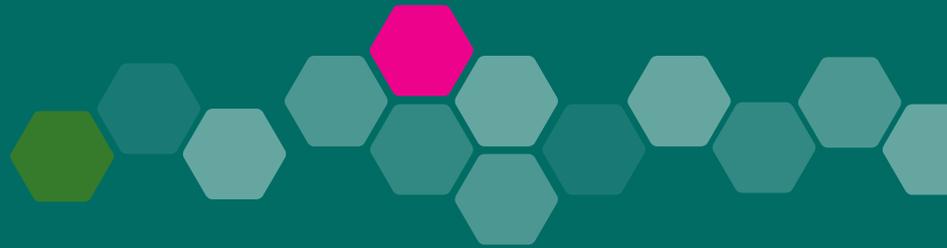




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Rural Business Panel Survey 2021



AGRICULTURE, ENVIRONMENT AND MARINE



Rural Scotland Business Panel Survey

December 2021

Undertaken by Ipsos MORI

In collaboration with Highlands and Islands Enterprise
and South of Scotland Enterprise



SOUTH of
SCOTLAND
ENTERPRISE



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Executive Summary

This report presents findings from the first Rural Scotland Business Panel survey carried out in October/November 2021.

Overview and key findings

This first wave of the Rural Scotland Business Panel survey was carried out at a time when businesses were grappling with a range of economic challenges. In addition to the ongoing recovery from Coronavirus (COVID-19), businesses were operating against a backdrop of increased inflation, record fuel prices, widespread reports of fuel shortages and the disruption to the wider supply chain.

Against this background, the survey highlighted a number of key findings in relation to the attitudes, behaviours and priorities for rural businesses at this time, including:

Key findings

Despite challenging economic circumstances, rural businesses were generally confident in the economy and were optimistic about their future prospects. In terms of future aspirations, around a third were striving for growth while half were content with their current level of performance.

Most businesses had experienced increased costs in the last 12 months and this was their top concern. Response to increased costs varied, but businesses were more likely to have absorbed those costs than passed them on to customers through price increases.

Supply chain issues were common, particularly in relation to accessing the goods, materials, or supply of services needed. These supply chain issues had contributed to increased costs and a range of other impacts.

Half of businesses were experiencing labour shortages, either as a result of recruitment or retention challenges or from staff absences.

Moving to net zero was seen as important but, in the short term, the top priorities for businesses were keeping pace with new technology and innovation.

Optimism and performance

- Thinking about the economic outlook for Scotland over the next 12 months, 60% of businesses were confident, while 38% were not. Most had seen their confidence either increase (17%) or remain stable (48%) in the past six months. For 34% of businesses, confidence had decreased
- Three fifths of businesses were operating at either the same level (40%) or over and above the level (20%) they were before COVID-19. Just under two fifths (39%) were operating below their pre-pandemic levels
- Over the past six months, sales or turnover performance was mixed, while employment had remained relatively stable. Exports were more likely to have

decreased than increased but had remained stable for around half of businesses.

- Most (77%) businesses were optimistic about their prospects in the next 12 months, but 22% were not.
- In terms of their current aspirations, just over a third (37%) were striving for growth while half (50%) were content with their current level of performance. Around one in ten (12%) wanted to downsize.

Top priorities and concerns

- Of the five areas explored, top priorities for businesses over the next 12 months were keeping pace with new technology (54%) and innovating or evolving what they do (47%).
- Moving to low carbon ways of working was least likely to be a priority within the next 12 months (26% said it was), but a further 39% said it was a priority for the next 5 years, making it the third highest priority overall.
- The most significant concerns for businesses were increased costs (81%), followed by economic uncertainty (67%), changing regulations (56%), supply chain issues (56%) and retaining customers (56%).

