

Convention of the Highlands and Islands October 2020

(Paper 3)

REGIONAL IMPACTS AND ECONOMIC RECOVERY

Date: 26th October 2020

1. PURPOSE

To consider the economic impacts of COVID-19 on the Highlands and Islands and set out the collated measures for economic recovery at a local and regional and national level. This paper provides analysis of regional data to define the economic context however the primary focus is on the actions taken to aid economic recovery and define the strategic economic direction for the region. The partners involved in drafting this paper are:

- a. Scottish Government, HIE, Skills Development Scotland, Visit Scotland, Argyll & Bute Council, Comhairle nan Eilean Siar, Highland Council, Moray Council, North Ayrshire Council, Orkney Islands Council and Shetland Islands Council

2. ECONOMIC CONTEXT

The COVID-19 pandemic has created unprecedented challenges, and the scale of the required response, sacrifices and perseverance to push back the virus will have an enduring impact on our lives, our economy and our communities. Although we face this challenge together, no two parts of Scotland will see the same initial impacts or exactly the same difficulties in dealing with the virus and returning to the type of economy and daily life that we aspire to. The challenge for the members of the Convention of the Highlands and Islands and all of the gathered partners and stakeholders in the economy of the region is to ensure that the regardless of the economic context that existed before the pandemic or the disproportionate effects suffered due to the economic makeup or geographic nature of the region, that the Highlands and Islands will see a sustainable, just economic recovery that brings it in line with the rest of Scotland.

Over the last month we have seen the number of cases rise, a reminder that we will be living with this virus and its impacts for some time yet. As a result, the work that we had begun, to chart our economic recovery will need to be more nuanced, balancing the direct responses that we need to take to protect public health with the longer term planning that allows us to think about how we rebuild an economy that works better for us, that supports wellbeing, sustains fair work and allows for a just and sustainable transition to a net-zero economy.

The Scottish Government's State of the Economy report from September set out that Scotland's GDP could fall 9.8% in 2020 (having fallen 21.4% in the first half of the year), and unemployment could rise to 8.2%. While Scotland's economy has recovered around half the fall in GDP which followed the initial restrictions in March, the necessary reintroduction of additional restrictions on hospitality in October mean that recovery is likely to be more gradual than hoped in September. Overall, output may not return to pre-pandemic levels until the end of 2023.

The outlook for the rest of 2020 and into 2021 is highly uncertain, with the re-introduction of restrictions in October, as well as a possible failure to agree a trade deal with the EU.

EU Exit

We also face the full impact of Brexit at the end of this year and it remains uncertain if a Brexit agreement will be secured by the UK Government, and what the parameters of the final agreement will be.

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The Scottish Government is continuing with Brexit preparations, working closely on issues with key delivery partners including the Scottish Resilience Partnerships (which operate both at a national, and regional and local level drawing together e.g. Local Authorities, police, health, SG reps). However it remains challenging due to uncertainty such as how the FTA will work, how tariffs will be implemented and rules on governing the movement of data, services and people will function. This presents a range of risks to the economy, trade and supply, and public services. There also concerns surrounding the impact on border arrangements and inequalities.

The Scottish Government has also implemented a Brexit Readiness Steering Group which brings together our agency partners including HIE, SDS, SE, SoSE to provide coherence to our business support and advice and this has intensified its work of late to respond to the risks outlined above.

In the Brexit Vulnerability index, five of the six most vulnerable local authorities are in the Highlands and Islands (Outer Hebrides, Shetland, Argyll and Bute, Highland, Orkney).¹

This is a result of the prominence of certain sectors in the region which often are more dependent on migrant workers, the benefits currently gained from EU grant funding, and the fragile nature of the population itself. The region also 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. These include the Food and Drink sector, Agriculture and Aquaculture, Transport and Logistics, as well as Construction and Manufacturing.

This paper intends to reflect the perspectives of the contributing partners from the experience of their own organisations in addressing how we collectively support economic recovery. The varied nature of the individual areas that make up the Highlands and Islands is such what is presented here represents a summary of the approaches that are being taken to address the collective problems we face and a number of the key issues that have been agreed as particularly crucial to the Highland and Island communities.

Population of the Highlands and Islands:

- According to Mid-2019 Population Estimates, the population of Highlands & Islands is approximately 489,430.²
- The population in Highlands & Islands local authority areas is largely expected to decrease between 2018 and 2028, except in Highland (+0.5%) and the Orkney Islands (+0.5%). The largest decrease is expected in Na h-Eileanan Siar (-6.1%) and Argyll & Bute (-5.9%).³
- Highland has wide local variations, with population increases in the Inner Moray Firth masking significant projected reductions elsewhere – most markedly in Caithness (-21.1%) East Ross (-13.8%) and Sutherland (-11.9%).
- The Highlands and Islands local authority area has a dependency ratio of 65%, compared to 56% nationally. This dependency ratio measures the proportion of non-working people to the working-age population.

Labour market:

¹ <https://www.gov.scot/publications/local-level-brexit-vulnerabilities-scotland-brexit-vulnerabilities-index-bvi>

² www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-estimates/mid-year-population-estimates/mid-2019

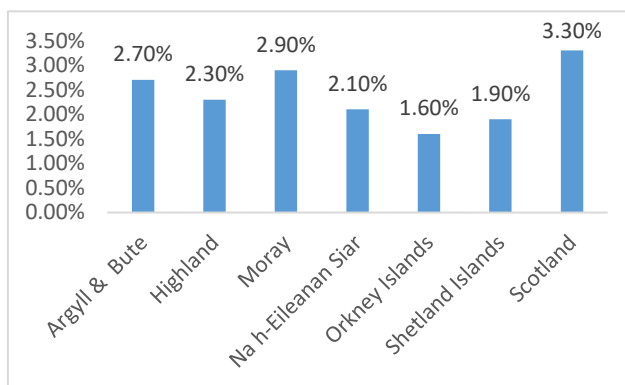
³ www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-projections/sub-national-population-projections/2018-based

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- Between April 2019 and March 2020, the average unemployment level in Highlands and Islands local authorities was 2.4%. This was lower to the national level – 3.3%.
- In 2019, there were over 23,580 registered private sector businesses in the Highlands and Islands local authority areas, employing nearly 169,930 people and with an annual turnover of £20m. The majority of these businesses were small or micro enterprises, employing fewer than 50 people.⁴
- In 2019, the majority of private sector businesses in Highlands and Islands local authorities were in the following sectors: agriculture, forestry and fishing; wholesale and retail trade/ repair of motor vehicles and motorcycles; construction and accommodation and food services.
- In 2018 the sectors employing the highest number of people in Highlands and Islands local authorities were: human health and social work activities; wholesale and retail trade/ repair of motor vehicles and motorcycles; accommodation and food service activities; public administration; and education.⁵

Figure 1. Unemployment level Apr 2019-Mar 2020, ONS Population Survey



Sectoral exposure COVID-19:

- In April 2020, a risk rating was developed by the Scottish Government to understand how different sectors are affected by the key risks arising from COVID-19.⁶
- On average, Highland and Islands local authorities have a 36% share of employment in the sectors most exposed to the risks of Covid-19. Moray has the highest share (49%) in Scotland and Na h-Eileanan Siar has the lowest share (25%).

