

Agenda Item	5
Report No	RB/16/20

HIGHLAND COUNCIL

Committee: Recovery Board

Date: 7 October 2020

Report Title: Economic Recovery Strategy

Report By: Executive Chief Officer Infrastructure and Environment

1. Purpose/Executive Summary

- 1.1 The purpose of this report is to update the Board on the activity that has been carried out against the Economic Recovery Workstream since the last formal report. Further clarity on the economic challenges facing the region is set out for discussion, along with a progress report on the engagement that has taken place in drawing together the Economic recovery Plan.

2. Recommendations

2.1 Members are asked to:

1. Consider the latest contextual information available from Highlands & Islands Enterprise and Agree that the agency be invited to present to a future Recovery Board; and
2. Note the progress being made on setting out the key priorities for economic recovery.
3. Agree that a full report be prepared for the Economy and Infrastructure Committee on 4th November, setting out the Economic Recovery Strategy.

3. Implications

3.1 Resource: There will be resource implications to the delivery of economic recovery, but these will be regularly reported to the Council, strategic committees and the Recovery Board. Coordination and prioritisation of resources with partners is likely to put us in stronger position to lobby for national funds.

3.2 Legal: none

- 3.3 Community (Equality, Poverty and Rural): All work streams associated with the economic recovery task should have positive outcomes.
- 3.4 Climate Change / Carbon Clever: The Scottish Government has committed to ending Scotland's contribution to climate change by 2045 at the latest, and the public sector is legally required to support this ambition. To support this aim, the Scottish Government has established a Just Transition commission to advise Scottish Ministers on how to apply the Just Transition principles to Scotland. Whilst this work was commissioned and much of it undertaken prior to the outbreak of COVID-19, the principles could directly support economic recovery post-COVID-19, and ensure that Highland takes a lead in moving towards a net zero economic model.
- 3.5 Risk: All risk elements will be managed within each workstream.
- 3.6 Gaelic: This will be an important part of the culture/tourism element.

4. Current Economic Context

- 4.1 The impact of the COVID-19 crisis has been significant for the Highland economy and all sectors are feeling the impacts. Whilst the return to some form of normality for many sectors has been welcomed in recent weeks, the economic shock to the Highland economy, exacerbated by Brexit impacts, will be significant for some time to come.
- 4.2 A recent publication from Highlands and Islands Enterprise sets out some of the key impacts and prospects for the Highlands and Islands economy, and it is attached as **Appendix 1**. It sets out the impacts in terms of unemployment, including an increase in youth unemployment from 3.3% in July 2019 to 9.9% in July 2020. It also sets out the fact that the self employed sector has been more negatively affected by COVID-19 given amongst other reasons a higher proportion of this group working in at risk sectors.
- 4.3 The report effectively sets out the scale of the challenge for economic recovery, noting that the Highlands and Islands area is likely to take longer to recover than Scotland based on the greater impacts to date, a higher proportion of micro-businesses, a higher proportion of self-employed across some of the hardest hit sectors (construction, distribution, hotels and restaurants) and a greater proportion of businesses in sectors likely to be slowest to recover.
- 4.4 In addition to emphasising the need to collaborate and innovate, and to draw on the many strengths the region has, the HIE report concludes that there is a short term need to support:
- Business survival and recovery;
 - Tourism and hospitality and creative industries businesses in particular; and
 - Modern Apprenticeships, business recruitment and job retention to help young people and prevent out-migration.
- 4.5 Members are asked to note the report and to consider whether the report author be asked to the next Recovery Board to brief Members on the report in more detail and to set out the work being undertaken by HIE.

5. Highland Council Economic Recovery Activity

- 5.1 Council staff have been engaged heavily with economic recovery since the last report to the recovery Board in May 2020. Along with continued engagement with key economic delivery partners, a significant amount of work has gone into engaging with key stakeholders in terms of business support or identifying key recovery projects right across the area.
- 5.2 The first meeting of the Highland Economic Recovery Partnership took place on 8th July 2020, which was well attended by public sector partners, and business groups. The Terms of reference were agreed and a good discussion around immediate priorities was started. The next meeting is scheduled for later in October.
- 5.3 The distribution of the Crown Estates Revenue was agreed by Council on 11th October 2020, and this will be an important injection of finance into local projects throughout the area. In addition, Scottish Government recently announced further Town Centre Regeneration Funding amounting to a further £1m for Highland. Efforts continue to identify other funding opportunities that can be sought for economic recovery work.
- 5.4 This section of the report sets out some of the other key work strands that have been undertaken to support economic recovery. The Recovery Board is asked to note the progress being made.

6. Business and Employment Support

- 6.1 As members will have noted above, rising unemployment is of immediate concern, along with the worry that it will significantly increase if the current furlough scheme is not extended and the fact that the Highland economy due to its business size and sectoral structure, is particularly exposed. This increase in unemployment is in addition to pre-existing challenges facing many who are already disadvantaged, unemployed and living in poverty and who face particular barriers which stop them from working.
- 6.2 A significant response is required across Council and its partners to ensure that the most acute effects of the labour market crisis are mitigated and that, in particular, the 'scarring' effect on young people and the impact this may have on their future career opportunities and wellbeing does not take place.
- 6.3 In response to this challenge the Council has two specific roles:
1. The first relates to it taking a pro-active leadership role in the multi-agency response required and ensuring that clients are offered and receive the support services they need (notwithstanding who provides these services) to enable them to prepare for and access the labour market.
 2. The second, relates to the job and work placements opportunities it can provide as an employer and the support it can bring to the private, public and third sectors to do so.
- 6.4 This increase in activity builds on the employability services function already underway within the Council. The current Employability team is fully occupied with the delivery of current activity. Certain activity, for example, an expansion of the current Youth Trainee work placement scheme will be led by existing staff but may require

additional resource to support. Other activity, for example, if the Council was to act as an intermediary for the UK Government Kickstart programme will require staff to be identified and seconded in to undertake the establishment and management of such a scheme.

- 6.5 As the labour market situation remains fluid and we can expect new/evolving UK and Scottish Government's responses (including additional ring-fenced funding coming to the Council to manage), the Council will equally need to be responsive, 'fleet of foot' and flexible in its approach.
- 6.6 Along with the ongoing work being undertaken by the Business Gateway Service, a joint business/public sector workshop was held on 11th October 2020.

The workshop sought to:

- Provide space for the business representatives to comment on the business support services available in Highland and those required in a COVID-19 recovery phase.
- Provide an opportunity for the Council/Business Gateway, HIE, UHI and SDS to outline their service offering and emerging changes in response to COVID-19.
- Consider how best to reach out and engage with the business community to encourage participation and utilisation of the range of business support services collectively on offer.

The workshop was well attended, and the outcomes will be reported to a future meeting of the Economic Recovery Partnership.