Financial concerns and access to finance

- Overall, around a third (35%) of businesses were concerned about at least one of these aspects of their finance: low or no cash reserves (26% concerned), access to finance (15%) and existing debt (15%).
- Just over half (55%) were currently using or planning to use external finance. A quarter were already using loans from banks or financial institutions (25%), public sector loans or grants (25%) and credits or overdrafts (23%).
- The main reason for using or planning to use financial support was for cash flow (28%) followed by buying new assets (16%) and working capital (14%).
- Half (50%) of businesses had applied for financial support in the past 12 months. Of those, 95% had been successful (78% getting all and 17% some of what they wanted). Only 5% were turned down on everything.

Increased costs

- The majority of businesses reported cost increases across almost all measures asked about in the survey. The exceptions were cost of premises and business rates, which remained relatively stable.
- Among those that had experienced cost increases in the last 12 months, 36% had absorbed those costs internally, 13% had increased their prices, and 48% had done both.

Labour and supply chain issues

- Among businesses for whom it was relevant, 48% said they had experienced labour shortages: 39% arising from recruitment or retention challenges, and 38% arising from staff absence.

- The three most common impacts of labour shortages were: increased workload for other staff (36%) difficulties in delivering services or fulfilling orders (16%) and scaling back production or services (14%).
- Among those for whom it was relevant, three quarters (73%) were experiencing some form of supply chain issue. In particular, 70% were experiencing issues accessing the goods, materials, or supply of services they needed, while around half were experiencing issues with export processes (47%) and transportation of goods to customers (44%).
- Four in five (82%) businesses that were experiencing supply chain issues said this had led to increased costs.

Markets

- Around three quarters (72%) of businesses were importers. The largest market was England and Wales (67%) followed by the European Union (EU)(34%), outside the EU (20%) and Northern Ireland (18%).
- The majority (97%) of businesses sold goods or services within Scotland, with half selling only in Scotland and half exporting outside of Scotland.
- Thinking about the 12 months ahead, there was a sense of cautious optimism about future sales. Businesses generally expected either stability or an increase in sales to the markets they operated in.

Net zero

- The vast majority (93%) of businesses were currently taking some action(s) to reduce their greenhouse gas emissions. The top three actions were: recycling and minimising waste (89%), using more locally sourced supplies (69%) and improving energy efficiency of premises (48%).
- The most frequently mentioned barriers to reducing emissions were: cost of making changes (73%), lack of green transport options (55%) and difficulty making existing premises more energy efficient (55%).

Workforce and Fair Work

- Among employers, 46% considered their business to be employee-owned, while 54% did not.
- Around a third of businesses had staff on furlough (Coronavirus Job Retention Scheme) in the few months leading up to end of the scheme (up to 30th September 2021). Of those that did, the majority (84%) said recently furloughed staff were back in their usual role.
- The majority of businesses (76%) were taking measures to support Fair Work for their staff. Around two thirds (65%) were paying the real Living Wage, 59% were committing to flexible working and 51% had Diversity and Inclusion policies. Fewer, 35%, were measuring their gender pay gap.

1. Introduction

The Rural Business Panel Survey

The Rural Scotland Business Panel was established to measure and monitor the economic health of rural Scotland through capturing the experiences and opinions of rural businesses and social enterprises. It was commissioned through a partnership of the Scottish Government, Highlands and Islands Enterprise (HIE) and South of Scotland Enterprise (SOSE).

This report presents the findings from the first wave of the Rural Scotland Business Panel survey. The Rural Scotland Business Panel builds on two existing business surveys: the HIE Business Panel survey, running since 2014, and the SOSE Business Panel survey, running since June 2021. It also builds on the Scottish Government's previous research with rural businesses via the annual rural business survey (conducted by Scotland's Rural College (SRUC) among businesses in Aberdeenshire, Dumfries and Galloway, the Scottish Borders and Tayside) which ran from 2017/18 to 2019/20¹.

Given the collective aspirations to build a stronger evidence base for the rural economy in Scotland, the Scottish Government, HIE and SOSE commissioned this joint survey of businesses across rural Scotland. The survey acted as a continuation of the HIE and SOSE Business Panel surveys already established, covering the Highlands and Islands and South of Scotland regions respectively, expanded to include a larger sample covering the rest of rural Scotland. The HIE and SOSE Business Panel surveys were distinct components of the overall survey, with findings reported on separately as well as within this report².

