.

- 1.8 With vaccinations accelerating, it is possible that the region's economy will have recovered significantly by later this year – but positive future impacts, as considered in this report, could take longer than this to be achieved.
- 1.9 A number of the opportunities addressed in this report will also be applicable in other NPA regions, especially where they relate to wider trends in economic development (short, medium and longer term) than those which will be associated with the Covid recovery period this year and next.
- 1.10 Because of the number of Local Authorities that cover the Highlands and Islands and their appreciation of the importance of economic development policy in their areas, together with Highlands and Islands Enterprise (a distinctive development agency within the UK with a budget to fund developments of £50.4million in 2019/20), there are very many data sources, reports and policy initiatives that are relevant to the content of this report; and it has only been possible to draw on, and/or reference, those of particular importance. Also, relevant reports and data produced by the UK Government, the Scottish Government, Skills Development Scotland, and others have been accessed, together with key sectoral material, and reports on local initiatives considered potentially more widely applicable. Section 7 below lists the principal relevant reports.
- 1.11 Where Local Authorities have produced economic recovery plans, progress on these are generally reported periodically to their committees.

## **2. BACKGROUND**

- 2.1 As demonstrated statistically in Section 3 below, the key differences (in scale and nature) of the impacts from Covid in the Highlands and Islands and those in Scotland and the UK as a whole relate to:
- The less severe health impacts in the region due to lower rates of infections, hospitalisations and mortalities – although there have been clusters over the period since March 2020 in local areas.
  - The economic impacts throughout most parts of the region due to high dependence on tourism and hospitality trade for employment and income. Greatly reduced demand has included overseas overnight visitors, cruise boat passengers, events and festivals-related spending (including weddings, Highland Games, etc), business visitors, and activities (golf, skiing, etc); and has seriously impacted on the region's important aviation sector.
- 2.2 As in the rest of the UK, it is currently extremely difficult to judge how impacts will pan out in 2021 and beyond; with key factors including:
- How long it will take national and international travel to recover – which will depend on progress made nationally and internationally in stemming the spread and severity of Covid, both through immunisation and other measures.
  - When indoor and outdoor activities (relating to sport, social leisure activities, entertainment, visiting attractions, etc) will become sufficiently possible for businesses to resume trading or take staff back on.
  - If and when closed shops, hotels, etc will re-open (with some having closed permanently).

- The impacts on particular sectors and individual businesses of Brexit on their markets and suppliers. Of particular relevance to the Highlands and Islands will be the positive and negative effects for fishing and agriculture; and the extent to which trade agreements with other countries can stimulate growth in regionally important sectors such as whisky distilling through reduced tariffs.
- Reduced availability of temporary and seasonal staff from EU countries (particularly Eastern Europe) due to Brexit; and the scope there will be for businesses and public sector organisations (including health services) to recruit labour from other countries to replace workers from the EU.
- The speed and extent of the underlying decline in North Sea Oil & Gas (which has affected businesses and employees in the Highlands and Islands – although the main negative employment impacts have been in and around Aberdeen).
- The speed and extent of the move towards zero carbon through reduced emissions and the introduction of alternatives to fossil fuels through offshore renewables development, growing use of electric vehicles, initiatives to produce and store hydrogen for industrial and domestic heating and for transport fuel and other measures.
- Businesses in the region increasingly introducing zero carbon aspirations and initiatives and publicising these for promotional purposes.
- How far public sector spending on services will be constrained by the need to use future tax revenues to pay for the business and other support that has been provided by the UK and Scottish Governments to mitigate the impacts from Covid, and will need to continue well into this year.

### 2.3 Key factors specific to the Highlands and Islands include:

- The rate at which digital connectivity is improved across the region – particularly in outlying and some other rural areas.
- The demand for and supply of housing in different parts of the region (including housing affordable for its workforce).
- Whether higher education learning in Scotland becomes more home-based.
- How the University of the Highlands and Islands (UHI) evolves in its provision of further and higher education courses.
- The extent to which young people take up work in local areas that was previously carried out by migrant labour.

2.4 A very important implication for the Highlands and Islands of Brexit will be the loss of the substantial EU funding that the region has received – mainly ERDF (the European Regional Development Fund) towards infrastructure and other capital development, ESF (the European Social Fund) towards skills development, LEADER (for local initiatives) and agricultural support; and the grant rates that businesses in the area have been able to receive (through State Aid) that have not been available in most parts of the UK. A new Shared Prosperity Fund is to be established to replace (to an unknown extent) the EU funding that eligible UK regions have gained. This new fund is to be distributed (as currently envisaged) by the UK rather than the devolved Governments; and there is a risk that the scale and nature of this funding might be very less beneficial to the Highlands and Islands as a whole and to particular sub-regions than the previous EU funding.

2.5 As an example, the three island groups comprising the Outer Hebrides, Orkney & Shetland received a total of £107.1 million in ERDF between 1994 and 2013 (at original prices) – an average of £5.35 million

per year; and a total of £21.1 million in ESF – an annual average of £1.05 million. These totals exclude ERDF and ESF investments through Pan-Highlands and Islands projects implemented by agencies such as HIE and the Scottish Tourist Board.

2.6 Other national trends which have been prominent since the start of the pandemic and have been evident in the Highlands and Islands include the following. As with some of the other economic factors above, it is difficult to assess to what extent they will continue to apply or evolve post-Covid.

