

The Highland Council

26 June 2014

Agenda Item	15
Report No	HC/10/14

Highland Economic Update

Report by Director of Development and Infrastructure

Summary

This report gives an update on the Highland economy and a brief sectoral overview and concludes that there is good reason to be positive about the future prospects of the Highland economy.

1 Economic Outlook

1.1 In its Inflation Report for May 2014 the Bank of England reported that,

“The UK economy has performed strongly over the past year. Output is estimated to have grown by over 3% in the year to 2014 Q1. Inflation has fallen back close to the 2% target. And the unemployment rate has declined to its lowest level for over five years..... A gradual strengthening in productivity and real incomes, together with growing confidence of companies to invest, should underpin the durability of the expansion.”

1.2 The Fraser of Allander Institute, University of Strathclyde in its March 2014 Economic Summary, concluded that,

“The latest economic data provide further evidence of a strengthening recovery. Positive growth has now been recorded for the Scottish economy in the last six quarters...”

Overall the pace of the recovery in the Scottish economy is accelerating and becoming more broadly based than previously. However, for some sectors trading conditions are still harsh suggesting that the recovery remains fragile and policy action may be required to ensure that it is sustainable ...

After six years since the start of the Great Recession we are now witnessing a stronger recovery, although weaker than almost all previous recovers from recession. There is room for considerable optimism but there are also reasons to be cautious about the future path of the recovery”

1.3 The EY Scottish ITEM Club report released on 16 June states that growth of 2.4% is predicted for the Scottish economy in 2014, an increase from its original forecast of 1.7%. These estimates, together with growing employment, positive sectoral developments and increasing business confidence, all indicate that the Scottish and Highland economies are on the path of economic recovery.

1.4 In its report to the May 2014 Highland Economic Forum, HIE reported on its recent business survey:

- 58% of business reported improved performance (up 20% over the past 18 months)
- 93% businesses are optimistic about the future (up 23% since 2012)
- 91% of business are anticipating further growth (up 17% since 2012)

HIE's recent update to the Highland Community Planning Partnership board estimated that 1600 jobs were forecast to be created through its support to business over 2013/14. This is well on target towards the 5000 jobs ambition set in the Single Outcome Agreement for 2012-17. Meanwhile Highland Opportunities Ltd business loans led to the creation/retention of 182 jobs in 2013/14, and Business Gateway assisted 250 business start-ups.

1.5 Unemployment across Highland has continued to reduce with unemployment (as measured by those individuals claiming Job Seekers Allowance) in April 2014 standing at 2678, a reduction of over 1000 in 12 months. While there remain 1070 long-term claimants, this has reduced by 465 since April 2013. Youth unemployment has also seen a positive drop, decreasing from 800 to 520 over the 12 months to April 2014. The Council has been active in addressing youth employment through a range of direct and indirect measures.

2 Creating the conditions for Growth and Jobs

2.1 Connectivity is vital if Highland is to be a globally competitive region. Digital connectivity is central to this and the desire to have a digital region sits alongside the continuing need to have good and improving transport connections by road, rail, ferry and air.

2.2 Superfast Broadband

Investment in infrastructure over the last couple of decades has seen Highland achieve good coverage (around 95%) of both basic broadband and 2G voice and text services. The current £146 million investment in fibre broadband heralds a new age of communication across Highland as it aims to provide Next Generation Broadband to 84% of premises throughout Highland by 2016. Such high-speed broadband has the potential to transform communities – changing how we do business, educate our children, and deliver public services. Further work by the Council and its partners will aim to ensure the high speed broadband network continues to expand.