The aim of the survey is to ensure that the voices of rural businesses are represented at regional and national level. Survey findings will help address existing data gaps by providing consistent and comparable data on businesses in each region and across rural Scotland overall, allowing the Scottish Government, HIE and SOSE to explore emerging opportunities and challenges and to track change over time. Findings will help inform resource prioritisation and policy development within and across the public sector.

The survey covered a range of topics including: economic optimism, current priorities and concerns, financial support, response to cost increases, labour shortages, and supply chain issues. It also covered import and export markets, business response to net zero and Fair Work.

¹ The Rural Business Surveys conducted by SRUC are available online at: <https://sefari.scot/research/the-impact-of-change-on-rural-businesses>

² HIE Business Panel report is available on the HIE website at: www.hie.co.uk/businesspanel; SOSE Business Panel report is available on the SOSE website at: www.southofscotlandenterprise.com/business-surveys

Context

The survey was carried out against the backdrop of challenging economic circumstance for businesses in rural Scotland, and across the UK.

Though widespread Coronavirus (COVID-19) lockdown restrictions had eased, some businesses were still operating in a different way than they had been pre-pandemic, with the tourism sector in particular still subject to limitations on its usual operation.

September and October 2021 saw reports of increased inflation, record fuel prices, widespread fuel shortages and disruption to the wider supply chain. The survey therefore explored the extent to which these issues had impacted on rural businesses.

November 2021 saw the UN Climate Change Conference (COP26) take place in Glasgow, with the attention of global media turned to Scotland and its response to the climate emergency. The survey therefore captured business views on net zero and moving to low carbon ways of working.

Methodology

Fieldwork

The survey was conducted with businesses and social enterprises across rural Scotland between 4 October and 1 December 2021, using telephone interviewing. In total 2,726 eligible interviews were achieved.

Geographic coverage

The survey covered three geographic areas:

- Highlands and Islands (the area covered by HIE), including: Argyll and the Islands, Caithness and Sutherland, the Inner Moray Firth, the Outer Hebrides, Lochaber, Skye and Wester Ross, Moray, Orkney and Shetland.
- South of Scotland (the area covered by SOSE), consisting of Dumfries and Galloway and the Scottish Borders.
- The rest of rural Scotland. This area included all other parts of rural Scotland not already covered by the HIE and SOSE samples. For the purposes of this survey, 'rural' was defined as categories 2 to 6 of the Scottish Government's six-fold Urban Rural Classification³ (see Table 1.2), excluding any parts of category 2 that were within travel to work areas⁴ centred on Large Urban