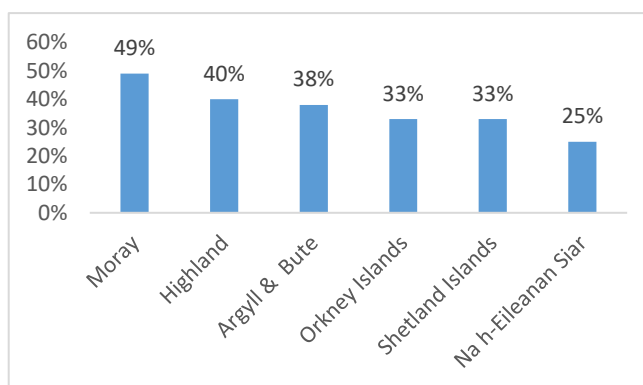


Figure 2. Share of Employment in most exposed sectors by local authority

- Manufacturing; construction; retail & wholesale; accommodation & food services; and arts, entertainment and recreation are among the most at risk sectors.

⁴ www.gov.scot/publications/businesses-in-scotland-2019

⁵ www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/businessregisterandemploymentsurveybresprovisionalresults/2018

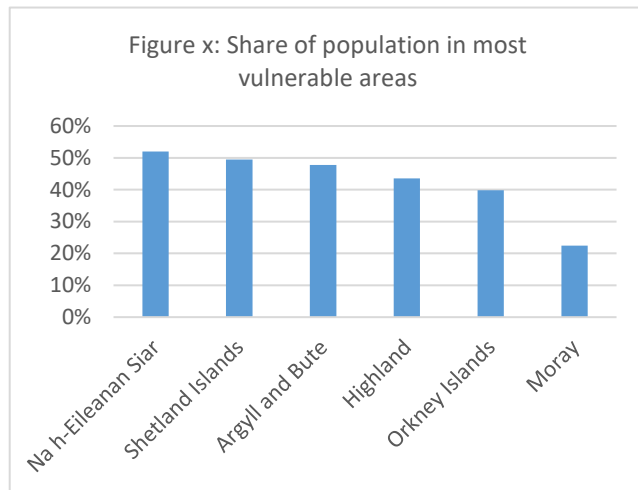
⁶ www.gov.scot/publications/state-economy-april-2020

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Sectoral exposure from Brexit:

- In October 2019, the Scottish Government published a Brexit Vulnerability Index to understand how different parts of Scotland are affected by key risks arising from Brexit.¹
- On average, Highland and Islands local authorities have 41% of their population living in the most vulnerable areas of Scotland.
- Na h-Eileanan Siar and the Shetland Islands have the highest levels, with around half of their population in these areas.
- Other local authorities also have relatively high values, and even in Moray the rate of 22% is higher than the Scottish average.



3. COVID-19 IMPACTS

CoHI local authorities have been disproportionately impacted by the COVID-19 pandemic when compared to the rest of Scotland and UK due, in part to the greater share of employment based in sectors already hardest hit to date by COVID-19, particularly tourism and hospitality and construction. The Scottish Government identified the following sectors as the most exposed to the economic effects of COVID-19: 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%).

The Oxford Economics Vulnerability Index lists the seven local authorities in the region in the top 12 most vulnerable local authorities in Scotland. This index considers a local authority's economic diversity, business environment and digital connectivity as well as the capacity to withstand and respond to the economic shock resulting from COVID-19. Amongst the seven, Argyll and Bute was identified as the most vulnerable in Scotland, with a score of 150.6 (where a score above 100 on the index means an area is more vulnerable than the Great Britain average).

Overall it is estimated that in the Highlands and Islands, the region as a whole, may take longer to regain pre-COVID levels of economic activity than for Scotland overall.

In the Highlands and Islands around 72,000 employments were furloughed for at least part of the period to end June 2020 (33% of eligible employments); suggesting that there is a greater potential for redundancies in the region once furlough support ends. Highland had the highest rate of furloughed employment in Scotland with Portree experiencing the highest annual increase in unemployment of all TTWA areas in Scotland (to August 2020). Unemployment has already risen to 5.7% with youth unemployment rising to 9.9%.

Highland has the highest proportion of the workforce furloughed at 35%, with Moray a close second at 34%. Across Highland between March and August 2020 there has been a 79% increase in Universal credit claimants, ranging between 55% in Invergordon to 256% in North West Skye.

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August figures showed 2,800 people were furloughed in Orkney representing 27% of the eligible workforce. Registered benefit claimants rose 115% from 200 in March to 430 in August.

In Argyll and Bute, ranked 1st of all Scottish local authorities for jobs most at risk⁷, there was a substantial jump in July 2020 in the job claimant count with 3,275 people registered as unemployed (6.4%), which was the same as the Scottish figure and more than double that in February 2020. As of 31st July, 11,100 employments (28% of people in employment) were furloughed across Argyll and Bute.

Across the region, COVID has also had a significant impact on the viability of public transport providers resulting in a large number of routes likely to be stopped in the near future without additional substantial public subsidy, negatively impacting on already very fragile communities.

The economic challenges have already had immediate impacts on the labour market in the Highlands and Islands. The number of job vacancies in the Highlands and Islands was 25% lower at the beginning of July 2020 compared to the same point a year ago. This was due to lockdown restrictions impacting on business confidence, viability, and financial security.

Since the easing of lockdown, there has been an increase in new job postings across the region suggesting a return of some recruitment particularly in Inverness and Elgin. New postings have increased by 138% since April. Compared to September 2019, there have been 81% more job postings.

According to PACE (Partnership Action for Continuing Employment)⁸, data between April and August 2020, 1,231 individuals were made redundant across 60 employer sites. More individuals have been supported by PACE in the first four months of 20/21 than in the previous full year.

Sectors with the greatest number of redundancies for individuals are accommodation & food services (285), wholesale & retail trade (175), Mining & Quarrying (160) and transport & storage (140).

The scale of the challenge based on intelligence from PACE partners suggests that actual and potential redundancies could be far higher than official redundancy notifications.

Covid-19 support:

- At close 8th September 2020, Highland and Islands local authorities and Highlands and Islands Enterprise had distributed over £181.6m in Covid-19 business financial support grants. This includes:
 - £155.6m via the Small Business Grant Scheme and the Retail, Hospitality and Leisure Business Grant Scheme.
 - £20.1m via the Pivotal Enterprise Resilience Fund.
 - £4.9m via the Creative, Tourism and Hospitality Company Hardship Fund.
 - £705k awarded via the Bed and Breakfast Hardship Fund.
 - £245.8k, via the Creative Scotland and Screen Scotland Bridging Bursary for the Arts and Creative Sector.