- Working from home rather than an employer's office; or spending more hours than previously in home working even where offices are still used.
- Accessing entertainment at home through available media rather than visiting cinemas, theatres, cultural facilities, pubs and restaurants, etc.
- Moving house from urban to attractive rural areas – in part due to the increased need or scope for home working.
- Increased online purchases rather than visiting shops – with home deliveries greatly increasing even where stores such as supermarkets have remained open. This also can be linked to an extent with less travel to and from places of employment; with lunchtime and/or evening shopping close to the place of work or en-route home from work previously very convenient.
- Increased local purchases from food and drink outlets, including direct from farms – especially where these businesses have developed their online and delivery services.
- Increased cycling as a means of keeping fit and a substitute for car travel further afield which has been discouraged. Cycling has become more attractive, and to an extent safer, through reduced vehicle traffic on roads.
- Increased charitable work in local communities – with elderly and vulnerable people supported through food and medicine deliveries, and care services (where these have been possible with social distancing).
- Mental health issues which have affected single people and the elderly not able to access company, other people frustrated by the lack of social interaction opportunities, and young people obliged to continue their education at home (and/or their family members) – often due to limited capacity for home schooling.

2.7 This report identifies the opportunities that will become available in the Highlands and Islands where these trends do continue into the medium and longer term, and the constraints that will need to be overcome to take advantage of these opportunities.

2.8 There will be continuing opportunities to tap into national initiatives that are designed to help sectors and areas to recover from the negative impacts of Covid. For example, a £230 million stimulus package was announced by the Scottish Government in June 2020, which included a £2 million Islands Green Recovery Programme. This was split into strands to deliver investment in active and low carbon transport, food sustainability, and zero waste projects. In December, 21 initiatives were selected to benefit from the £900,000 community strand of the project – including a community seaweed farm on Skye and a shared eco laundry facility to be established by a Lewis guest house.

### 3. COVID-RELATED IMPACTS TO-DATE

- 3.1 Available data are provided below to help quantify the different negative impacts due to Covid that have been evident in the Highlands and Islands since March 2020. The reduction in economic activity related to tourism and hospitality has been the most prominent impact to-date in most parts of the region; and, to an extent, this has related to the favourable relatively lower rate of infections in the region compared with Scotland and the UK as a whole, with the following factors particularly relevant:
- The lockdown in March 2020 preceded the tourism season in the region; with a resulting lower rate of infections from visitors from the rest of the UK and overseas than might have applied had the pandemic in the UK taken hold during the summer.
  - Domestic tourism recovered to an extent in the second half of the summer when infection rates nationally had reduced considerably from their earlier peak.
  - Tourism and family gatherings were discouraged at Christmas and the New Year when the region normally has a winter peak which helps businesses achieve overall annual turnovers which contribute to their viability and ability to stay open year-round.
- 3.2 As illustrated by a recent spike in infections in the Outer Hebrides, with c50 cases and seven people having required to be air-lifted for mainland hospitalisation by 27 January from the islands of Barra and Vatersay with a population of c1,200, the region has been fortunate in the main not to have experienced the levels of demand for hospital facilities and home treatment which in dispersed rural areas would have impacted on its health provision proportionately more than in most parts of the UK. For example, as at 11 January 2021, NHS Highland had 13 hospital cases and spare capacity of 134 beds compared with a total across Scotland's other ten main health boards of 1,647 cases and spare capacity of just 570 beds. Within this total, Dumfries & Galloway had 45 cases and spare capacity of 23 beds – a better ratio than the other health board areas excluding Highland (although there has been a more recent spike in Dumfries & Galloway).
- 3.3 Similarly, vaccinations have been relatively high in the Highlands and Islands. By February 11<sup>th</sup> 2021, the Outer Hebrides had the highest proportion of its population vaccinated of Scotland's health board areas, Orkney the second highest, and Shetland the fourth highest (with Dumfries & Galloway the third highest).

#### **Unemployment**

- 3.4 Nationally, the rate of unemployment has been less indicative of economic activity decline than prior to the pandemic due to Government support provided to sustain employment through payments to employers to "furlough" staff (i.e. pay them to stay at home) rather than lay them off, various grants and loans to businesses of different types to help them to survive, and incentives that reduce the costs of certain purchases to consumers. This has been a complex pattern, and some employers have had to wait longer than others for support for their size or type of business, whilst others have not (at least yet) received any support.
- 3.5 Relative unemployment rates, and changes in these over time, are nevertheless still useful indicators of how particular areas have fared, and constituent Highlands and Islands areas since January 2019 are compared below with those in Scotland as a whole.



	<b>2019 Monthly Average Jan-Nov</b>	<b>2020 Monthly Average Jan-Nov</b>	<b>% Increase</b>	<b>% Increase March-Nov 2020</b>
Caithness & Sutherland and Ross & Cromarty	1,639	2,724	+66%	+88%
Inverness & Nairn and Moray, Badenoch & Strathspey	2,944	5,413	+84%	+114%
Lochaber, Skye & Lochalsh, Arran & Cumraes, and Argyll & Bute	1,490	3,256	+119%	+156%
Outer Hebrides	331	719	+117%	+144%
Orkney Islands	177	339	+92%	+123%
Shetland Islands	202	431	+113%	+142%
<b>Highlands and Islands</b>	<b>6,783</b>	<b>12,883</b>	<b>+90%</b>	<b>+120%</b>
<b>Scotland</b>	<b>107,856</b>	<b>185,300</b>	<b>+72%</b>	<b>+96%</b>

3.6 Both between January to November 2019 and January to November 2020, and between March and November 2020, the unemployment rate in the Highlands and Islands increased significantly more in the Highlands and Islands than in Scotland as a whole – with the highest increases in the west of the Highlands and Islands (which is relatively most tourism dependent), the Outer Hebrides, Shetland & Orkney; and with only the rates in the Caithness & Sutherland and Ross & Cromarty area having lower percentage increases than in Scotland.