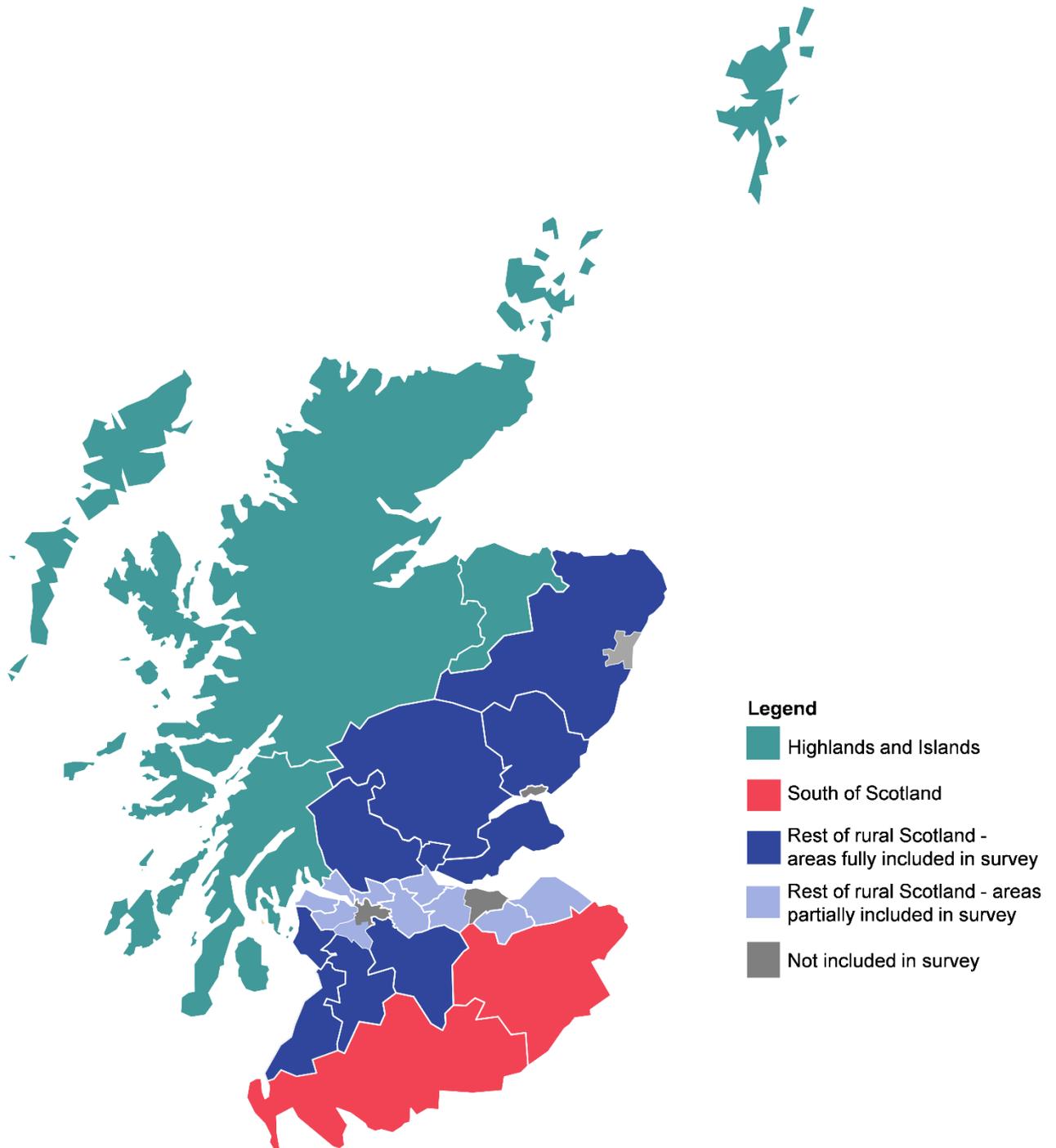
³ The Scottish Government's six-fold Urban Rural Classification is described on the Scottish website available at: <https://www.gov.scot/publications/scottish-government-urban-rural-classification-2016/pages/2/>

⁴ Travel to Work Areas (TTWAs) are a statistical tool used by UK Government and local authorities to indicate an area where the population would generally commute to a larger town, city or conurbation for the purposes of employment. The TTWAs were developed in 2011 by Newcastle University using an algorithm to identify community patterns.

area (e.g. excluding category 2 areas that are within commuting distances from Glasgow, Edinburgh, Aberdeen or Dundee, and therefore share some of the infrastructure and operating environments of those large urban centres).

The map in Figure 1.1 shows the broad areas covered by the survey.

Figure 1.1 – Map showing the areas covered by the survey



The number of achieved interviews in the three areas is shown in Table 1.1.

Table 1.1 – Number of interviews by geographic area

Area	Number of interviews
Highlands and Islands	1,003
South of Scotland	602
Rest of rural Scotland	1,121
Total	2,726

The profile of the businesses that took part in the survey covered a range of categories in the six-fold Urban Rural Classification (Table 1.2), with more than half (57%) being in either a remote or accessible rural area. Further details of the profile of the survey sample are shown in Appendix B and a map of the six-fold Urban Rural Classification is provided at Appendix C.