7. Area Recovery Priorities

- 7.1 Over the last few months, officers have attended workshops with members in each Area Committee area and this provided a huge amount of information which is being collated into a form that will be used to support the identification of priorities within the Highland Economic Recovery Plan. Not surprisingly, the information received covered many of priorities that the Recovery Board is already aware of, including:

- Digital Connectivity (e.g. r100 and City Region Deal investment)
- Improvements in Active Travel Infrastructure (e.g. Road to the Isles, Skye, Wick, Inverness)
- Tourism facilities and Infrastructure (e.g. Inverness Castle, Camper Van and other facilities)
- Promotion of the Highland Culture and Landscape as a key economic development driver (e.g. Flow Country World Heritage Site, Lochaber Outdoor Capital, Cairngorms National Park)
- Housing Developments
- Transport Improvements (e.g. Roads priorities across the region, Wick John O'Groats Airport)
- Low Carbon Project identification and delivery (e.g. renewables and hydrogen)
- Gaelic Promotion and Support (e.g. role of Sabhal Mor Ostaig)
- Coastal Developments e.g. marina facilities, fishing/aquaculture, Cormarty Firth and Inverness Freeport bid, Kishorn Yard)

7.2 The benefit of these sessions was also to highlight specific projects that are already underway or will offer opportunities in the future. These included projects that are being promoted through the various partnerships already in place (e.g. Caithness and North Sutherland Regeneration Partnership) or through separate Council arrangements (e.g. City of Inverness and Area Recovery Group). It also allowed officers the opportunity to discuss with Members the intention begin further work in preparing new place based strategies that build on the positive work done for Fort William 2040 in locations such as Skye and Raasay and Caithness. Early engagement with Scottish Futures Trust in terms of supporting this work has been positive.

8. National Planning Framework 4 and Indicative Regional Spatial Strategy

8.1 Members of the Recovery Board may be aware that the ECI Committee held on 2nd September 2020 approved the Council's Indicative Regional Spatial Strategy. This has now been submitted to Scottish Government for consideration as part of the preparation of the new National Planning Framework 4. It can be viewed in the [interactive storymap](#) and is also available at highland.gov.uk/npf. It comprises the Indicative Regional Spatial Strategy which is a long-term vision to 2050, and identifies strategic development priorities, outcomes and delivery mechanisms. In drawing up the document, a wide range of partner organisations have been engaged and consulted. The report is an important contribution to the longer-term economic recovery plan and will be used to influence future strategic investments.

9. Opportunity Cromarty Firth

9.1 [Opportunity Cromarty Firth](#) is an ambitious and collaborative partnership of private and public sector organisations aiming to capture the unique economic and regeneration opportunities arising from a £multibillion, 50 year pipeline of renewable energy projects in the Moray Firth. The consortium is currently preparing a bid for Freeport status, which forms part of UK Government's post-Brexit economic growth strategy. This could stimulate significant economic activity and employment, and attract inward investment in Highland communities, thereby driving economic recovery.

9.2 The consortium, which has included some Council Officer support, has engaged with local Councillors, MSPs and MPs. This was followed by a public launch event (20 Aug) and invited stakeholders workshop (26 Aug). On the whole, feedback and press coverage so far has been very positive and constructive. Four major, interlinked projects are being progressed: 1) Offshore wind pipeline and floating offshore wind; 2) advanced manufacturing plant; 3) green hydrogen hub (from offshore wind); 4) The Powerhouse: future technology centre to bring together R&D and industry together at point of deployment.

9.3 The transformational economic development potential for the Highland region has formed an important part of the Council's indicative Regional Spatial Strategy referred to above. Ongoing engagement and input from key Government departments and industry experts which are helping to shape the consortium's approach and ambitions.

9.4 Members of the Recovery Board are asked to note progress on this potentially transformative project. A report will be presented to the November Economy and Infrastructure Committee outlining the latest position and to seek formal confirmation of the Council's support for the Opportunity Cromarty Firth project.

10. Current Position and Next Steps

10.1 Members of the Board will note from the above and from reports already made to the Recovery Board and the Economy and Infrastructure Committee that progress has been made and continues to be made against the elements of Phase 2 of the Recovery Action Plan as it relates to Economic Recovery, namely:

- Longer term strategic partnerships to be established and maintained with a focus on supporting and promoting the Highland economic recovery and delivering our aspirations as a net-zero region.
- Work on the key areas identified:
 - Third Sector and Community Led Economic Development
 - Construction and Infrastructure Delivery (with a focus on supporting construction activity, digital infrastructure, transport and active travel and housing delivery)
 - Retail, Town and City Centres
 - Tourism and Culture
 - Energy and Renewables
 - The Rural Economy
 - Technology and Innovation
- A review all available funding to support the wider economic recovery, including discussions with SG/UK Governments in respect of the Highland City Region Deal. Focus on delivery of all available funding to the Highlands to support growth and a response to the climate and ecological emergency.

10.2 Progress will continue to be made, with the emphasis now on the next phase of delivery. Actions to be undertaken over the next period include:

- Development of partnership working to ensure a co-ordinated economic development response to the continued difficulties being experienced, including follow up engagement through the Economic Recovery Partnership;
- Preparation of a Council Economic Recovery Strategy setting out the key area and strategic priorities to be used to influence future funding opportunities;
- Continued development of work on sectoral priorities, including particular emphasis on digital infrastructure and energy and renewables;
- Development of a place-based development strategy to reflect the needs and aspirations in different areas; and
- Preparation of business cases for specific capital programme schemes that will aid recovery (e.g. related to the tourism sector) or other economic development priorities that require Council involvement (e.g. Wick Airport Public Service Obligation).

11. Conclusions

11.1 Economic Recovery remains a priority for the Council and the wider Highland region and much progress has been made in engaging with partners and members in setting out the key priorities. It is important that all of the various activities are now pulled together into an Economic Recovery Strategy and it is intended that this will be reported to the meeting of the Economy and Infrastructure Committee on 4th November 2020. Further partnership engagement on this will be carried out prior to the meeting, through the planned meeting of the Economic Recovery Partnership.

Designation: Executive Chief Officer – Infrastructure and Environment

Date: 23rd September 2020

Author: Malcolm Macleod

Background Papers:

THE IMPACT OF COVID-19 ON THE HIGHLANDS AND ISLANDS

September 2020

INTRODUCTION

This analysis draws on available COVID-19 datasets and analysis along with existing socio-economic datasets to present an overview of the impacts of COVID-19 on the Highlands and Islands and estimates of GDP and output impact.

A number of assumptions are made regarding the potential scale of impact at the Highlands and Islands level; this is due to:

- The experimental nature of many COVID-related datasets published by Scottish Government, UK Government and ONS
- The lack of availability of data below the Scottish, or sometimes even UK level

It should also be noted that the published COVID-19 datasets are subject to frequent revision and change, in part due to their experimental nature but also a result of more information becoming available as time progresses.