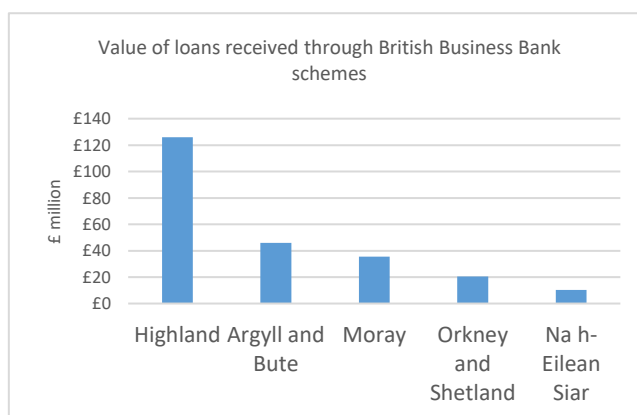
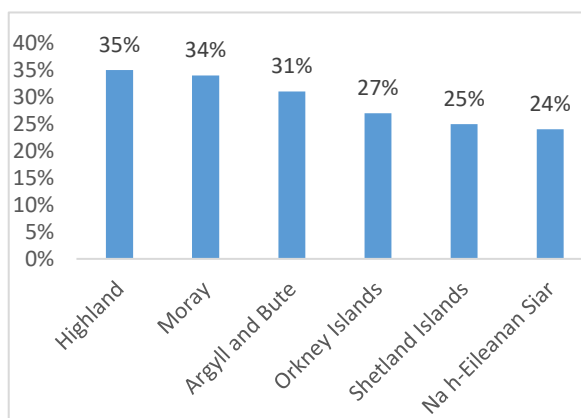
⁷ www.thersa.org/press/releases/2020/one-in-three-jobs-in-parts-of-britain-at-risk-due-to-covid-19-local-data-reveals

⁸ www.skillsdevelopmentscotland.co.uk/what-we-do/employability-skills/partnership-action-for-continuing-employment-pace

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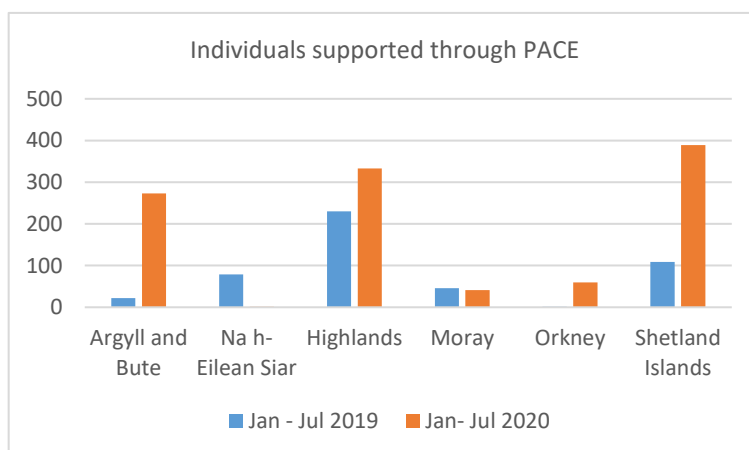
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- The average take up of the Coronavirus Job Retention scheme in Highlands and Islands local authorities was 31% by the end of July 2020.⁹ It was highest in Highland (35%) and lowest in Na h'Eileanan Siar (24%).¹⁰
- At close 31st August 2020, there were 16,700 claims for Self Employment Income Support (SEISS) in Highlands and Islands local authorities. The average take up rate was 52%, compared to a national take up rate of 61%. The total value of SEISS claims made was £43.5m.¹¹
- Businesses are able to access a range of loans to support them with coronavirus impacts, including the Coronavirus Business Interruption Loans (CBLS) and the Bounce Back Loan Scheme (BLS). These are supported by the British Business Bank.
- Businesses in the Highlands and Islands have received almost £240 million through these schemes since the beginning of the pandemic.



Employment support:

- The Scottish Government, through Skills Development Scotland and local authorities, provides free advice and support to businesses and individuals faced with the prospect of making redundancies through its redundancy support partnership (PACE).
- Over a thousand individuals have been supported in the Highland and Islands already since April.
- Compared to last year, there has been a particular increase in support offered to individuals in Argyll and Bute and the Shetland Islands.



Claimant Count:

⁹ Data for August 2020 was not released at a Local Authority level.

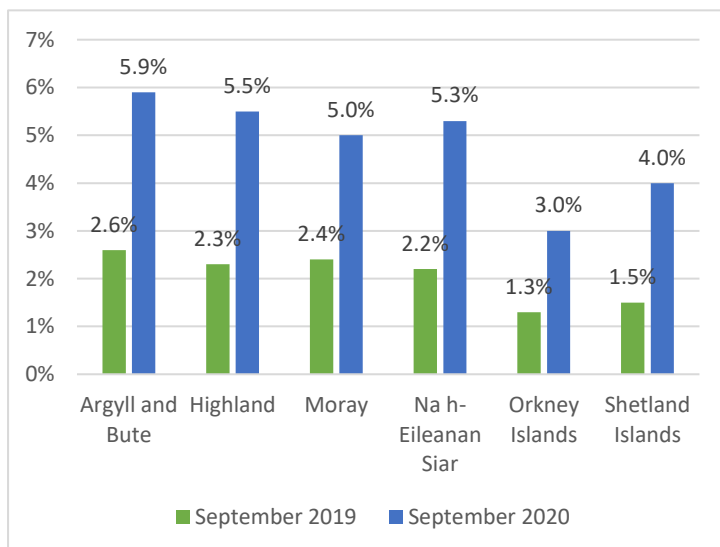
¹⁰ www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-august-2020

¹¹ www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-september-2020

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Figure 4. Increase in claimant count rate: Sept 2019 to Sept 2020



▪ The Claimant Count is a measure of the number of people claiming unemployment related benefits.

▪ Between September 2019 and September 2020, the claimant count rate (as a percentage of the working age population), for each of these 6 Highlands and Islands local authorities has more than doubled. The highest increase was 3.3% in Argyll and Bute and the lowest, 1.7% in the Orkney Islands.¹²

▪ In Arran, the number of people claiming employment related benefits more than tripled over the same period, September 2019 – September 2020.

▪ These figures will mask some variations within the local authority areas and this needs to be taken into account when considering responses to labour market issues in the Highlands and Islands. Making a comparison at national level, over the same period the claimant count rate for Scotland increased by 3.2% and 3.7% for the UK.

4. CRISIS SUPPORT

A swift collaborative effort to protect public health and mitigate the impacts on jobs and businesses and livelihoods has involved Government, national agencies and local authorities in dispersing over £2.3 billion in financial support in Scotland since the beginning of the crisis alongside business support advice and workplace guidance to protect productive capacity and ensure the wellbeing of workers - delivered through Business Gateway, Highlands and Islands Enterprise and the seven local authorities.