3.7 The table below shows the electoral wards in Highland Region with the highest increases in unemployment since April 2020 – with a clear relationship between these increases and the importance of tourism in these areas.

<b>Highest % Change in Highland Unemployment</b>			
<b>Electoral Ward</b>	<b>2019 Average</b>	<b>Post 04/20 Average</b>	<b>% Increase</b>
Eilean `Chò (Skye)	1.3	6.4	401.1%
Badenoch & Strathspey	1.3	4.6	248.4%
Wester Ross, Strathpeffer and Lochalsh	1.7	5.8	237.8%
Inverness South	1.0	3.2	212.1%
Caol and Mallaig	1.9	5.8	199.2%
Fort William & Ardnamurchan	2.5	6.1	140.8%
North, West & Central Sutherland	2.7	6.3	134.9%

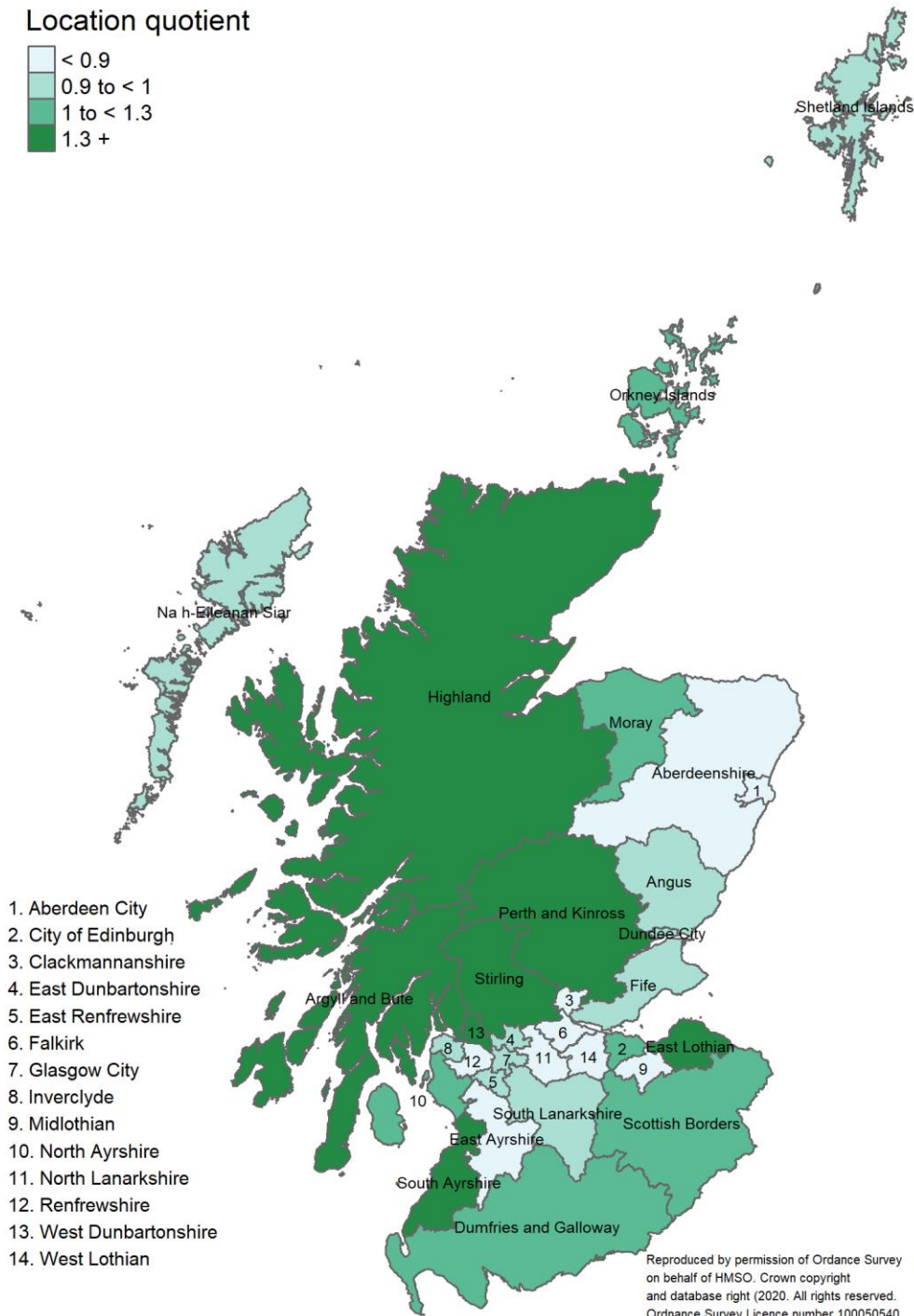
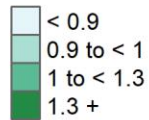
3.8 Within Skye, North West Skye experienced the largest increase in Universal Credit claims in Highland between March and December 2020 (+185% from 64 to 183), with the claimant number in South Skye increasing from 105 to 251, and in Skye North East from 148 to 247.

3.9 Between March and October 2020, the number of young people aged 16-24 seeking work in Highland increased from 768 to 1,430 (+86%), and could rise to around 2,200 by the spring according to pro-rated Bank of England forecasts. This total excludes 2020 graduates who will have stayed in their place of study (e.g. Aberdeen, Glasgow or Edinburgh) to seek work rather than coming home with no work available. Unemployment rates (possibly for at least another year) will be particularly high amongst new school, college and university leavers – with recruitment by employers expected to stay at low levels.