There is also additional uncertainty around how long social distancing and other measures will be in place, and whether there will be a resurgence of the virus in future.

Given these points, the analysis should be read with a degree of caution.

UNEMPLOYMENT



16,175
PEOPLE UNEMPLOYED

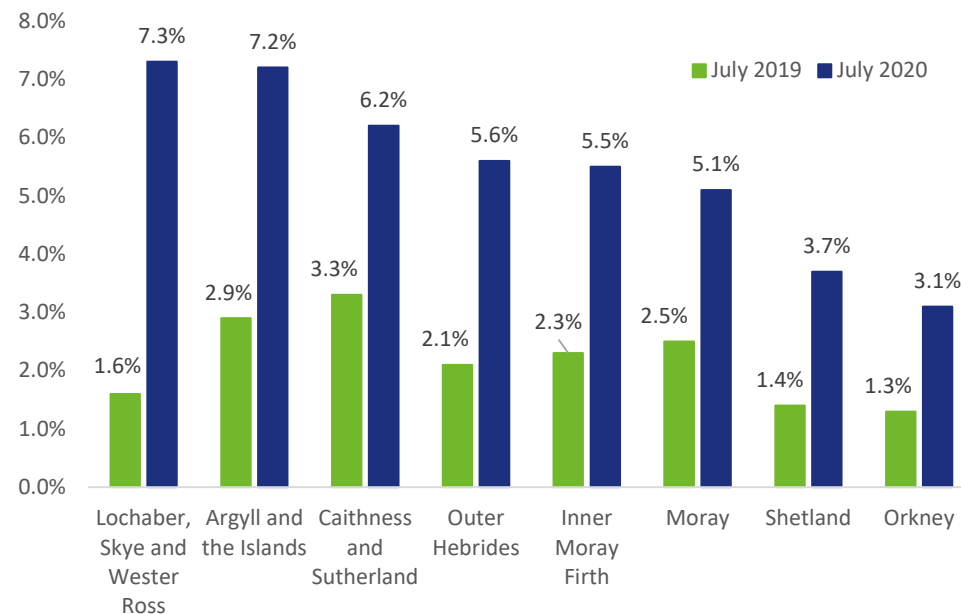
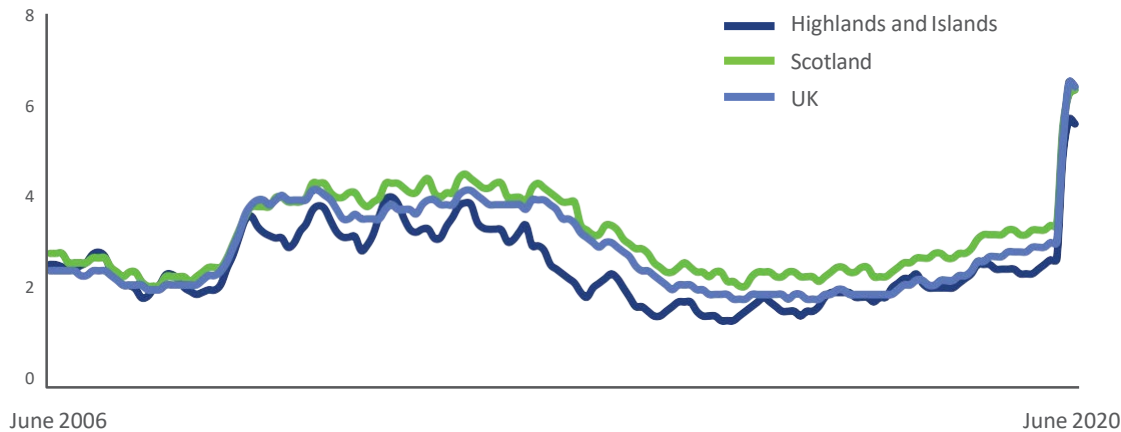
HIGHLANDS AND ISLANDS JULY 2020
rate of 5.7% up from 2.4% in July 2019

Rate still below the Scottish level (6.4%) but numbers unemployed have increased at a faster rate in the Highlands and Islands (118%) than Scotland (95%) compared to March 2020. The sectoral makeup of the region makes it **more susceptible** to the impacts of the pandemic

Between June and July 2020, the overall unemployment rate increased from 5.4% to 5.7%.

Youth unemployment also continued to rise (9.3% to 9.9%) pointing towards significant barriers for young people wishing to enter the labour market

Unemployment rates are highest in Lochaber, Skye and Wester Ross and Argyll and the Islands, with the former experiencing the greatest increase of all area offices over the past year.



YOUTH UNEMPLOYMENT ROSE

from 3.8% to 9.9%
(between July 2019 and July 2020)

NOTES:

Unemployment based on claimant count. Note that enhancements to Universal Credit as part of the UK government's response to the coronavirus mean that an increasing number of people became eligible for unemployment-related benefit support, although still employed. Consequently, changes in the Claimant Count may not be due wholly to changes in the number of people who are unemployed.

Youth unemployment refers to people unemployed aged 18-24.

GOVERNMENT SUPPORT UPTAKE IN THE LABOUR MARKET

72,300

EMPLOYMENTS FURLOUGHED

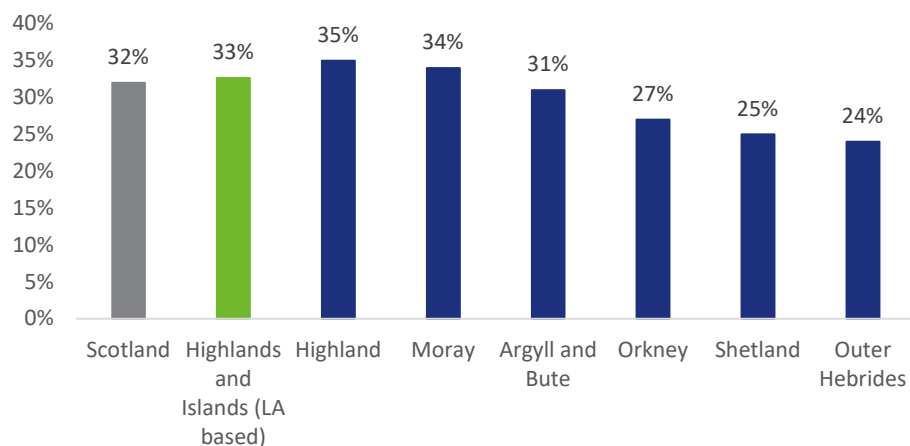
in the period March to end June 2020

33% of eligible employments, slightly higher than the Scottish rate (32%)



This suggests a greater potential for redundancies in the region as the furlough support ends.

% Eligible employments furloughed (March to end June 2020)



Highland had the highest furlough rate in Scotland, the Outer Hebrides had the lowest.