Table 1.2 – Profile of survey sample by Urban Rural classification

Category	% of participating businesses
1 (Large urban)	-
2 (Other urban areas)	22
3 (Accessible small towns)	13
4 (Remote small towns)	9
5 (Accessible rural areas)	31
6 (Remote rural areas)	26
Total	2,726

In this report, survey findings have been condensed into three categories: remote rural (category 6), accessible rural (5) and the small towns and peripheral urban areas (2 to 4). This grouping of categories 2, 3 and 4 together allows more statistically significant variations between groups to emerge because of the larger sample size involved.

Sampling

The survey sample was sourced from two sources. For the HIE and SOSE areas, the sample was mainly sourced from businesses that were members of their existing business panels, that had indicated they were willing to be re-contacted. The remaining sample was sourced from the Dun and Bradstreet business

database and was stratified by sector and size to reflect the population of businesses in rural Scotland.

Quotas were set for recruitment and interviewing so that the achieved sample reflected the population of eligible organisations as defined by the Inter-Departmental Business Register (IDBR)⁵. Eligible organisations were defined by SIC (Standard Industrial Classification) code, with the following SIC 2007 Sections excluded from the sampling:

- public administration and defence; compulsory social security;
- education and health and social work;
- activities of households as employers; undifferentiated goods- and services-producing activities of households for own use; and
- activities of extraterritorial organisations and bodies.

SIC codes were used to identify areas of economic activity considered to be growth sectors⁶ (as set out in the Government Economic Strategy) so that quotas could be set to ensure these were represented in the survey sample. These growth sectors are derived from the longer list of SIC code categories (as outlined in Table 1.3) and are used for analysis throughout the report. Where businesses do not fall within one of these categories, they are classed as “non growth sector”, a collective term that covers a range of individual SIC categories (see breakdown of the sample in Appendix B).

⁵ UK Business Counts – enterprises by industry and employment size band:
<https://www.nomisweb.co.uk/datasets/idbrent>

⁶ Scotland’s Economic Strategy identifies growth sectors here:
<https://www.gov.scot/publications/growth-sector-statistics/>

Table 1.3 – Growth sector categories

Growth sector	Includes parts of the following SIC 2007 categories
Food and drink	A – Agriculture C – Manufacturing (e.g. of food and beverages)
Creative industries (including digital)	C – Manufacturing (e.g. of furniture, ceramics, textiles, etc.) G – Wholesale and retail J – Information and communication M – Professional, scientific and technical activities (e.g. architecture, advertising, design etc.) N – Administrative and support services R – Arts, entertainment and recreation
Tourism	I – Accommodation and food service activities N – Administrative and support services R – Arts, entertainment and recreation
Energy (including renewables)	B – Mining C – Manufacturing (e.g. of chemicals, petroleum) D – Electricity and gas E – Water M – Professional, scientific and technical activities
Financial and business services	K – Financial and insurance activities M – Professional, scientific and technical activities N – Administrative and support services
Life sciences	C – Manufacturing (e.g. of medical supplies) M – Professional, scientific and technical activities

Within each participating organisation, the survey respondent was the owner or a senior manager able to comment on the performance and future prospects of the organisation.

The achieved sample was broadly representative of the population, notwithstanding some differential non-response due to differences in availability and willingness to participate. Weighting was applied to the data so that it matched the business population by broad geographic area (Highlands and Islands, South of Scotland and rest of rural Scotland), sector and size of business.

Presentation and interpretation of the data

The survey findings represent the views of a sample of businesses, and not the entire business population of rural Scotland, therefore they are subject to sampling tolerances, meaning that not all differences will be statistically significant.

Throughout the report, differences between sub-groups are commented upon only where we are sure these are statistically significant, i.e. where we can be 95% certain that they have not occurred by chance. The typical sub-groups reported on are:

- Size of business (grouped by sole trader⁷, 1-4, 5-10, 11-24 and 25+ staff)
- Sector (using the growth sector categories in Table 1.3)
- Location (one of the three broad areas shown in Table 1.1)
- Rurality (grouped into three categories of remote rural, accessible rural, and small towns and peripheral urban areas)
- Other characteristics based on responses to the survey (e.g. the markets they trade with, their growth aspiration etc.)