National Measures

Immediate crisis support from Scottish Government came in the form of a package of direct support for business worth over £2.3 billion. This four elements: a £972 million package of rates relief and other NDR Income measures; the Small Business and Retail, Hospitality and Leisure Grant Schemes, which are worth over £1 billion (£1,172m); an £185 million additional support fund; and a package of seafood/fisheries measures worth over £17 million.

By the middle of September, local authorities had received over 106,500 applications for our two business grant schemes, with 19,312 of these coming from businesses within the Highlands and Islands LAs, around 18% of the total. From these applications, over 90,500 awards have been made to Scottish business ratepayers, 16,935 in H&I. with a total value of £1.014 billion across Scotland and £180 million to H&I.¹³

Local Measures

¹² ONS - Claimant count by sex and age (not seasonally adjusted) {www.nomisweb.co.uk}

¹³ <https://www.gov.scot/publications/coronavirus-covid-19-business-support-fund-grant-statistics>

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Across the Highlands and Islands a distinct regional and local, multi-agency response is underway, to address specific issues arising as result of the impacts of COVID. Some of the immediate actions included:

- SG, Local Authorities, Business Gateway and HIE to distribute business support funding to businesses.
- Providing online and remote business support and COVID guidelines advice
- Establishing business and economic resilience forums with representation from across public and private sectors, such as those established in Moray and Argyll and Bute.
- Establishing economic recovery groups to develop locally, specific actions to take forward such as the Orkney Economic Recovery Steering group.
- Focus groups with individual sectors such as agriculture and tourism to provide specific sectoral insights on the impact of COVID.
- Establishment of the Highland Recovery Partnership
- Commissioning of economic analysis to quantify the scale of impact in specific areas such as the report commissioned by North Ayrshire on the economic impact on Arran.
- Webinars on business support and COVID information for Community Councils, businesses and the general public.
- Using online tools to survey local businesses.
- Local Authorities reallocating Crown Estate Scotland funding for coastal communities.
- Communities, businesses and third sector organisations responding and adapting to help tackle the crisis.
- HIE supporting the national coordination of advice, information and support and ensuring businesses and communities across the region could access information on all the available support.
- Working collectively across the public, private and third sectors on Covid-19 resilience planning and responses.
- Establishment of local authority COVID business support measures, e.g. Orkney Islands Council Business Hardship Support Grant amongst others.

5. ECONOMIC RECOVERY

Recovery Plans

The COVID crisis has refocused how we view and value particular parts of our economy, it has also highlighted the importance of certain essential enabling factors such as accessible, affordable and reliable digital connectivity, and robust local supply chains. The Scottish Government's recovery plan is clear that the actions that we take now, to emerge from this crisis and begin to rebuild activity and prosperity in the Scottish economy must put us firmly on the path towards our longer term collective aims for the Scottish economy; a wellbeing economy with fair work at its heart, leading a just and sustainable transition to net zero carbon emissions.

Scottish Government has released a number of papers which taken together form a single programme of recovery actions. The Programme for Government (PfG) launched on 1 September, sits alongside the Economic Recovery Implementation Plan which provided an action-based response to the report of the Advisory Group on Economic Recovery and is complimented by labour-market-specific response to the work of the Enterprise and Skills

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Strategic Board. This programme details a range of actions at national level but also focuses on the importance of regional and local approaches and activity.¹⁴

The Advisory Group on Economic Recovery recognised that rural and island communities had been exposed to particular challenges because of COVID - in light of this, SG spoke to a wide range of stakeholders including HIE & SoSE to identify priorities. These fell into the 4 broad pillars of: the natural environment, enabling infrastructure, people and places and enterprise support. Following this there has been a concerted effort to look across government at the activities that were being delivered and draw them into an approach that will support rural and island communities in a way they recognise.

In respect of our Islands, Scottish Government's Islands Team, Islands Partnership Working Group and island community stakeholders have identified key themes and aims within the National Islands Plan to respond to the impact of the pandemic. An analysis of this work will be published soon. SG are developing an Implementation Route Map for the National Islands Plan, informed by learning of how island communities responded and adapted to changing circumstances as a result of Covid-19. This is now with our local authority partners on the Partnership Working Group for feedback. And we have now launched a consultation on the Guidance and Toolkit for Island Community Impact Assessments (ICIAs). This closes on 09 November. The ICIA regulations are on course to be brought into force on 23 December 2020.

Central to the plans for economic recovery is a National Mission to Create Jobs – good jobs and sustainable, green jobs - with a range of integrated actions on themes including: attracting investment, skills and employability, digital capability, community enterprise, and greater localism.

It is clear from the various recovery plans in place that there are not only strong synergies between each of CoHI local authority areas but also with Scottish Government and national agency priorities in terms of the immediate responses and long terms plans.

The economic recovery plans outline key principles which underpin the approaches, including a focus on fair work and equality, good jobs, inclusive growth and a just, sustainable transition to a net zero economy.

Enabling infrastructure for housing, transport, digital and energy is a necessity across the Highlands and Islands region and has recently been strongly evidenced in the indicative regional spatial strategies. The IIP's focus on demographic change as one of the key drivers of infrastructure and on "Building Resilient and Sustainable Places" is welcomed, however Highlands and Islands partners have highlighted concerns that the proposed common investment hierarchy within the draft Infrastructure Investment Plan for Scotland 2021-22 to 2025-26 favours urban areas with existing infrastructure over rural areas with a need for new provision.¹⁵

In the context of depopulation, new infrastructure investment is an essential foundation for creating places where people want to live and business can thrive. The themes of the IIP, including "Inclusive economic growth and "enabling the transition to net zero emissions and environmental sustainability", must support investment in new enabling infrastructure in the Highlands and Islands and may mean a regional approach to the new Scottish Government-

¹⁴ Including "Towards a Robust, Resilient Wellbeing Economy for Scotland: Report of the Advisory Group on Economic Recovery", "Economic Recovery Implementation Plan: Scottish Government response to the Advisory Group on Economic Recovery" and the recent Programme for Government 2020-21.

¹⁵ www.gov.scot/policies/government-finance/infrastructure-investment

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wide infrastructure investment hierarchy will be needed to provide an inclusive and just transition.

The Scottish Government's Infrastructure Investment Plan states that £30 million will be invested in delivering the National Islands Plan over the next five years, by supporting a range of areas, including tourism, infrastructure, innovation, energy transition and skills - informed by our learning of how island communities have responded and adapted to COVID-19. This will include specific ring-fenced funding for capital projects on islands relating to net-zero and green recovery objectives, creating high-quality, skilled, green jobs in some of our most remote and vulnerable communities. This is very welcome for island communities but will not include the very large parts of the region on the mainland that are rural, fragile and in need of infrastructure investment.