NOTES:

UK Government Coronavirus Job Retention Scheme and Self-employment Income Support Scheme statistics August 2020 (as at 31 June) - <https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics#coronavirus-job-retention-scheme>

Eligibility is calculated through analysing PAYE RTI data to estimate the eligible population of both employers and employments. Figures on furloughed employments are cumulative and therefore include all employments furloughed for at least part of the period between March to end June 2020.

Analysis on jobs at risk – Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) analysis of the Business Impact of Coronavirus Survey, 27th April 2020 - <https://www.thersa.org/discover/publications-and-articles/reports/local-areas-coronavirus-employment>

Calculation is based on identifying the number of jobs in each industry in that area multiplied by the estimated percentage of those that have been furloughed on the government's Coronavirus Job Retention Scheme (CJRS).

IF WORKERS ON FURLOUGH WERE INCLUDED

in the unemployment rate, the rate would be

31%

(29% IN SCOTLAND)

18,300

Workers have claimed

SELF-EMPLOYMENT INCOME SUPPORT.

Take-up of SEISS was lower in the Highlands and Islands (74%) than Scotland (76%) despite a higher proportion of self-employed workers.

The average value of claims was higher across the region (£3,033) than nationally (£2,900).

Analysis based on furloughed workers showed that Argyll and Bute, Highland and Orkney (along with Perth and Kinross) had the highest proportions of their workforces in at risk jobs.

LOCAL AUTHORITY	JOBS AT RISK (%)	SCOTLAND RANK
Argyll and Bute	32%	1
Highland	29%	3
Orkney Islands	28%	4
Moray	27%	10
Shetland Islands	27%	13
Outer Hebrides	26%	18

BUSINESS SIZE

SMEs are at a greater financial risk than larger private organisations or public bodies from COVID-19. Risk is dependent on factors such as organisation type and sector with localised service-based, start-ups and micro firms most at risk.

86.4% of private sector registered businesses in the region are micro in size (0-9 employees) compared to 87.1% nationally

SME's account for **66.9%** of private sector employment in the Highlands and Islands compared to **50.6%** nationally



The dominance of micro businesses and higher share of employment in SMEs indicates a greater impact of COVID-19 on the region than elsewhere in Scotland

This is compounded by the rurality and remoteness of areas in the Highlands and Islands, where bank finance is less accessible than urban areas.

With less capacity to access financial resources and increased risk to SMEs, job opportunities are likely to be significantly reduced. This increases the likelihood that young people will leave the Highlands and Islands in search of job opportunities in urban areas.

Therefore, existing challenges of an ageing population and outmigration are exacerbated, leading to an increase in the dependency ratio, which is already higher than the Scottish average.

NOTES:

The Impact of Covid-19 on Scottish Small and Medium-Sized Enterprises, 25 June 2020 - <https://fraserofallander.org/fai-publications/the-impact-of-covid-19-on-scottish-small-and-medium-sized-enterprises-smes-prognosis-and-policy-prescription/>

Scottish Government, Businesses in Scotland and IDBR data, 2019. Analysis based on private sector (VAT and/or PAYE registered enterprises only).

Note: Data on employment in SME's is based on local authority data

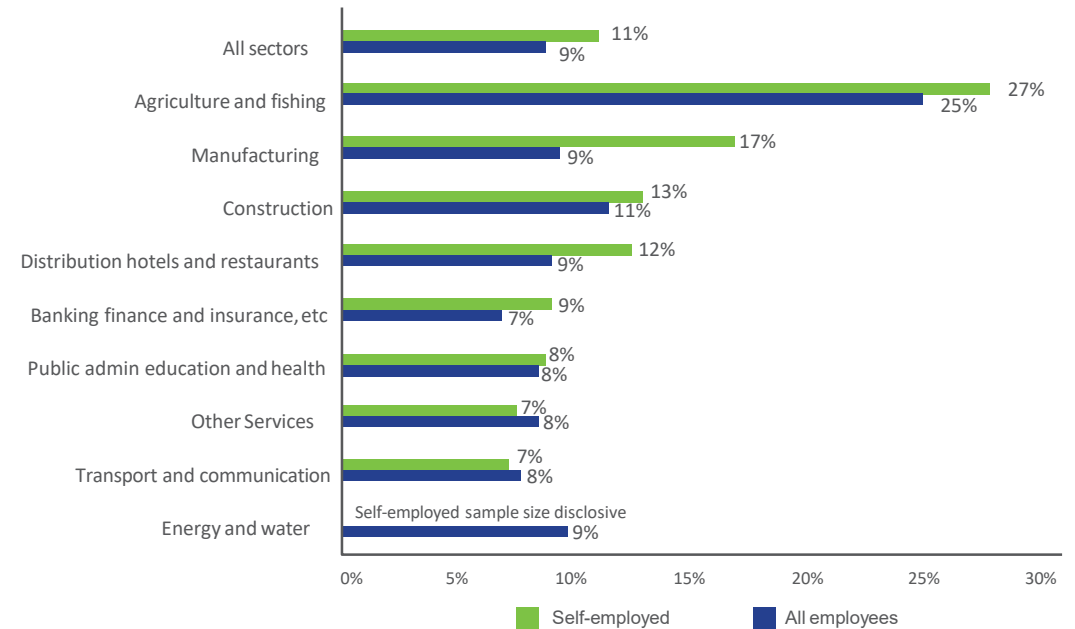
SELF-EMPLOYMENT

The self-employed have been more negatively impacted by COVID-19 due to factors including:

- A higher proportion working in at risk sectors.
- Home working including 'bricks and mortar' activities such as accommodation services or childminding which are more greatly impacted by restriction of movement and social distancing requirements.
- It taking longer to frame a workable response to the likely earnings crisis for the self-employed.
- Many not being eligible for government support due to reasons such as lack of self-assessed tax return information and second job self-employment.

Self-employed females are at higher risk than males, reflecting the segregation of women into particular at-risk sectors such as childcare

All employed and self-employed in Highlands and Islands as proportion of national workforce, 2019



11% of Scotland's self-employed people are in the Highlands and Islands, compared to 9% of all of Scotland's employees

There is significant difference in some sectors, including some of those more adversely impacted by COVID-19 i.e. construction (13% versus 11%) and distribution, hotels and restaurants (12% versus 9%).