2.3 Transport

Members will be aware that in the Working Together for the Highlands Programme 2012-2017, the Council has made a number of commitments to work with the UK and Scottish Governments and agencies, to deliver infrastructure projects to support employment and connect communities. While it will remain a continuing priority to secure investment wherever and whenever possible across the region and lobby, for example, on air links to

London, there have been a number of positive developments worthy of mention, for example:

- planned A9 dualling from Perth to Inverness by 2025 and A96 from Aberdeen to Inverness by 2030;
- rail investment in the Inverness to Aberdeen route with a new rail halt at Inverness Airport;
- new 15 year Caledonian Sleeper franchise and planned investment in new rolling stock;
- continued and planned investment at the region's ports: notably Invergordon, Nigg, Scrabster, Inverness, Kishorn, Ardersier, and Wick. Nigg and Scrabster have the added advantage of Enterprise Area status;
- continued and growing links to London with the securing of the key Gatwick route and opening of the London City route. A new international route to Dublin complements the Inverness-Amsterdam route; and
- Inverness airport is recognised as a national development in the draft National Planning Framework 3 which will be published to final form on 23 June.
- Wick/John O'Groats airport is attracting new services for the oil and gas sector.

3 Key Sector Overview

3.1 Seven sectors of the economy have been identified by the Scottish Government as offering particular growth potential. These are areas where Highland also has comparative advantage and where targeted support from the Council and its public sector partners can make a material difference to the rate of growth. The seven sectors are: Energy, Life Sciences, Food and Drink, Creative Industries, Sustainable Tourism, Financial and Business Services, and Universities. Other sectors such as forestry and construction are also locally significant. The care sector also continues to expand, responding to demographic change and funding opportunities, for example the expansion of childcare.

3.2 Energy

Highland has a long and successful history in the energy sector. Today, with the resurgent oil and gas sector, allied to significant investment in renewable energy and future opportunities in decommissioning, the future is positive with many business and job opportunities being directly provided in the sector or in its supply chain. Importantly these are skilled and well paid employment opportunities.

3.2.1 Recent developments at the Nigg Energy Park and its transformation from a former oil fabrication yard into a multi-use modern energy park, servicing the off-shore oil and gas sector together with renewables manufacturing, reflects these changing fortunes. The approval of the 86 MW Meygen Tidal Energy Plant in the Pentland Firth, and the two Offshore Moray Firth Windfarms (Beatrice and MORL) offers significant business and employment opportunities

for the Highland economy, both in terms of construction, and operation and maintenance. Skills initiatives will be increasing important in promoting growth of the energy sector in the Highlands, along with investment in infrastructure such as the ETEC facility at North Highland College UHI.

3.3 Life Sciences

The Inverness area has a growing life sciences sector and is home to Scotland's largest life sciences company - Lifescan Scotland Ltd (subsidiary of Johnson and Johnson). The companies involved in the sector specialise across a number of disciplines including medical devices and diagnostics, informatics, research, medical software and rural health. In recognition of the growth of the sector the NPF3 refers to the A96 Life Science corridor between Inverness and Elgin.

3.3.1 The Centre for Health Science and Inverness Campus are considered as key facilities for the sector and will house a diverse range of companies, academics and researchers who have a strong focus on support and collaboration. Inverness Campus has the added advantage of Enterprise Area status.

3.4 Food and Drink

Highland is home to some of the world's finest producers of both food and drink. It is a growing sector and there are significant opportunities on the back of strong forecasts for international demand, in new and emerging markets. Highland businesses are well placed to capitalise on the high quality of their products and the associated Highland authenticity and environmental quality. New investment in whisky distilling and salmon farming is testament to the global appeal of these sectors. The food and drink sector relies on local primary producers often located in fragile areas. The implications of CAP reform will need to be carefully monitored to ensure support reaches those farmers and crofters who most require it. The new Scottish Rural Development Programme will also be important in sustaining growth opportunities.

3.5 Creative Industries

The term "Creative Industries" is an umbrella term for a number of industries including music, screen, writing and publishing, crafts, textiles design, digital media. While typically the sector is characterised by small enterprises and often focused on the unique skills of individuals, it is a growing sector and is a particular strength of the Highland economy. New investment includes incubator facilities at Sabhal Mor Ostaig, Scotland's Gaelic College on Skye.