In addition to infrastructure, the areas of agreement are 4 priority areas that represent some of the greatest challenges and opportunities for the Highlands and Islands in emerging from the COVID crisis.

Amongst the areas of agreement are 4 priority areas that represent some of the greatest challenges and opportunities for the Highlands and Islands in emerging from the COVID crisis.

Tourism

A consistent thread across partner recovery plans has been the severe and visible impact that COVID-19 has had on tourism and hospitality sector. It is one of the sectors most affected and is likely to continue to be as long as physical distancing and travel restrictions remain in place. The plans highlight the importance of the sector to their local economies. Tourism generates £1.5 billion economic activity each year and employs around 11,000 people in the Highlands and Islands. For example, it is estimated that the visitor economy in Orkney is worth over £67 million per annum employing approximately 1,600 FTEs.

The impact is particularly strong across the region where businesses depend strongly on a short summer season and will effectively have to weather a "three winters in a row" scenario. Bridging the 2020/21 "third winter" operating period will be particularly significant for the Region's businesses and requires targeted additional support.

International visitors also contribute one and a half times more per head to the regional economy, spending on average £374 per trip, compared to £251 per trip for domestic visitors. The impact of the almost complete loss of cruise activity, which has become an important part of many areas within the region, has also been significant and will again need targeted action to ensure an effective revival of this trade within the region.

International tourism arrivals saw a decrease of 44% in Scotland in the first four months of 2020 over the same period of last year. Tourism in the region represents up to 43% of employment in specific areas such as the Cairngorms National Park compared with 8% in Scotland overall. Tourism also makes up the largest share of total employment in both Argyll and Bute (12.5%) and Highland (11.2%). It is important to note that the impact on the sector isn't uniform across H&I with differences between mainland and islands tourism due to a number of factors such as the types of accommodation and attractions as well as the varying length of season and the availability of labour. A significant factor is that island visits require air or ferry travel which is currently considered to be an additional disincentive for visitors, whereas other parts of mainland Scotland benefited from day trippers as lockdown conditions have eased.

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The sector has relied heavily on the Job Retention Scheme and may see significant redundancies when the scheme ends. The sector will see continued pressure through the winter months and funding has been committed to support during this period. A £14 million Hotel Recovery Programme is intended to support up to 3,000 jobs at Scotland's larger hotels until the start of the summer 2021 tourism season. With individual grants of up to £250,000 and business support and advice. In addition VisitScotland will have delivered £1 million in one-off £10,000 grants to self-catering businesses that have not received any other Scottish Government COVID-19 support. A further £6 million of funding support will be provided for the events industry and around 400k to support the work of many tourism groups and industry associations. A £3 million marketing recovery campaign was launched in July to support the re-opening of tourism and provide inspiration, information and reassurance for visitors.

The sector has proved to be resilient in responding to previous economic shocks and some positives can be taken from the lengthening of the overall tourism season and the extension of trip lengths. However, the overall picture for tourism remains challenging into 2021. The new national tourism strategy "Scotland Outlook 2030", focusses on 4 key areas - passionate people, thriving places, diverse businesses and memorable experiences. Recovery of the tourism sector will need collective action across COHI partners focused on those these themes and factoring in the outcomes from the National Tourism Recovery Task Force, due to report shortly.

Alongside our collective response to COVID-19, plans will also seek to tackle underlying issues facing tourism including levels of innovation and investment as well as the impact of Brexit and staff shortages that existed pre-COVID. Recovery plans will need to support businesses to recover, encourage visitors to return or discover Scotland, and support communities to embrace opportunity and stimulate local employment.

Digital Connectivity

The impact of COVID-19 has reinforced the importance of digital capacity and capability across businesses, households and public services. As working from home becomes standard practice for employers, and social interactions increasingly take place digitally, this has brought additional focus to the need to improve connectivity in the Highlands and Islands - at present within all seven local authorities digital connectivity contributed the most to their vulnerability scores in SDS regional Skills Assessment, suggesting poor broadband speeds and low rates of working from home.

Improved connectivity and the attendant skills to could enable more opportunities that could extend beyond COVID-19, with easier home working increasing employment opportunities for those living in the Highlands and Islands and increasing the attractiveness of the region as a place to live, as well as bringing environmental benefits through reduced commuting activity.

Building on the Scottish Government's R100 programme that aims to provide superfast broadband connectivity across the country and the Scottish 4G Infill Programme to build new masts in selected mobile 'not-spots' is continuing to roll out, the 2020 programme for Government committed £23m to support digitally excluded people alongside a network of world class start-up incubators delivering the mentoring and training to start-ups across the country.

The investments being made in City Region and Growth Deals across the Highlands and Islands will play a key role in supporting local and regional economic recovery, through the delivery of projects that can drive sustainable inclusive growth - improving connectivity for local businesses and communities across the region. In total, the Scottish Government will make a combined investment in the four Highlands and Islands deals of up to £242.5 million over a 10-year period, while the UK Government will invest up to £160.6 million over 10 to 15

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years, bringing total investment to £403.1 million. Of the deals in delivery, £20 million is being invested in the Inverness and Highland City Region Deal's Joint Digital Programme, while £5 million will be invested in the Digital Health project in the Moray Growth Deal, which is currently at Heads of Terms.

There is also potential to work with businesses to change their operating model to maximise their online capability and opportunities from increased digitalisation - supporting businesses to diversify into greater online activity, and position themselves for recovery with stronger web presence, social media skills and digital marketing capabilities.

Green Recovery

Scotland's updated Climate Change plan will set a path to meeting ambitious climate targets – including a 75% reduction in carbon emissions by 2030 - as part of a green recovery from COVID-19. The Highlands and Islands of Scotland has a natural abundance of natural capital which gives the region a distinct competitive advantage in green economic activity. Building on the successes such as those of Orkney and replicating the culture of innovation and collaboration, will ensure the Highlands and Islands is well-placed to lead a green recovery for Scotland. Some key opportunities for green jobs, business growth and community wellbeing include:

Increased Renewables deployment - with gigawatts of offshore wind along the Highlands and Islands coastline, advances in tidal and wave energy generation and the region's existing infrastructure, skills base and supply chains from the oil and gas industry, the required four-fold increase in renewable energy to meet net zero ambitions presents a significant opportunity to create new job opportunities at scale. Similarly, significant potential exists to support the Highlands and Islands through reviewing the community benefit approach to onshore and offshore renewables to provide local authorities with strategic investment funds.

Heat decarbonisation and energy efficiency – H&I's rural and island areas, and the fact that the majority of the region is off the mains gas grid, offers the potential for testing and demonstrating unique, potentially exportable, decarbonised heat solutions and innovative energy efficiency measures.

Encouraging more widespread adoption of circular economy practices. Developing low carbon transport options, using the unique geography and abundant renewable resources to test short hop, sustainable aviation alongside the extension of electric vehicle infrastructure to support wider adoption of ultra-low emission vehicles.