NOTES:

Enterprise Research Centre report on COVID-19 and self-employment in the UK - <https://www. enterpriseresearch.ac.uk/wp-content/uploads/2020/04/ERC-Insight-Covid-19-and-self-employment-in- the-UK.pdf>

Source: Annual Population Survey 2019

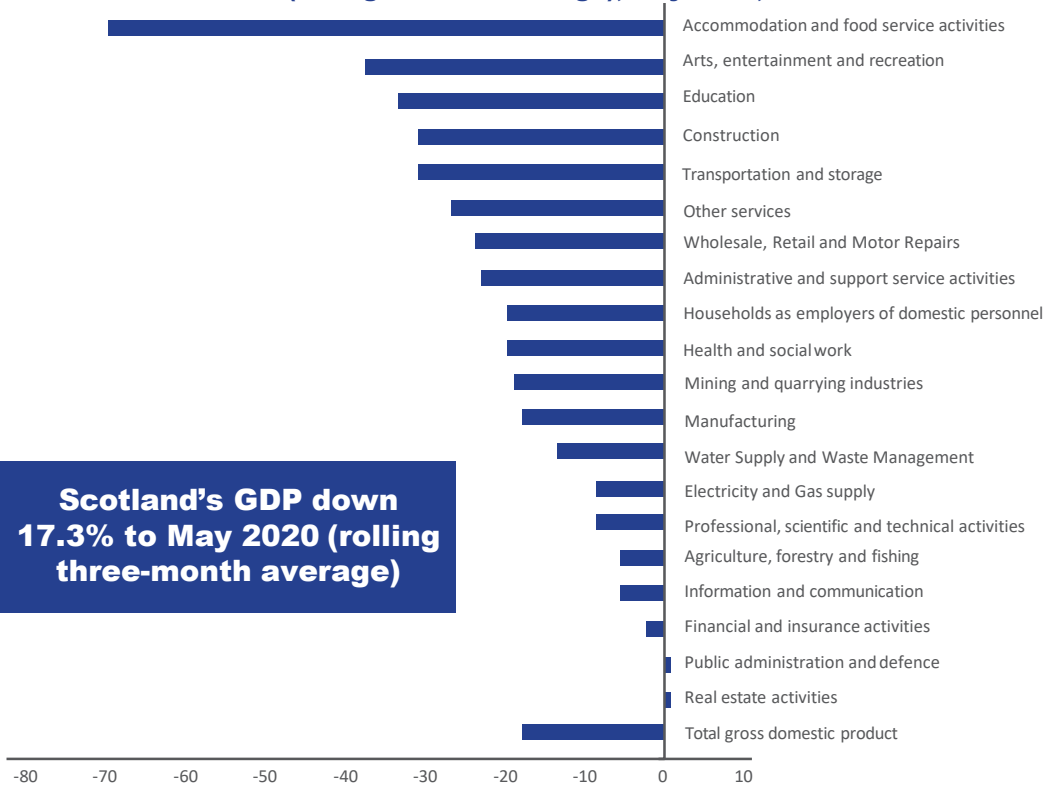
UK AND SCOTTISH GDP AND OUTPUT IMPACT

Unprecedented decline in GDP at all geographies between March and May, with modest increase in June.



UK GDP
DOWN 19.1%
BETWEEN MARCH AND MAY

Percentage output change, latest three months compared to previous three months (rolling 3-month average), May 2020, Scotland



Scotland's GDP down 17.3% to May 2020 (rolling three-month average)

SERVICES THE LARGEST COMPONENT OF CONTRACTION

ACCOMMODATION AND FOOD SERVICES

↓ -70%

ARTS, CULTURE AND RECREATION

↓ -37%

WORST AFFECTED SECTORS OVERALL

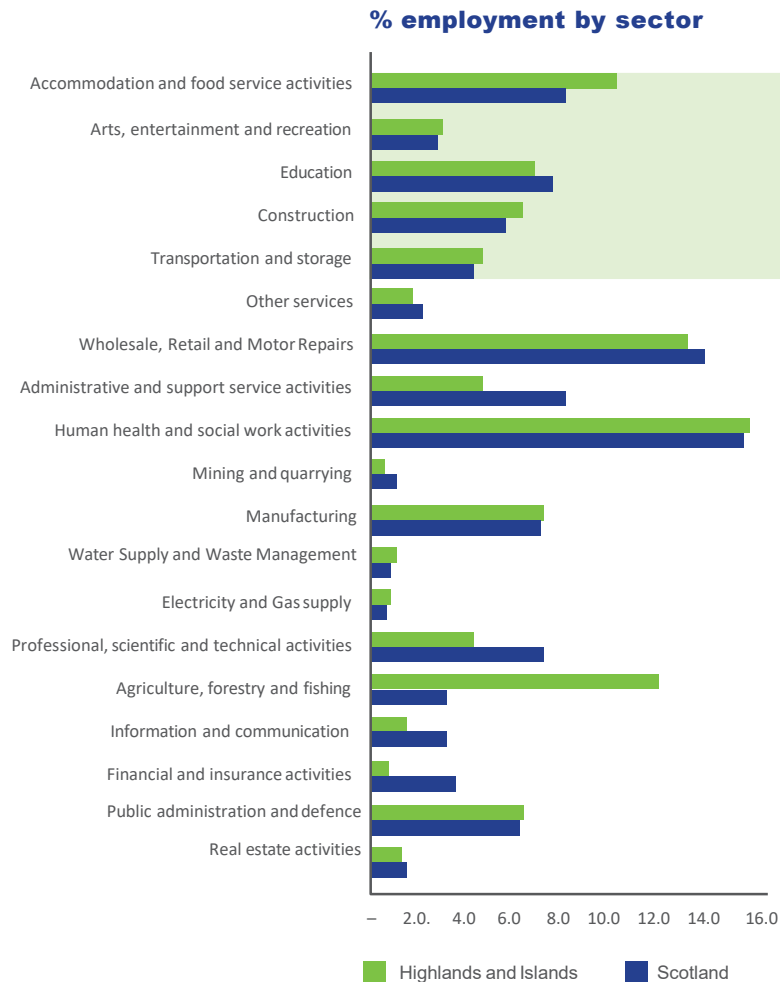
Scottish Government estimate that Scottish GDP **WILL DECLINE BY 14% IN 2020**

NOTES:

Scottish Government (2020) GDP Monthly Estimate, Scotland: May 2020

Scottish Government estimate of GDP decline – June Monthly Economic Brief - <https://www.gov.scot/collections/monthly-economic-briefs/>

SHARE OF EMPLOYMENT BY SECTOR



Output decline > 30%
to May (3 month rolling
average)



4 OF THE 5 SECTORS
with the greatest decline in output
(>30%)

have larger shares of employment in the
Highlands and Islands than Scotland

In these sectors, the region has

73,000 PEOPLE EMPLOYED

– a greater concentration of employment than Scotland (30% vs 28%)

The sectors most-exposed to the economic effects of COVID-19
have been identified by Scottish Government as: manufacturing, construction, retail and
wholesale, accommodation and food services and arts, entertainment and recreation

The share of employment in these sectors is higher in the Highlands and
Islands (39%) than Scotland (37%).

We can therefore expect that the impact of the pandemic is likely to be greater in the Highlands and Islands than in Scotland and therefore additional resources are required to help minimise the impact.

NOTES:

Source: BRES 2018, employment

Scottish Government analysis of sectors most exposed to COVID-19 – from June monthly economic brief - <https://www.gov.scot/collections/monthly-economic-briefs/>

2020 GDP FORECASTS FOR THE HIGHLANDS AND ISLANDS

Taking the above factors into account GDP in the region is estimated to contract significantly in 2020, and likely to decrease by £1.5-£2.6bn.