## Tourism Hotspots

3.10 The Scottish Government’s Sustainable Tourism Growth Sector heatmap highlights Argyll & Bute and Highland as two of the highest employment areas in Scotland in this sector (with Dumfries & Galloway also having high dependence). The relative dependencies of the different parts of Scotland are shown on the map below. The location quotient shows the extent to which an area is below (less than 1) or above (higher than 1) the Scotland average for tourism-related employment.

### Location quotient



3.11 The following areas are the ten highest for the percentage of employment in the Sustainable Tourism Growth Sector in the Highlands and Islands in 2019.

Sustainable Tourism Employment in H&I			
	Total Employment	Total Tourism Employment	% of Total Employment
Oban North and Lorn ( <i>Argyll &amp; Islands</i> )	4,020	1,535	38.2%
Badenoch and Strathspey ( <i>Highland</i> )	6,700	2,530	37.8%
Cowal ( <i>Argyll &amp; Islands</i> )	2,640	810	30.7%
Wester Ross, Strathpeffer and Lochalsh ( <i>Highland</i> )	4,950	1,505	30.4%
East Sutherland and Edderton ( <i>Highland</i> )	3,190	965	30.3%
Fort William and Ardnamurchan ( <i>Highland</i> )	7,190	2,155	30.0%
Eilean ` Ch`o ( <i>Highland</i> )	5,410	1,445	26.7%
Aird and Loch Ness ( <i>Highland</i> )	3,430	885	25.8%
West Mainland ( <i>Orkney</i> )	840	215	25.6%
North, West and Central Sutherland ( <i>Highland</i> )	2,270	580	25.6%

### The Vulnerability Index

3.12 This index, compiled by Oxford Economics who are contracted to Skills Development Scotland (SDS), covering economic diversity, business environment and digital connectivity, indicates an area's ability to withstand and respond to Covid economic shocks. All of the six Highlands and Islands Local Authority areas are in the 12 most vulnerable in Great Britain, including Argyll & Bute (1<sup>st</sup>) and Orkney (2<sup>nd</sup>) – with low digital connectivity implications the main factor for all six areas. Dumfries & Galloway is the 5<sup>th</sup> most vulnerable area.

### Job Postings

3.13 These were 36% lower in the Highlands and Islands in Week 48 of 2020 than in the same week in 2019 (with Scotland postings 27% lower). Job postings of 24,600 in the Highlands and Islands up to end November 2020 were highest for nurses (1,829), care workers and home carers (1,592) and cleaners and domestics (800). The greatest number of postings in Dumfries & Galloway over the period were for nurses (520), care workers and home carers (252), cleaners and domestics (146), primary and nursery education teachers (132), and medical practitioners (122). Across the areas, van drivers have been in high demand.

### Reduced Categories of Employment

3.14 Tourism-related jobs, as identified in national surveys, are concentrated in the accommodation, food & drink, and leisure, arts and entertainment sectors; with retailing in many parts of the Highlands and Islands also relatively highly tourism-dependent. The regional supply chains for these businesses can also provide important employment in local areas – including transport providers, agricultural and fishing businesses, builders, craft producers and a range of professional and other service providers.

3.15 Air services to and from (and within) the Highlands and Islands are also very dependent on tourism (inward and outbound) and business visits; and these have been substantially reduced. Passenger numbers using Highlands and Islands Airports Limited airports between April and November 2020, 285,940, was down from 1.2 million over the same period in 2019 – a reduction of almost 78%. Inverness Airport suffered the largest drop; down, for example, from 62,410 in November 2019 to 4,972 in November 2020 (-92.1%).

- 3.16 Self-employment is relatively high in the Highlands and Islands in a range of sectors, with a total of 35,000 people self-employed in 2019 – of whom 29,000 (83%) do not have employees (who could have been furloughed). This rate of self-employment (15.5% of the region’s workforce) compares with 12.4% of the Scotland workforce.
- 3.17 As at September 2020, the Highland Council area had Scotland’s highest proportion of its workforce furloughed (i.e. laid off temporarily by employers with Government payment towards their earnings) – 35%; with Moray the second highest at 34%.
- 3.18 An online survey by the Federation of Small Businesses of 1,200 business owners and the self-employed in Highland between the 13<sup>th</sup> and 18<sup>th</sup> of January 2021 found that 54% were closed – 45% by law and 9% voluntarily, 35% were struggling to stay afloat, and a further 33% had experienced a fall in sales and profits. Almost a half were concerned about their ability to survive for the next few months. This 54% of Highland businesses that were closed compared with 27% in Glasgow and Edinburgh combined.
- 3.19 HIE’s Business Panel Survey (reported in December 2020) found that tourism and creative industries businesses were most negatively impacted by Covid.
- 3.20 A report by the Scottish Government in December 2020 (Covid-19 impacts on Scotland’s economy) highlighted that there have been disproportionate negative impacts on low paid workers, children and young people, older adults, households on low income or in poverty, disabled people, women and ethnic minority groups. Where these groups overlap, impacts will be particularly severe.
- 3.21 Public sector employment is relatively important in the Highlands and Islands, and this has helped to protect its employment level over the past year; with the effects from loss of trade due to Covid and related restrictions falling mainly on the private sector. In 2019, the sectors of the Highlands and Islands economy that incorporate the principal public sector services – human health and social work activities (15%), education (7%) and public administration (6%) – together totalled 28% of all employment.
- 3.22 A report produced in 2011 for the Highland Public Services Partnership on Public Sector Employment in the Highland Council area found, from a comprehensive survey of spending and employment, that public sector dependent employment (including construction work, supply chains, etc) represented 47% of the region’s full-time equivalent employment in 2009/10. This proportion will have reduced over the past ten years through the austerity that has been required in the UK to help its economy to recover from the recession, but the importance of public sector spending on the employment structure of the Highlands and Islands as a whole remains dominant; with tourism & hospitality the major source of private sector employment (possibly accounting for c20% of all employment in the region).