Supporting the biodiversity challenge and developing sustainable commercial opportunities through with Peatland restoration, afforestation, sustainable agriculture all present opportunities for businesses, communities and the public estate to realise value.

Scottish Government have committed £66 million to kick starting a green recovery through the £230 million Economic Recovery Stimulus Package announced in June. Alongside the first tranche of the SG's £2 billion Low Carbon Fund which includes: a £100 million Green Jobs Fund, providing £60 million for industrial decarbonisation and helping to secure investment of £1.6 billion over the next Parliament in heat and energy efficiency in homes and buildings.

For our Islands, a new £2 million Islands Green Recovery Programme (IGRP) was launched on 13 September 2020. The IGRP will support green recovery and carbon emissions reductions while increasing the resilience of island communities through investment in active and low carbon transport, sustainable tourism, food sustainability and zero waste projects that

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support and impact upon sustainable employment and the green circular economy; while enhancing local supply chains and economic output.

The four City Region and Regional Growth Deals in Inverness, Moray, Argyll & Bute and the Islands will contribute to net zero ambitions through a range of measures such as adapting new and innovative technologies, moving industry to a lower carbon future and investing in renewables. Green projects, such as the £4 million Bus Revolution project in Moray, which will provide more efficient and accessible bus services tailored to a largely rural economy by using green fleet and advanced technology, will facilitate emissions reductions and support green economic growth.

Additionally, to support H&I's renewables growth and energy efficiency aims, partners should aim to leverage SG's £62 million Energy Transition Fund to support a just transition for the energy sector; and the £200 million funding this year for domestic and non-domestic energy efficiency programmes.

Resilience

The economy will thrive best where there is effective and supportive, action-orientated relationships between communities, business, government and the wider public sector. Creating a more resilient economy as we emerge from the COVID crisis will require:

Greater economic engagement – the early stage of the COVID response, brought together government, business, trade unions, national and local partners to develop an economic response that involved advice and funding for businesses as well as the development of new guidelines to manage the impacts of COVID in the workplace – ensuring safety for workers and customers.

This renewed engagement should be continued and work should progress with economic stakeholders to develop and deliver sector recovery plans, working collaboratively with ILGs, trades unions and regional agencies.

One example of this work in practice is the plan to champion and enhance the role of SMEs and their engagement with opportunities across the Energy and Oil and Gas sectors through the Oil and Gas and Energy Transition Strategic Leadership Group, working alongside wider industry, public partners and the Trade Unions.

The nature of the economic partnerships across the region does vary to reflect the business sectors and local priorities, Moray Economic Partnership is an example where the private and public sector come together to develop and deliver Moray Economic strategy, develop the Moray Growth Deal and has been at the forefront of economic recovery from COVID 19 in Moray. Similar partnerships exist across the region and elsewhere in Scotland. For example The One North East model – which is working to diversify the north east economy to broaden its sector focus from the traditional emphasis on oil and gas - is an example of a formal economic partnership approach action.

Moving forward from the pandemic gives us an opportunity to collectively look afresh at regional structures to establish if there are ways to strengthen partnership working in the region. In particular to ensure strong and sustained involvement from the private sector in developing and delivering economic strategy addressing regional opportunities and challenges.

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Another major theme in developing resilience will be how our town centres will recover from the impacts of the pandemic - many local businesses are at risk from the extended reduction in custom despite Government support.

Scottish Government has made £21 million available in recovery and resilience funding for town centres and Business Improvement Districts and the ongoing work reviewing the Town Centre Action Plan is intended to strengthen the contribution of local town centres to our national economic, social, and environmental future. It is important that future funding allocations ensure that they can be relevant to all parts of the region – noting that smaller and historic town centres may not have had the same opportunity to benefit from earlier infrastructure funding.

The recently launched “Scotland Loves Local” Campaign in collaboration with Scotland’s Town Partnerships released polling which shows that most people in the Highlands and Islands say they will always support shops on their local high street and 95% accept that local companies could go out of business unless people support their local town centres.

Moray Council is leading work on various initiatives to regenerate town centres including proposals for public realm works to improve and adapt town centres including: the pop up shop scheme in the five towns of Buckie, Elgin, Forres, Keith and Lossiemouth; the 50k Town Centre Start Up fund - offering a 50% grant up to £10k for start-ups, promotion of vacant and derelict sites, retail impact assessments, master planning for town centres and promotion of town centre living and adaptation for climate change and local place plans. Additionally, Orkney Islands Council recently supplemented a £60k Kirkwall BID discretionary project fund.

North Ayrshire has launched a ‘Keep it Local’ campaign to encourage people and businesses to spend locally, make use of local supply chains, and for businesses to tap into the skills and experience of the local workforce. The North Ayrshire Economic Recovery and Renewal Approach published in September 2020 focuses on building back better, fairer and greener through a local Green New Deal based on the principles of Community Wealth Building. The document outlines specific support for the island communities of Arran and Cumbrae including proposals to resource a dedicated Senior Manager for the Islands to support recovery and renewal, working closely with island communities, Scottish Government, Highlands and Islands Enterprise and other partners to develop plans through a Community Wealth Building lens. In addition, the £660,000 North Ayrshire Community Wealth Building Business Fund allows for provision of grant and specialist support to projects designed to retain local wealth.

Arran and Cumbrae are part of the £251 million Ayrshire Growth Deal (AGD). The Heads of Terms agreement includes £9.5 million for Marine Tourism to support the visitor and blue economy which will focus on securing infrastructure that supports key components such as sailing and boating, marine leisure and recreation at Ardrossan, Arran and Cumbrae.

Analysis on the impact of COVID in Arran has demonstrated the reliance of island economies like Arran on transport infrastructure for economic and social activity, transporting commuters, good and tourists. The island’s Gross Value Added (GVA) for the first half of 2020 fell by a third as a result of a reduced passenger numbers, tourism and related economic activity compared to the first half of 2019. The report has also shown the importance of the ferry to the island’s economy, which contributes £170,000 each day of ferry operation to Arran, supporting jobs and livelihoods.

Recognising that many SMEs have shifted from a growth agenda to a survival agenda, Argyll and Bute Council has been given approval from the Scottish Government, as the Management Authority, to flex its Business Gateway Local Growth Accelerator Programme (LGAP) support

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to allow the programme to also help businesses build their resilience to respond to the COVID-19 pandemic and other economic shocks including Brexit.

6. WELLBEING ECONOMY

A wellbeing economy means creating an economy that supports all of our communities across Scotland to access opportunities that deliver local growth and prosperity through recognising local strengths and challenges and tackling inequalities. It is an economy that is environmentally sustainable, where businesses can thrive and innovate, and where the principles of fair work are central to how we organise.

Through a commitment to deliver an approach that improves our economy, with good quality jobs, in a way that enhances quality of life and is compatible with a transition to net zero, we can also gain a more resilient sustainable economy.