Scenario 1
-11% -£1.5bn
vs 8% for Scotland

This is based on ekosgen modelling of the reduction in GDP at Scottish level to date and projected onto the business base of the Highlands and Islands. Trends for Jan – June 2020 are assumed to be replicated for the remaining 7 months of the year.

Scenario 2
-14% -£2bn

This scenario assumes that the decline in GDP is at the same level as the Scottish Government forecast for Scotland (-14%).

Scenario 3
-17% -£2.4bn

This scenario assumes that the decline in GDP is 3% greater than the Scottish Government forecast for Scotland (ekosgen analysis estimated the impact would be 3% greater in the Highlands and Islands than in Scotland).

Scenario 4
-19% -£2.6bn

This scenario assumes that the decline in GDP is 5% greater than the Scottish Government forecast for Scotland (ekosgen analysis estimated that the Highlands and Islands is 2 percentage points more negatively affected than the base case in Scenario 3).

NOTES:

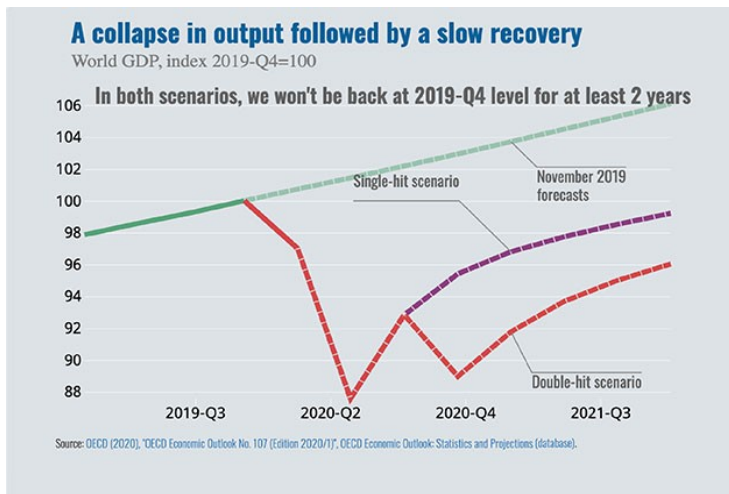
Highlands and Islands GDP change: ekosgen calculations based on ONS regional estimates, 2019 (2018 data)

NOTE: the regional scenarios are based on variations to the Scottish Government forecast given the sectoral composition of the region and impact to date.

The calculation of -11% in GDP decline is based on 5 months data to date for Scotland applied to the region – and assumes that persists for 12 months – whereas further GDP decline may be anticipated

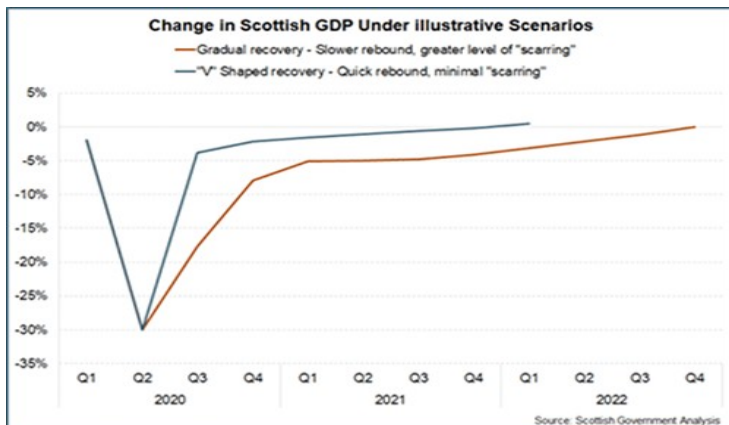
GLOBAL, UK AND SCOTTISH RECOVERY

The OECD predicts that it will be at least 2 years for the global economy to return to pre-crisis levels.



UK GDP forecasts all expect substantial decline in 2020 followed by growth for 2021 – but not returning to pre-crisis levels.

UK GDP projections	2020	2021
IMF	-6.5%	4.0%
OECD 'single hit'	-11.5%	9.0%
OECD 'double hit'	-14.0%	5.0%
Bank of England	-14.0%	15.0%
Office for Budget Responsibility	-12.8%	
HMT avg. of forecasts (Jun 20)	-9.1%	6.2%



Scottish Government modelling gives two recovery scenarios:

A "V-shaped recovery" returning Scotland to pre-crisis levels by Q1 2022

A "Gradual recovery" by Q4 2022

Fraser of Allander Institute (FAI):

Central forecast - recovery in Scotland to pre-crisis levels by Q4 2022 but if there is a second wave of infections, recovery is not forecast until Q2 2024

NOTES:

UK GDP Projections:

IMF – World Economic Outlook April 2020 -

<https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020> OECD – Economic Outlook,

June 2020 - <http://www.oecd.org/economic-outlook/june-2020/>

Bank of England – Monetary Policy Report May 2020 - <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy-report-may-2020> HMT -

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/900551/Forecomp_June_2020_1_.pdf

Scottish Government modelling – from June economic briefing - <https://www.gov.scot/collections/monthly-economic-brief>

HIGHLANDS AND ISLANDS RECOVERY



Outlook scenarios for Scotland and the Highlands and Islands affected by:

Duration of the crisis and any future waves	Government policy on easing of lockdown restrictions	Consumer and business confidence	
Resilience of regional and local economies and communities:			
Proportion of businesses on tight margins	Number of self-employed	Proportion of businesses in sectors disproportionately affected	Proportion of SMEs, start-ups/micro businesses

HUGE uncertainty as to what happens next and it is the most vulnerable who will be hardest hit.

The Highlands and Islands is likely to take longer to recover than Scotland based on:

Greater impacts to date	Higher proportion of micro-businesses	Higher proportion of self-employed – especially across some of the hardest hit sectors (construction, distribution hotels and restaurants)	Greater proportion of businesses in sectors likely to be slowest to recover
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Considerable degree of uncertainty, especially in relation to further waves of COVID-19 and associated restrictions. However, evidence suggests the region will remain vulnerable in the short-term at least

MEDIUM TERM RECOVERY IN THE HIGHLANDS AND ISLANDS

Majority of medium-term forecasts focus on length of time to return to pre-COVID-19 levels

Scottish Government
"V" shaped recovery

Scottish Government
Gradual recovery and
FAI central forecast

FAI Second wave
scenario

Highlands and
Islands recovery

Q1 2022

Q4 2022

Q4 2022

2023

Highlands and Islands **regional recovery highly likely to lag Scotland** in the short-term (2020 and 2021)

Medium-term, the Highlands and Islands regional recovery potentially closer to FAI Central (Scotland) and Scottish Government Gradual recovery scenario, **but recovery is still not likely till 2023**, based on:

- Ongoing disruption to overseas visitors and visitor spend, which sustains a disproportionate number of jobs in the region;
- The composition of the Highlands and Islands and its dominance of localised service-based firms, where consumer confidence is likely to remain fragile longest;
- The dominance of small and micro-businesses, those remaining at greatest risk

LONGER TERM IMPACTS IN THE HIGHLANDS AND ISLANDS

Decrease in 2020 GDP in the Highlands and Islands **between £1.5bn and £2.6bn**

Highlands and Islands recovery highly likely to lag Scotland in the short-term (2020 and 2021) with full recovery not likely to 2023

Economic scarring and loss of productive capacity may be evident for years to come

Employment levels will reduce downwards to lower GDP levels – which could lead to population decline as people seek employment elsewhere

Job prospects for young people down

- With recruitment levels down there may be a lack of entry level positions opening up for young people
- With unemployment levels up, young people will increasingly be competing against those who have already entered the labour market and will be therefore at a disadvantage

The impacts of this are already starting to be seen with the unemployment rate levelling out but youth unemployment continuing to increase



BREXIT

The COVID-19 impact is compounded by the region’s vulnerability to Brexit. The geographic areas most affected by COVID-19 were already those most vulnerable to the risks posed by Brexit.

Brexit is causing workforce (access to labour) and trade implications – exacerbated by COVID-19

Five of the six 6 local authority areas most vulnerable to Brexit are in the Highlands and Islands, due to sectors more dependent on migrant workers, EU grants and with more fragile population.

Brexit Vulnerability Index

LOCAL AUTHORITY AREA	% OF DATAZONES = 20% MOST VULNERABLE	LOCAL AUTHORITY RANKING (OF 32)
Outer Hebrides	53%	1
Shetland Islands	50%	2
Argyll and Bute	49%	3
Highland	43%	5
Orkney Islands	34%	6
Moray	21%	12

BREXIT AT RISK SECTORS (RED = LQ 1 OR ABOVE IN H&I)

Life Sciences
 High Value
 Chemicals
 Logistics
 Food and Drink
 Agriculture and Aquaculture
 Creative Industries
 Financial and Business Services

MOST AFFECTED COVID-19 SECTORS

Accommodation and food services
 Arts, Culture and Recreation
 Construction
 Education
 Transport and Storage
 Retail and wholesale
 Other Services
 Manufacturing

The region has a concentration of employment in several sectors which have been most affected by COVID-19 AND those sectors which are at risk from Brexit.

NOTES:
 Brexit Vulnerability Index – Scottish Government - <https://www.gov.scot/publications/local-level-brexit-vulnerabilities-scotland-brexit-vulnerabilities-index-bvi/>

SUMMARY

- The Highlands and Islands region has been **disproportionately impacted** by the COVID-19 pandemic to date, when compared to Scotland and the UK as a whole
- The region has a **greater share of employment in the sectors already most affected by COVID-19**. These include the regionally important manufacturing and transportation sectors. **Tourism, creative industries and construction have been hardest hit to date**
- The region has a **higher proportion of self-employed and employment in micro-businesses compared to Scotland**; these are businesses most at risk as a result of COVID-19. At the same time, these businesses are the ones that are most flexible and potentially able to respond to the challenge
- COVID-19 is having a major impact on the labour market. Around 72,000 employments were furloughed for at least part of the period to end June 2020 (33% of eligible employments); unemployment has risen to 5.7% with youth unemployment rising to 9.9%
- The consequence of these factors is that **GDP in the region is expected to contract significantly in 2020**, and likely to decrease by £1.5-£2.6bn, a fall in output of between 11% and 19%.
- Medium-term recovery forecasts for Scotland are for gradual recovery by Q4 2022 – for the region, **recovery to pre COVID-19 levels is unlikely until 2023 at the earliest**
- The **COVID-19 impact is compounded by the region’s vulnerability to Brexit** – five of the six most vulnerable local authority areas to Brexit are in the Highlands and Islands

As a consequence of COVID-19 there is a short-term need to support:

Business survival and recovery	Tourism and hospitality and creative industries businesses in particular	Modern Apprenticeships, business recruitment and job retention to help young people and prevent out-migration
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In the medium-term there is a need for:

Ongoing efforts to develop those businesses and sectors less reliant on direct business-to-consumer relationship	Increased digital skills to support increased digital trading – there is some evidence that a shift to greater online trading has taken place
Capitalising on the quality of life benefits (pull) the region offers, as people may wish to move from cities – and there is some early evidence of this occurring.	Attracting new residents – and workers – to the region. Remote working can create more sustainable communities and is becoming an increasingly viable option. This can also provide an early boost to the construction sector (refurbishment etc.)



THE IMPACT OF COVID-19
ON THE TOURISM SECTOR
IN THE HIGHLANDS AND ISLANDS

TOURISM AND THE VISITOR ECONOMY

Tourism a key sector for the Highlands and Islands – it is often a key employing sector in rural areas.

Accommodation and food services in the region:

Location Quotient of 1.3

Employs 24,000 people –

10% OF TOTAL EMPLOYMENT

2,240 registered enterprises - **10% of all businesses**

£655M IN GVA

Arts, entertainment and recreation in the region:

Location Quotient of 1.2

EMPLOYS 11,000 PEOPLE

535 REGISTERED ENTERPRISES

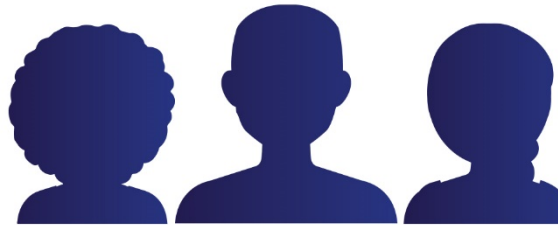
£164M IN GVA



VISITOR SPEND IN THE
HIGHLANDS AND ISLANDS
IS IN THE REGION OF

£1.5BN

PER ANNUM



VISITORS TO THE HIGHLANDS 2018:

2.6M OVERNIGHT VISITORS

14.4M DAY VISITORS

Weekly average household income for households with an accommodation and food services worker was typically **around 15% lower** than the Scottish average in 2017/18

NOTES:
Analysis is based on SIC codes: Accommodation and food services and Arts, entertainment and recreation as a proxy for Sustainable Tourism given the wider range of data available at this level.
BRES 2018; IDBR 2019
Visitor Spend and Visitor numbers – Visit Scotland

TOURISM AND COVID-19

The tourism and hospitality sector is one of the sectors most affected by the COVID-19 with the sector on lockdown 24 March to 15 July.

Economic activity in this sector is going to be severely impacted for as long as physical distancing and travel restrictions remain in force and it is unlikely that the sector will rebound in the same form.

This is likely to not only affect tourism businesses and their supply chains, but those working in the sector – particularly those considered to be in in-work poverty.