3.6 Sustainable Tourism

Tourism is the Highlands' most significant industry worth £913m (2012) generated from £740m of direct expenditure and a further £174m of indirect expenditure. This supports 20,000 jobs in Highland (14% of employment) as well as supporting a range of local services such as village shops or transport routes that may not be economical without the additional business that tourism brings.

3.6.1 The future development of the industry in Highland is guided by the industry led National Tourism Strategy (Tourism Scotland 2020) and the Highland Tourism Action Plan which details how the national strategy objectives can be delivered in the Highland area. The strategy and action plan both recognise that much the potential for growth comes from targeting specific tourism assets both individually and by encouraging collaboration across sectors to turn those assets into added value experiences. Six “assets” are identified as having real growth potential, namely:

- Activities & adventure
- Cruise
- Mountain biking
- Business Tourism
- Golf
- Sailing

Investment from both the public and private sectors is now predominantly focussed on developing these assets further. The examples of the redevelopment of John O’Groats by Natural Retreats and the new Inverness Loch Ness Tourism BID show how product development and collaboration are vital for the future of the sector.

3.7 Financial and Business Services

A key sector for Highland employment, Finance and Business Services now sustains many communities across Highland. The region has several advantages to offer the service sector such as reduced cost of property and overheads in comparison with many other Scottish areas and a skilled and talented workforce who are highly IT literate and who have a proven track record of results and levels of customer satisfaction. These advantages alongside increased connectivity across the region are improving the capacity of Highland businesses to provide the very best service available.

3.7.1 Companies such as ATOS, Capgemini, BT, and Fujitsu have ongoing commitments to the area. Over 500 new jobs are set to be created as multinational company Capgemini invest in their new Inverness centre at Cowan House, which was vacated by HIE.

3.8 Universities

Significant investment is being made into the future of College and University education in Highland with students able to access a range of higher national awards, vocational qualifications and both undergraduate and postgraduate degree courses. Allied to this UHI is continuing to develop areas of excellence in Gaelic language and culture, learning and teaching, history, archaeology, social policy studies, mountain studies and medical, psychiatric and environmental research.

3.8.1 The Inverness Campus is a key development, not only for the £50m new Inverness College UHI building which is currently on site and due to open in autumn 2015, but in that it will also offer opportunities for businesses and research including a hub for the Science Academy. Over the next 30 years it is expected that as the wider campus site of 90 hectares is developed, some 6000 jobs will be created.

3.8.2 The Kilbeg Village on Skye being developed by Sabhal Mor Ostaig shows how UHI is also reaching more remote and fragile parts of the Highlands. New student residences are also being promoted in Dornoch showing UHI's impact on smaller communities.

4 Summary

4.1 The economic overview, business survey, and sectoral reviews all point to a local economy which is growing and where there are good reasons to be optimistic for the future. Challenges remain, and for many parts of Highland this positive economic situation and future outlook is not shared. Therefore while efforts must continue not only to support such growth, action must also be directed to ensure that all parts of Highland can benefit from it. This includes fragile areas where the primary sector remains key and areas of multiple deprivation where skills initiatives and employability are fundamental. In addition, efforts will continue to attract new inward investment to the region through work with HIE and Scottish Development International, and to grow high value sectors to address lower than average earnings in traditional industries.

5 Implications

5.1 The Council's Programme commitments for the Highland economy all have a range of resource, legal, equalities, climate change/carbon clever, rural and risk implications for the Council and its partners. Overall however, economic growth brings opportunity and with it the capacity to positively address the challenges facing businesses, communities, and individuals alike.

Recommendation

Members are asked to consider the improving economic situation facing the Highland economy and note the positive developments and opportunities available to businesses and individuals across the region.

Designation: Director of Development and Infrastructure

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