A Wellbeing Economy is characterised by the following principles:

Economic progress and prosperity: a thriving, innovative and entrepreneurial private sector with growing and sustainable businesses

Inclusion: Ensuring that all people and communities across the regions of Scotland feel the benefits of, and are able to contribute to, our economy and society irrespective of whether locations are urban, rural, island or somewhere in between.

Sustainability: Adjusting to a more resource-efficient and sustainable economic model, to protect and restore the natural environment and help us live within the planet's sustainable limit – balancing current and future economic wellbeing.

Resilience: building economic diversity and ensuring people and communities have a stake in their local economy increases resilience - a wellbeing economy must be 'future proof' and agile enough to withstand and respond to external risks and shocks.

One practical means to achieving a wellbeing economy is through a Community Wealth Building approach. Using the economic levers available to 'Anchor Institutions' to create a fairer and more inclusive local and regional economy. Anchor Institutions are organisations that are rooted to a place such as Local Authorities, NHS, further and higher education institutions, and larger local private or third sector organisations. Ultimately, Anchor Institutions can vary depending on the scale of the local economy and geography of the local place so these might be different due to the diverse communities of the Highlands and Islands region.

Community Wealth Building has five distinct pillars: procurement, fair employment, land and assets, financial power and plural ownership. These are focused on making sure that wealth is locally owned and benefits local communities through harnessing existing resources. Further information on these powers and their outputs can be found in the accompanying paper on Community Wealth Building.

The Scottish Government's Economic Recovery Implementation Plan and Programme for Government set out measures to support the transition to a wellbeing economy including:

- assessing the scope for the establishment of a Centre for Workplace Transformation in conjunction with Skills Development Scotland, trade unions, business, enterprise agencies and further and higher education establishments.
- progressing a gender pay gap action plan, treating investment in childcare and social care as economic infrastructure.

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- establishing a virtual 'Centre' of Expertise in Equality and Human Rights embed equality and human rights considerations at the heart of economic policy making.
- applying Fair Work criteria to grants, funding and contracts awarded by and across the public sector wherever possible.

7. JOBS, TRAINING AND SKILLS

It will take some time to understand the full impact of COVID-19 on the labour market due to time lags in the data and initiatives like the Coronavirus Job Retention Scheme but there have been clear immediate impacts with the number of job vacancies in the Highlands and Islands down 25% in July, year on year. Similarly, the workforce shrunk by 1.5 per cent (or 3,500 people) between 2019 and 2020. Data suggests that job losses are most likely to be related to retail, construction and the tourism sectors.

However, demand in some sectors remains strong, particularly in health and social care which already employs around 32,000 people within the region and has seen the pandemic increasing the demand for skilled staff in hospitals and in other care settings where labour and skills shortages already existed.

The changing nature of labour demand highlights the need for strong and responsive programmes of retraining and skills matching to reduce the levels of structural unemployment as well as closer interactions between agencies and education institutions to plan for a fast-changing labour market.

The labour market impacts of the pandemic will not solely be restricted to those who are in work. Modelling work undertaken by SDS and validated by Highlands & Islands partners suggests that a broad range of groups are likely to see their labour market choices impacted by economic and labour market crisis. This will impact most significantly on young people. Critical areas for additional service provision include:

- Estimated 5,000 school students due to leave school in the next year;
- 5,100 young people currently in the senior phase at risk of a negative destination,
- 3,975 apprentices currently in training in the region,
- and over 3,600 UHI qualifiers who normally complete their studies this year;

The response to this crisis will require a concerted and collaborative effort for the next 12-18 months across all Highland and Islands partners.

Regional and Local Response

Skills Development Scotland is engaging with partners within the Highlands and Islands to develop opportunities to support training and employment in the most impacted areas. These include;

- A monthly COVID Labour Market insights data and Regional Skills Assessments from SDS, highlights the impact of Covid-19 on the wider economy and how this will affect sectors and people in the Highlands and Islands.
- Developing a range of products and services such as a support helpline for anyone whose employment, learning or training has been impacted by the pandemic, a jobs hub, and an online learning portal. Additionally, employment and redundancy support, as well as a COVID relief grant for training providers is also being provided.
- A series of workshops involving SDS, SFC, HIE, local authorities and UHI focussing on determining the specific challenges, the opportunities for employment as the economy begins to recover, and the capacity of partners to respond to these challenges.

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The initial focus for the University of the Highlands and Islands over the summer was to prepare campus and curriculum plans so that as much of its curriculum as possible would be available safely at the beginning of the academic year. Almost all courses are now running with prioritised access to buildings where essential and in some cases practical activity has been moved to later in the year.

The university is now preparing for the longer term – both in semester 2 (from January 2021) and in the next academic year. Academic partners and the university centrally will work with SDS and SFC to consider new provision from January to respond to anticipated increases in demand for people wishing to retrain and also for courses aimed at young people who had intended to enter either apprenticeships or work but were not able to do so. This new provision may be funded by additional SFC or SDS funding linked to Programme for Government interventions and will also include reprioritisation of existing funding.

National response

The Scottish Government has published its Economic Recovery Implementation Plan which focuses on recovery and economic growth post-COVID. The paper outlines Scottish Government actions to support recovery, actions at a national and regional level, the key principles of recovery, and the key opportunities for the Highlands and Islands in future (e.g. digitalisation and improved regional attraction for new citizens through remote working, and green jobs). The key actions to support employment are listed below:

- A £60m Young Person's Guarantee, guaranteeing every 16-24-year-old an opportunity at a university, college, apprenticeship, employment, or volunteering programme which will act as an anchor for rural areas in the Highlands and Islands;
- Individuals in the Highlands & Islands who have lost their jobs, or find their jobs at risk will be able to access a National Transition Training Fund (£25m). This will assist those facing redundancy and unemployment and help provide re-training in areas of opportunity.
- A focus on low carbon recovery, including a £100m Green Jobs fund, investment in decarbonisation of properties, and investment for decarbonising the industrial and manufacturing sectors;
- Increasing funding to £20m for the Flexible Workforce Development Fund;
- Additional investment of £23m to help more digitally excluded people get online;
- Additional £10m support for redundant apprentices through 'Adopt an Apprentice'; and,
- £3.7m for Individual Training Accounts

Outlook and opportunities

Medium to long-term forecasts (2023-2030) do not highlight strong additional jobs growth in the Highlands and Islands but contain largely replacement demand for labour. However as highlighted, there is strong demand in some sectors and with the main employment opportunities in the short term around health, education and childcare, retail, and public administration and defence.

In line with the agreed priority areas for economic recovery, in the medium term the main areas that offer opportunities for jobs growth are in digital technology, green jobs/renewable industries, the blue economy, and through tourism. These opportunities are the focus of the Regional Skills Investment Plan which was developed prior to the pandemic, to continue to address skills and labour market challenges in the Highlands & Islands and begin to pivot to focus on the skills and training needs of employers in the growth areas identified above. The Skills Leadership Forum will agree key priority actions for the remainder of 2020-21 and begin engagement with key employers in areas of growth to identify and meet their skills needs.