Where percentages do not sum to 100%, this may be due to rounding, the exclusion of 'don't know' categories, or multiple answers. Aggregate percentages (e.g. "optimistic/not optimistic" or "important/not important") are calculated from the absolute values. Therefore, aggregate percentages may differ from the sum of the individual scores due to rounding of percentage totals.

Throughout the report, an asterisk (*) denotes any value of less than half a percent and a dash (-) denotes zero. For questions where the number of businesses is less than 30, the number of times a response has been selected (N) rather than the percentage is given.

⁷ In this report sole trader refers to any business that said they had no employees at the time of the survey (though it is recognised that the term sole trader can also include businesses that have employees but who retain sole ownership of the business).

2. Optimism and performance

Key findings

Thinking about the economic outlook for Scotland over the next 12 months, 60% of businesses were confident, while 38% were not. Most had seen their confidence either increase (17%) or remain stable (48%) in the past six months. Confidence had decreased for 34% of businesses.

Around three fifths of businesses were operating at either the same level (40%) or over and above the level (20%) they were before COVID-19. Just under two fifths (39%) were operating below their pre-pandemic levels.

Over the past six months, sales or turnover performance was mixed, while employment had remained relatively stable. Exports were more likely to have decreased than increased, but had remained stable for around half of businesses.

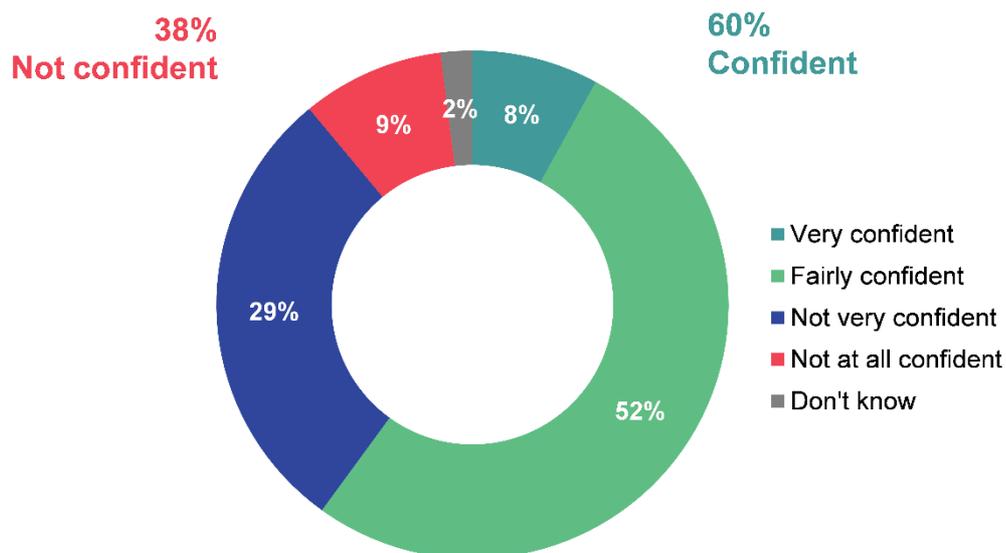
Most (77%) businesses were optimistic about their prospects in the next 12 months, but 22% were not.

In terms of their current aspirations, just over a third (37%) were striving for growth while half (50%) were content with their current level of performance. Around one in ten (12%) wanted to downsize.

Current economic optimism

Figure 2.1 – Current economic optimism

Q. How confident are you in the economic outlook for Scotland over the next 12 months?



Base: All businesses (2,726)

Thinking about the economic outlook for Scotland over the next 12 months, 60% of businesses said they were confident, while 38% said they were not (Figure 2.1).

Variation in optimism

Businesses in the Highlands and Islands were more confident (64%) than those in the South of Scotland (60%) and the rest of rural Scotland (58%).