## 4. THE DEMOGRAPHIC BASELINE

4.1 The table below shows the relatively low proportions of the 16-64 populations of the Highlands and Islands by area compared with Scotland, and the corresponding high proportion of people aged 65+

	Total	Aged 0-15		Aged 16-64		Aged 65+	
		No.	%	No.	%	No.	%
<b>Highland</b>	<b>235,830</b>	39,039	16.6%	143,706	60.9%	53,088	22.5%
<b>Moray</b>	<b>95,820</b>	16,145	16.8%	58,959	61.5%	20,716	21.6%
<b>Argyll &amp; Islands</b>	<b>67,613</b>	9,923	14.7%	40,169	59.4%	17,521	25.9%
<b>Eilean Siar</b>	<b>26,720</b>	4,254	15.9%	15,571	58.3%	6,895	25.8%
<b>Shetland</b>	<b>22,920</b>	4,198	18.3%	14,036	61.2%	4,686	20.4%
<b>Orkney</b>	<b>22,270</b>	3,582	16.1%	13,382	60.1%	5,306	23.8%
<b>Highlands &amp; Islands</b>	<b>469,441</b>	76,868	16.4%	283,646	60.4%	108,927	23.2%
<b>Scotland</b>	<b>5,463,300</b>	921,397	16.9%	3,497,758	64.0%	1,044,145	19.1%
<b>Dumfries &amp; Galloway</b>	<b>148,860</b>	23,243	15.6%	87,047	58.5%	38,570	25.9%

Source: Mid-2019 Population Estimates

4.2 The main factors behind this are:

- Young people leaving the area to attend University (and to a lesser extent Further Education colleges outside the region), and often staying away when they begin their working careers. This can lead to them staying away for an extended period, possibly with children; although a number come back to the region later in life, including those who inherit properties, croft houses, etc.
- Other young and middle aged people who leave the area because of not being able to progress their careers in the Highlands and Islands after their initial work experience; or not finding alternative work if their jobs are lost (e.g. through the closure of a major local employer).
- People moving to the region later in life for retirement or early retirement, who might have sold their homes for more than a better house costs in the region, and/or might have previously bought a property in the region as a second home – in some cases (and increasingly) letting this through Airbnb or another mechanism.
- Longevity (a positive factor), which puts pressure on health and care services, whilst creating care work opportunities (which tend to be low paid).

4.3 Work carried out for the Islands Deal (which is progressing and is expected to bring in at least £100 million of additional funding from the UK and Scottish Governments combined) highlighted the long term implications shown in the table below for the islands' working populations of the continuation of recent age structure trends.

	To 2031	To 2041
Outer Hebrides	-9.7%	-20.0%
Orkney	-2.2%	-9.6%
Shetland	-2.3%	-7.8%
<b>Scotland</b>	<b>+3.5%</b>	<b>+1.1%</b>

- 4.4 23.4% of the Outer Hebrides’ population in 2018 were aged 16-40, which compared with a Scotland average of 31.9%. By 2031 this was projected to reduce to 22.3% within an overall expected population decrease of 2,046 between 2016 and 2031.
- 4.5 Interestingly, the ratios of young people to total populations are relatively high in and around Stornoway in the Outer Hebrides, Lerwick/Scalloway in Shetland, and Kirkwall and Stromness in Orkney. The focus of further education through the UHI in these population centres appears to be the main explanation for this, with many further education completers staying in these towns to work after their courses.
- 4.6 Conversely, there are much lower 16-40 ratios in many outlying areas than the island averages. In the Outer Hebrides, 6 of the 36 datazones had less than 20% of their populations aged 16-40 in 2018, with a total population in these datazone areas of 4,098 as shown below.

	<b>Total 16-40 Population</b>	<b>% of Total Population</b>
Barra & South Uist	451	18.2
Benbecula & North Uist	883	18.8
Harris	869	17.1
South Lewis	735	16.1
Northwest Lewis - 01	444	18.0
Northwest Lewis - 04	716	18.2

- 4.7 In Orkney, 5 of the Isles datazones with a total population of 3,744 had 16-40 populations below 20%. Population decline in a number of islands in the region has also been a continuing issue, with implications for the future viability of such areas. In North Ronaldsay, the population has steadily fallen from 161 in 1961 to 51 in 2019, and the island had twice as many people aged 65+ as aged 45-64 in 2011.

## 5. FUTURE IMPACTS

- 5.1 The main factors that will influence the longer term economic impacts in the Highlands and Islands attributable to the Covid virus and the measures put in place by the UK and Scottish Governments to limit its spread since March 2020 are considered to be:

- How quickly and in what ways the region’s key **tourism** sector recovers. It now seems unlikely that incoming tourism from outside the UK will be of significant scale in 2021 – although in the second half of the summer, visitors from particular countries might be welcomed, and there might be a degree of business tourism in the second half of the year. Domestic tourism (“staycations”), with people probably still not able to visit many (or most) other countries, could be relatively strong from mid-year after people have more immunity following vaccinations and travel within the UK is less restricted – although the challenge will be to encourage as high a spend per head as by the typical overseas visitor, with many peoples’ incomes having reduced and some tourism-related businesses in the region in particular local areas having closed – reducing spending opportunities.