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Youth employment

There is continued ongoing concern over levels of youth migration from the Highlands and Islands to central Scotland, causing the working age population to shrink further. Employers have also focused understandably on immediate issues – including business survival – rather than recruitment, or up-skilling of staff to promote employment locally.

Continuing to support young people to progress into apprenticeships in areas of opportunity across the region will remain a key focus and has been identified as a critical activity in local recovery plans. National support through the Young Person's Guarantee and the 'adopt an apprentice' programme will provide opportunities locally to retain talent within the region and train them for future job demands in key sectors.

The 'Pathways to Apprenticeships' initiative could also see those leaving school with fewer options, through no fault of their own, supported through challenging and uncertain times. This would help to meet the needs of employers and young people in the Highlands & Islands, to support the recruitment and retention of apprentices in key employment opportunity areas.

8. FORWARD LOOK

2020 has brought the region's demographic challenges into even sharper focus with evidence suggesting a greater impact on young people and on some of our more remote areas. We will need to focus on recovery, building resilience in our businesses and communities so they can be sustainable and grow, retaining and creating employment and attracting new population and investment. A separate paper on the demographic challenges - A Focus on Peripheral and Fragile Areas explores these issues in greater detail.

The region has many opportunities from its unique natural, physical, human and cultural assets and a recovery built around green and blue growth will be key. HIE, in liaison with COHI partner organisations, has identified areas of focus for regional recovery and will pursue new opportunities including:

- The growing space sector, life sciences, energy and the blue economy where the region has natural, place-based advantages.
- Investment in enabling infrastructure - e.g. digital, housing, transport, energy, innovation, ports and harbours – will be fundamental to delivering the economic opportunities for the region and attracting and retaining talent
- Supporting more businesses and communities through extended use of digital services and engaging with different types of businesses to aid recovery
- A strong population attraction and retention strategy and action plan which includes public sector jobs dispersal and maximises the opportunities arising from increased remote working and interest in rural areas
- Close collaboration of local authorities, HIE, UHI, SDS and other partners to progress the growth deals. Increased impetus to review projects underway to ensure they are effective in responding to the new economic climate and aligned to a just transition to net zero.
- Targeted inward investment on competitive place-based or thematic strengths
- Supporting locally and regionally significant social enterprises and community anchor organisations to develop community led responses

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The region also has strong potential to take a lead role in Scotland's transition towards decarbonisation and a net zero economy - utilising the area's natural resources and existing supply chains and skills base. Earlier work for COHI identified a number of regional transformational opportunities within the themes of natural capital, energy, advanced technology, and marine including:

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

Continuing to support young people to progress into apprenticeships in areas of opportunity across Highlands & Islands will continue to be a key focus for the region and has been identified as critical activity in local recovery plans. Following a long period of consistent and sustained growth in MAs (since 2010/11 Apprenticeship numbers have risen by 39%) The number of MA starts in Q1 this year in the Highlands and Islands has fallen to less than 23% of last year's figure. The introduction of a range of support to retain apprentices, including testing new delivery models, will have a positive impact on apprentices, as will the focus on supporting apprenticeship recruitment from public sector partners.

It is critically important to continue to promote the uptake of Foundation Apprenticeships in the Highlands & Islands, to help young people to avoid negative destinations. Foundation Apprenticeship numbers have been growing steadily in the Highlands & Islands, with expected growth in the latest cohort for 2020.

Through the Young Person's Guarantee, every young person aged between 16 and 24 in the Highlands and Islands, will be guaranteed an opportunity at university/college, on an apprenticeship programme, or in employment including work experience or participating in a formal volunteering programme. However there will be significant work required across economy and education partners to ensure that the opportunities are available in sectors that will support the Highlands and Island's longer term wellbeing recovery.

9. CONCLUSIONS

This paper sets out the current view of the economic impact of COVID on the varied economy of the Highlands and Islands, identifying priority areas of focus across diverse parts of Scotland drawing out some of the shared challenges and the unique issues that individual areas within the Highlands and Islands face. Partnership working will be important, pooling resources, knowledge and expertise to deliver in challenging times, and ensuring a strong private sector voice in defining forward strategy and delivering on shared priorities. The paper identifies some of the actions that have been taken as part of the immediate response to protect health, safeguard productive capacity and support the retention of jobs as well as some ongoing and planned activity to support national and regional economic recovery. However this is only small proportion of the work required and in a climate of unprecedented uncertainty, plans that we collectively make now have to be flexible and responsive to the changing economic environment. These plans need to acknowledge and bend to the particular needs of the different regions of Scotland and the communities, businesses and workers therein as we take our first steps towards economic recovery.

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Set out below are the primary conclusions of the paper, focussing on some of the key challenge areas where the Convention partners can contribute to the economic recovery of the region:

- Closer partnership working & agreement of common goals with Highlands and Islands partners and the Scottish Government
- Reflecting on how business, communities, trade unions and the third sector can contribute to forward strategy in a more structured and sustained way and whether current REP structures are sufficient or if further development of REP's should be considered to help facilitate that engagement.
- Further analysis of the impact that COVID restrictions may have on the specific economic challenges of the Highlands and Islands to support a differentiated and more nuanced local approach going forward – whilst supporting the essential public health measures.
- Driving green recovery and leveraging the regions natural assets
- Developing the blue economy and the vitally important opportunities for migration and talent for some of our most peripheral areas and those with demographic challenges
- Strengthening the region's digital connectivity and the skills and capabilities of residents and business to take up new opportunities and support future growth ambitions;
- Continuing support to businesses with a focus on appropriate shorter, more resilient, local supply chains
- Supporting a long-term sustainable return of tourism in the region.
- Continued partner contribution to developing and implementing effective and co-ordinated academic and labour market responses to COVID challenges - which will be driven forward through the Highlands & Islands Skills Leadership Forum.
- Refreshed focus on a wellbeing economy including embedding community wealth building and fair work across economic recovery activity.
- Renewed focus on infrastructure investment as an essential foundation to creating vibrant, resilient, attractive places where people want to live and business can thrive.
- Acknowledge that the effects of Covid could have a deeper and more lasting negative impact on the economy of the Highlands and Islands than elsewhere in Scotland if targeted action is not taken.

10. The Convention of the Highlands and Islands is invited to consider this paper and:

- a. discuss the priorities for economic recovery identified;**
- b. identify what targeted action is needed to address the specific issues identified.**
- c. agree that the Convention partners should work with the Scottish Government to develop these priorities and lead co-ordinated partnership actions to progress them.**
- d. consider whether there is a need for additional formal REP structures for the region and if so how best to facilitate that to strengthen the existing partnership approach.**