Confidence in the economy was also higher than average among:

- larger businesses with 11-24 (74%) and 25+ staff (72% confident),
- financial and business services (66%),
- those in small towns and peripheral urban locations (62%), and
- those operating above the level they were before COVID-19 (75%).

Confidence was lower than average among:

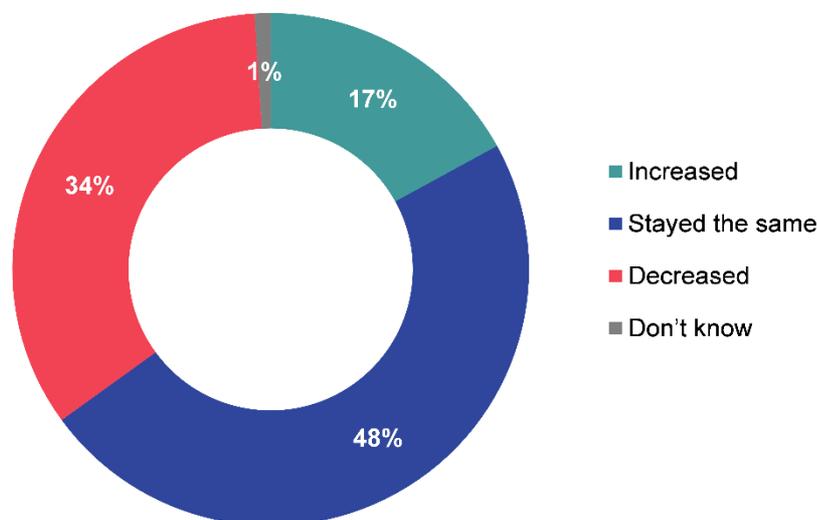
- sole traders (43% not confident) and other small businesses (1-4 staff) (41%),
- food and drink (47%), and
- those that were operating below the level they were before COVID-19 (52%).

Economic optimism over the past six months

Thinking about the preceding six months, around half (48%) of businesses said their confidence in the economic outlook in Scotland had stayed the same, while 17% said it had increased and 34% decreased (Figure 2.2).

Figure 2.2 – Economic optimism over past six months

Q. Over the past six months, has your level of confidence in the economic outlook in Scotland increased, decreased or stayed the same?



Base: All businesses (2,726)

Overall net confidence was -17⁸. This was similar across the three regions covered in the survey: net confidence was -15 in the Highlands and Islands, -16 in the South of Scotland and -18 in the rest of rural Scotland.

Variation in optimism over past six months

Businesses more likely than average to say their confidence had increased were:

- tourism businesses (23%),
- those in small towns and peripheral urban areas (19%),
- operating above their pre-pandemic levels (32%), and
- selling goods to markets in Northern Ireland (22%), the EU (24%) and outside the EU (25%).

Those more likely to report decreased confidence were:

- food and drink businesses (44%),
- operating below pre-pandemic levels (46%), and
- trading only in Scotland (37%).

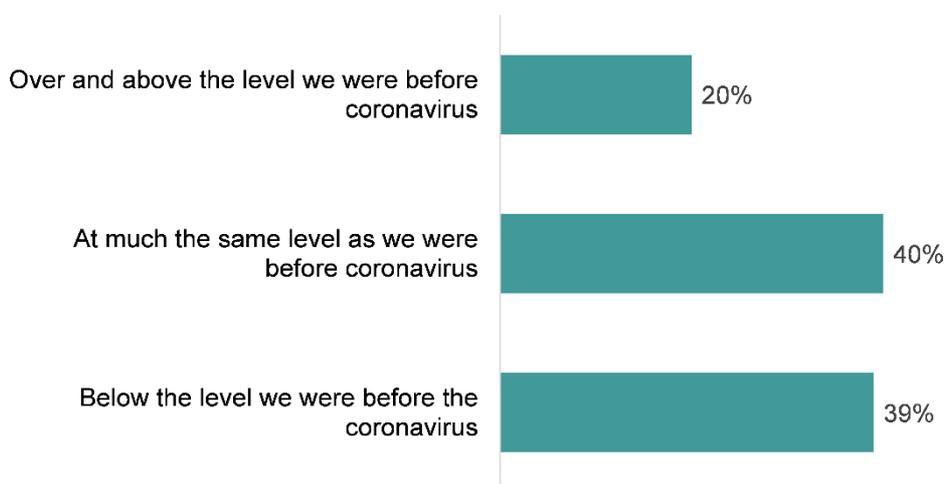
⁸ The net confidence figure is the difference between 'increased' and 'decreased'. Net scores are negative when negative assessments exceed positive.