Cruise visits by the elderly are likely to take longer to recover, and it could be a number of years (if ever) before these return to the high levels which they have built up to at ports including Invergordon, Kirkwall and Lerwick. A steady re-establishment of this tourist market could,

nevertheless, help in limiting the problem that has become evident in recent years of certain sites being over-crowded at times and cruise boat visitors often not spending as much as the average tourist.

- The extent to which people continue to **work** by choice mainly (or partially) **from home** rather than at their offices (including public sector staff). The effects of this trend would include:
  - i. Reduced demand for retailing and catering services in main centres; with retailers likely also to face continuing growth in online shopping and needing to focus increasingly on online sales.
  - ii. Increasing demand for residential property with office space.
  - iii. Less busy roads into and out of towns and the city of Inverness, reducing commuting times and contributing to reduced carbon emissions.
  - iv. More time over the week for local leisure activities, and, potentially, community voluntary work.
  - v. Over time, more business starts by people keen and able to work entirely from home, with opportunities for meeting and socialising spaces to be provided at local hubs (e.g. at community centres).
- The time it will take for **job opportunities for young people**, including graduates, to recover. Without further Government incentives for businesses to take on young people or for young people to become self-employed, unemployment amongst young people could stay high for a number of years (which occurred in a number of European countries after the last international recession).
- The rate of **house building** in the region, or repurposing of other properties (e.g. empty shops) for residential use, and the affordability of these for people in or seeking to join the region's workforce; with the opportunity through new and refurbished housing to increase resilience through energy efficiency reducing fuel poverty (which is relatively high in many areas). The higher demand for properties in rural areas and smaller towns that has been evident over the past year could, however, increasingly give parts of the Highlands and Islands comparable problems to those that Cornwall has experienced – with high house prices for local people combining with increases in low paid work opportunities in care, retailing, etc generated by an incoming and often elderly population.
- The extent to which the work that had been carried out by **migrant workers** from the EU is instead taken up by young people in local areas – in low paid agricultural work, hospitality, care, health services, outdoor labouring, etc. It will be interesting to see whether the trend for young people in Scotland to avoid outdoor work reverses – with potential health benefits where they spend most of the rest of their time online, watching television, or playing computer games.
- How far the community empowerment being promoted by the Scottish Government and some local authorities leads to more **local community enterprise** – in commercial activities with profits supporting local needs, as well as activities that directly support wellbeing in communities. Highlands and Islands Enterprise could increasingly provide grants for investments by community enterprises where employment is being created.
- The extent to which people are keen and able to **retrain** as they move through their careers – enabling them to stay in their local areas as work opportunities evolve, and start businesses (individually or in partnerships) as their experience grows.

- The speed at which **improved connectivity** is achieved in outlying areas – enabling people to work more effectively from home, and to enable them to receive, create and communicate technical material online.
- The extent to which health and care services in outlying areas evolve to support **healthy ageing**; with a potential increase in voluntary activity prompted by peoples’ experiences over the past year and their greater appreciation of the needs of the elderly and socially isolated.

5.2 In Section 6 below, ways in which policy action and community initiatives might maximise opportunities relating to the above themes are put forward.

### **The Region’s Wider Growth Potential**

5.3 The most promising opportunities for the region and its constituent areas that are relatively unrelated to the impacts that are attributable to Covid can be summarised as follows:

- **Offshore wind** development (fixed and floating) – with increasing opportunities for manufacture, assembly, and installation supply chains in the Highlands and Islands, and for operations and maintenance from ports in the region.
- Further **onshore wind and hydro-power** developments – with scope for community (or shared) ownership and increases in community benefit receipts, and to facilitate relatively substantial economic and social developments that this funding can support. Community renewable energy is well supported by Scottish Government, HIE, Local Energy Scotland, and Social Investment Scotland (which can provide loan finance). In the Outer Hebrides, an inter-connector to the mainland would unlock substantial opportunities and have a transformational impact.
- Investments in other technologies that help the UK and Scotland to meet **zero carbon** targets – including the production, storage and use for heating and transport of hydrogen.
- Increased large and smaller scale **forestry** planting in suitable parts of the area, with scope for local timber production and its use for building, heating and value added products; together with peatlands protection and regeneration
- Increased **aquaculture** production and employment through investment in sites – with substantial growth opportunities in salmon, trout, shellfish and seaweed; and scope for high quality local value added food products.
- Further investment by **UHI and support funders** in institutes that create well paid employment for graduates and others.
- **Health care products and services** – building on the cluster in Inverness; with professional service delivery posts increasing where volunteer working time grows and their management is required.
- **Construction** employment related to new and improved infrastructure and housing related to an increasing population (with a re-balancing within Scotland of residence away from urban centres which can no longer support major industrial employment).
- Employment generated through the major projects that are being supported by the UK and Scottish Government through **Deals** – with the Highland Deal underway, and Deals progressing in Moray, Argyll & Bute, and the Islands (Orkney, Shetland and the Outer Hebrides).

5.4 Taken together, the above opportunities should give the Highlands and Islands a future employment demand that will enable its population to continue to increase – although policy will need to ensure that fragile rural and remote areas share in growth. With prospects for major offshore wind-related



investments and other proposed developments in the Cromarty Firth area, East Ross could substantially increase its employment; with potential through house building for significant related population increase.