Visit Scotland survey data indicated that:

- Virtually all tourism businesses have experienced cancellations, a decline in bookings or fewer visitors at the outset of the COVID-19 pandemic
- Many reported substantial financial losses as a result

Unemployment has seen significant increase in some TTWAs dependent on tourism between March and July 2020:



421% in Portree (+295 claimants)
327% in Aviemore and Grantown-on-Spey (+360)
250% in Ullapool (+225)

Around **30% of all furloughed employments** in the region are in tourism and hospitality:

Accommodation and food service - an estimated **15,800 employments furloughed** - almost three quarters of total employment in the sector

Arts, culture and recreation – an estimated **4,700 furloughed employments** – around two-fifths of total employment in the sector

NOTES:

Unemployment is based on Claimant Count. Note that enhancements to Universal Credit as part of the UK government's response to the coronavirus mean that an increasing number of people became eligible for unemployment-related benefit support, although still employed. Consequently, changes in the Claimant Count may not be due wholly to changes in the number of people who are unemployed.

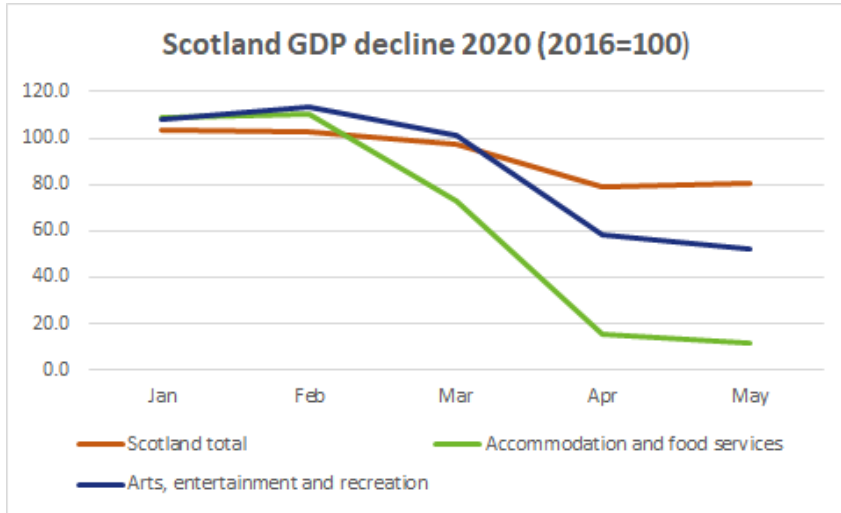
UK Government Coronavirus Job Retention Scheme and Self-employment Income Support Scheme statistics July 2020 /BICS Wave 7 survey

<https://www.visitscotland.org/research-insights/regions>

VisitScotland (2020) Monitoring the effects of COVID-19 on the Scottish Tourism Industry, Wave 2 results

TOURISM – GDP, GVA AND VISITOR SPEND IMPACTS

GDP for accommodation and food services and for arts, entertainment and recreation has seen the starkest contraction in 2020.



SCOTLAND % OUTPUT CHANGE, ROLLING THREE-MONTH AVERAGE (MAY 2020)

SCOTLAND OVERALL

↓ -17%

ACCOMMODATION AND FOOD SERVICES

↓ -70%

ARTS, ENTERTAINMENT AND RECREATION

↓ -37%

GVA and visitor spend expected to decline significantly in the Highlands and Islands

Accommodation and food services estimated GVA decline in the Highlands and Islands in 2020

-39% ↓ **£259M**

Arts, entertainment and recreation estimated GVA decline in the Highlands and Islands in 2020

-21% ↓ **£35M**

Estimated decline in visitor spend in the Highlands and Islands in 2020:

£370M - £584M



The number of overseas visitors is expected to decline significantly, further impacting on visitor spend – thus loss may be even higher. For some sub-sectors, e.g. Cruise, the entire 2020 season has been effectively lost. CLIA estimate that this may equate to over £28m

NOTES:

Fraser of Allander Institute (2020) Economic commentary,

Scottish Government (2020) GDP Monthly Estimate, Scotland: May 2020 ONS | BRES, 2018

Decline in visitor spend is estimated based on the mean change across Accommodation and food services, Retail, Arts, entertainment and recreation. If decline in visitor spend is more in line with the change seen in Accommodation and food services only, this may be in excess of £584 million in visitor spend lost. Since overseas visitors typically spend much more than domestic visitors (longer stays, greater requirement for accommodation, etc.), actual loss in visitor spend may be much higher

RESTARTING TOURISM

Of tourism businesses in the region responding to HIE's latest business panel survey (June 2020)

90% SAID THEIR CONFIDENCE IN SCOTLAND'S ECONOMY HAD DECLINED IN THE LAST 6 MONTHS (VS 79% OVERALL)

43% WERE TEMPORARILY CLOSED (VS 37% OVERALL)

HOWEVER, 72% WERE CONFIDENT IN THEIR BUSINESS VIABILITY OVER THE NEXT 6 MONTHS

Recent surveys indicate an appetite amongst domestic visitors to return to the region on 'staycations':

56° Insight Scottish Tourism Index found that **53% of Scots had already planned or booked a Scottish holiday** with rural areas most popular - 44% plan to visit the Highlands

Visit Britain survey 10 -14 August found that **32% of respondents were very/fairly confident in taking UK short break or holiday in August and 41%** in October to December

Main reasons for not feeling confident about domestic trips:

- Concerns about catching COVID
- Government travel restrictions
- Feeling it's not responsible
- Fewer things to do/places to visit
- Restrictions on socialising

However:

- Initial indications are that the anticipated 'staycation boom' is not yet materialising, although there are regional variations
- Up to one third of visitor attractions in Scotland may not re-open in 2020; less than half anticipate re-opening during the peak summer season period
- An extended off-season due to the pandemic may force some businesses to cease trading – seasonality presents an acute problem in terms of economic resilience
- Continued social distancing restrictions will impact on volume of customers and therefore trading
- Domestic visitors will likely not be able to offset the loss of higher overseas visitor spend
- Different subsectors may recover quicker – e.g. it is anticipated that self-catering accommodation will prove more popular than hotels/B&Bs

NOTES:

https://www.heraldscotland.com/business_hq/18595359.staycation-boom-stalls-visitor-numbers-short-by-country-mile/
<https://www.edinburghnews.scotsman.com/whats-on/arts-and-entertainment/more-half-scots-want-holiday-highlands-year-2853914> North Coast 500 Visitor Survey, June 2020

ASVA Member Survey – May 2020
Moffat Centre (2020) Reopening of Scottish Visitor Attractions; survey, July 2020

56 Degree Insight Scottish Tourism Index July 2020 - <https://www.56degreeinsight.com/scottish-tourism-index-july>
https://www.visitbritain.org/sites/default/files/vb-corporate/covid-19-consumer_tracker_uk_report_week_13_final.pdf