## Risks

5.5 Nationally, the main risks over the next 1-2 years are that:

- There will be a more major **recession** as expensive business and employment support schemes wind down.
- **Inflation** will increase through the UK Government's fiscal policies to deal with public debt as it tries to stimulate the economy post-Covid; with **increased corporate tax rates** also a possibility.
- **Trade arrangements**, both with EU countries and other countries worldwide, will leave the UK in a worse economic situation than it had with EU membership.
- Without EU subsidies, the UK's **agricultural sector** will become less competitive, with productivity investment discouraged – although the Scottish Government, in its January 2021 budget, is providing £800 million in agricultural support.
- The effects on **young people's education** from closing schools and reducing live further and higher education courses will have a negative impact on the affected cohort.
- Production costs for businesses in certain sectors will rise without cheap **migrant labour** leading to these becoming uncompetitive nationally and internationally.

## 6. DEVELOPMENTS THAT WOULD LIMIT THE NEGATIVE IMPACTS FROM COVID AND CAPTURE BENEFITS FROM OPPORTUNITIES IN THE CHANGED ENVIRONMENT

6.1 The principal needs and opportunities across the Highlands and Islands that new initiatives could help to address include:

- i. Increasing average earnings in the context of continuing reduction in previously relatively well paid public sector jobs.
- ii. Improving age structure in those areas where there is currently an imbalance towards older people, which is tending to increase.
- iii. Achieving a more balanced tourism economy across the year with higher visitor spending and an increase in better paid occupations.
- iv. Adding value to primary production in local areas and sub-regions – protecting the primary production as well as creating employment through producing high quality products; with healthier eating benefits in addition.
- v. Stemming (or reversing) the decline of High Streets and individual shops in rural locations due to increased online purchases by consumers, which has rapidly accelerated in the past year.
- vi. House building, extensions, and adaptations to existing houses or other property to meet tomorrow's requirements – including an increase in home working.

- vii. Encouraging more young people to consider self-employment – either specialising in work that can offer increasing earnings as experience and contacts are built up, or pursuing a range of complementary occupations that together provide a good living (occupational pluralism).
- viii. Mechanisms that cement and build on the gains that have been made in local areas through increased local purchasing.
- ix. Increased community land and property ownership, with greater scope than under private ownership for making land available for affordable housing and other developments at lower than commercial prices (including self-build); and charitable community enterprises more able to attract Government, Lottery and business charity grants than local authorities and other public bodies.
- x. More ownership of renewable energy installations to generate significant annual income to support major projects through contributions towards their capital development costs (leveraging other funding), and operational costs where required. This could be through sole ownership by community trusts of smaller installations (e.g. single wind turbines) or shared ownership with commercial partners of larger scale installations. A recent example is the launch of a £650,000 community share issue to help build two hydro schemes on the island of Raasay (population c170).
- xi. Meeting increasing needs of older people in their own homes where care homes are not a preferred option or locally available.
- xii. Young people who are computer-literate and experienced online recruited to assist business owners from an earlier generation who are not maximising their online potential or diversifying sufficiently – including links with suppliers, customers and suppliers nationally and internationally.
- xiii. Collaborations that accelerate the availability of high speed internet connections in local areas.

6.2 Specific adaptations, innovations and other measures in sectors and local communities that would increase resilience, promote future employment growth, and provide opportunities for young people to improve local demographic structures include the following:

- Activities by community development organisations which increasingly relate to, and bring in external funding for, sustainable small business development geared to local workforces and young people who could be attracted to relocate to areas with fragile economies. Advice from experienced retired people to those starting businesses or scaling up could be more actively encouraged by local development organisations. Community hubs in an increasing number of communities are providing space and facilities for new business activities and training, and, through national and other funding programmes, are often developed in and save disused buildings of local historical value.
- Collaborations between primary food and drink producers, value added businesses, and local/regional distribution mechanisms that lead to overall employment growth in local areas and sub-regions through increased production value and wider marketing. The extended period since March 2020 with many retail outlets closed for periods and vulnerable people and those who live with them reluctant to visit supermarkets and other shops that are open has encouraged businesses with online ordering capability to stretch their supplies across local complementary businesses (e.g. to supply meat, bakery products, fruit and vegetables, milk, etc in single deliveries); and this should help a range of suppliers, and their own local and regional suppliers, to continue to reach wider markets than pre-Covid once competition from larger shops becomes

stiffer. Indeed, they have a platform to expand further through increased diversification and geographical compass.

In just six months, isle20, a social enterprise based on the island of Tiree, has built up a listing of 467 businesses, with 97 people selling more than 1,000 products on isle20, and with 27 islands represented.

- Support, encouragement and mentoring for young people who become self-employed in local areas through providing services to businesses from their home or a local base regionally, nationally and internationally – with a focus on activities that can provide them with a relatively good income, and with scope for increased future income from developing and widening their expertise and partnerships with complementary self-employed people and small businesses locally, nationally and internationally.
- Financial support from agencies through targeted programmes towards new value added activities that enable individuals and families to pursue occupational pluralism across the year – particularly in areas with small populations where this model has always been important to stem population decline.
- Building affordable clusters of houses in local areas with office and workshop spaces that enable efficient home working and give young people and families opportunities to mix both through their economic activities and socially – with plot or housing allocations geared towards this. Also, increased affordable housing in areas where employers (e.g. tourism businesses) have in recent years needed to rely on migrant workers would help in the transition to local sustainable employment in such areas.
- Services, provided in advance of or during their visits, that encourage tourists to spend more on leisure, cultural or other activities than currently through arrangements with activity providers and increased advanced bookings (“curated holidays”). An example is the “concierge” service provided by Natural Retreats linked to their accommodation at Lews Castle in Stornoway and their properties at John O’Groats – with bookings for activities made for them in advance of visits or while guests are in the area (potentially with commission).
- New community businesses (possibly charitable) set up or facilitated by community development organisations that provide opportunities for generations to work together; additional income opportunities for retired people still able and keen to work for variable numbers of hours; and new skill sets for people, with training assistance provided or arranged with educational institutions (including the UHI) and sectoral support organisations (e.g. for sustainable agricultural activities).
- Increased integration of older people in local areas, whether living at home or in care homes, through activities set up by or involving young people, sport and leisure providers, cultural arts and events organisations, and volunteers who can facilitate such activities (as supportive individuals or members of relevant organisations and clubs).
- Improved health and care services in outlying areas through the increased application of online mechanisms; with younger computer-literate people helping older people (including those with dementia) to take advantage of these.
- New production and trading partnerships between individual businesses, groups of businesses, and development trusts in the Highlands and Islands and others elsewhere in the region, Scotland, the UK and overseas.

6.3 All of the above activities could be encouraged and facilitated by local voluntary development organisations with inputs from people with relevant professional experience, young people with

online skills, and funded development support officers. An umbrella organisation with a remit to encourage development organisations to become established across all parts of the Highlands and Islands (and other rural areas in Scotland) or expand their scope would be a good way forward.

- 6.4 DTAS (Development Trusts Association Scotland) has a national role “to inform, support and represent its network of development trusts – facilitating the sharing of knowledge and expertise and encouraging mutualism and co-operation”. Currently, 104 of its 309 member organisations are in the Highlands and Islands, with many of the other 205 in relatively highly populated areas. Thus, although DTAS could support a new Highlands and Islands-wide organisation, a more focused effort for the region is recommended.
- 6.5 A report by the Development Trusts Association (“Bearing fruit”), which looked at seven rural and semi-rural development trusts in England that had successfully developed and managed community assets, found the following specific characteristics underlying this success:
- Bridging the gap between service delivery and policy development
  - Working with the market
  - A commitment to quality
  - Accountability
  - Ambition and passion
  - Inspiring champions
  - Investing in networks
  - Embracing change
  - Embracing risk
  - Sharing responsibilities
- 6.6 A new vehicle for bringing in and distributing funding towards enhanced activities in the Highlands and Islands and other rural areas in Scotland (directly or via existing local development trusts) could be set up to receive funding from developers of **offshore wind** where the turbines are out to sea and there isn’t one particular local area that might receive community benefit payments to compensate for the visual intrusion as with onshore turbine projects. Fixed and floating turbine developments through the forthcoming Crown Estates Scotland Scotwind leasing round are expected to have capital costs well in excess of £20 billion, plus more than £10 billion in operational costs over 30 years – with operations and maintenance generating substantial economic benefits in harbours in Scotland that are developed as supply bases.
- 6.7 A desirable outcome from the acknowledgement by many people in the UK that the response in the country to the pandemic was adversely affected by inadequate resourcing of its public health services would be for there to be support for greater spending in the future on health and care services by both the UK and Scottish Governments as the population ages. With the region’s relatively elderly demographic structure, this would be particularly welcome in the Highlands and Islands – with the creation of **health and care jobs** in outlying areas that might be part-time and would contribute to family occupational pluralism, and enable older people to stay in their communities rather than moving into care homes that tend (for viability) to be in more populated areas.

## **7. COVID IMPACT AND STRATEGIC RESPONSE DOCUMENTS OF PARTICULAR RELEVANCE**

7.1 These include the following:

### **National**

- Business insights and impacts on the UK – Office for National Statistics (11 February 2021)
- Covid-19 impact on Scotland’s economy – State of the Economy Report by the Scottish Government’s Chief Economist (April 2020)
- Scotland’s Wellbeing: The Impact of Covid-19 – Scottish Government (19 December 2020)
- Scottish Government Budget Statement 2021-22 (28 January 2021)
- Scotland’s Fiscal Outlook – The Scottish Government’s Medium-Term Financial Strategy (January 2021)
- COVID-19 Labour Market Insights – Skills Development Scotland ; with detailed Skills Assessments also available for 16 sectors of Scotland’s economy and for its regions – including the Highlands & Islands and Dumfries & Galloway (January 2021)

### **Highlands and Islands**

- HIE Business Planning Survey – Wave 17 – Looking beyond COVID-19 (21 December 2020)
- The Impact of COVID-19 on the Highlands and Islands (including sub-regional analysis) – HIE (16 September 2020)
- HIE Response to the Scottish Government’s Advisory Group on Economic Recovery – 31 May 2020
- Young People and the Highlands and Islands: Maximising Opportunities (31 March 2018)
- Young Islander’s Challenge issued by the Scottish Government for Responses by Young Islanders by 20 March 2021

### **Local Authority Areas**

- Highland Council Recovery Board Recovery Action Plan: Phase 3 (25 January 2021)
- Highland Council Economy & Infrastructure Committee Economic Recovery Strategy Update (4 February 2021)
- Highland Council, Highland Labour Market (17 December 2020)
- ASPIRE Orkney – Orkney Islands Council Economic Recovery Steering Group (25 November 2020)
- Our Ambition 2021-26 – Shetland Islands Council; Working together for a positive and sustainable future – including COVID-19 recovery and renewal (16 December 2020)
- Comhairle Nan Eilean Siar Corporate Strategy 2020-2022: Recovery & Renewal
- Multi-million pound recovery plan for Moray (£3.84 million over 3 years) – Moray Council (28 September 2020)
- Argyll & Bute Council Economic Recovery Plan (11 June 2020)
- COVID-19 Business Support Funds Update – Dumfries & Galloway Council (26 January 2021)
- Economic Recovery Plan – Skills, Employment & Inclusion Update on Young Persons’ Employability – Dumfries & Galloway Council Economy & Resources Committee (26 January 2021)