Level of current operation

Three fifths (60%) of businesses said they were now operating at either the same level (40%) or over and above the level (20%) they were before the COVID-19 pandemic. Just under two fifths (39%) were operating below their pre-pandemic levels (Figure 2.3).

Figure 2.3 – Current operating level

Q. Which of the following best describes the way in which you are currently operating?



Base: All businesses (2,726)

Variation in level of operation

Businesses in the Highlands and Islands (44%) and the South of Scotland (46%) were more likely than those in the rest of rural Scotland (37%) to be operating at much the same level as pre-pandemic. Those in the rest of rural Scotland were more likely to be operating below their former levels (42% compared with 32% and 31% respectively) (Table 2.1).

Table 2.1 – Operating level by area

Operating level in relation to before the coronavirus	Highlands and Islands (%)	South of Scotland (%)	Rest of rural Scotland (%)	Total (%)
Over and above	22	23	19	20
At much the same level	44	46	37	40
Below	32	31	42	39
Base	1,003	602	1,121	2,726

Other types of business more likely than average to be operating below pre-pandemic levels were:

- sole traders (44%),
- tourism businesses (54%),
- those in small towns and peripheral urban areas (44%), and
- those trading internationally (43%).

Those more likely to be operating over and above their former levels were:

- larger businesses with 11-24 (30%) and 25+ (32%) staff, and
- those who said they were striving for growth in the future (27%).

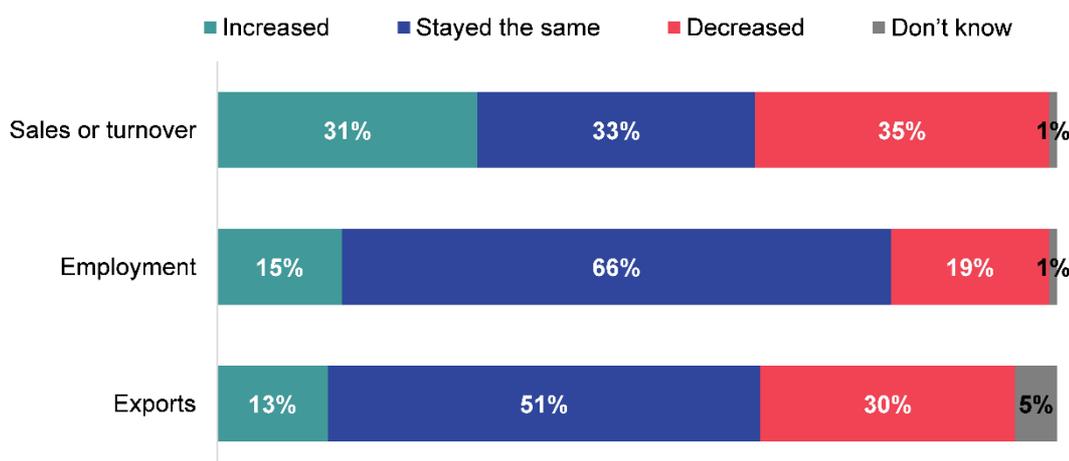
Food and drink businesses (68%) and those in remote (44%) and accessible (47%) rural areas were more likely than average to be operating at the same level as they were before.

Aspects of business performance

Over the past six months, sales or turnover performance was mixed: it had increased for 31% of businesses, decreased for 35%, and stayed the same for 33%. In the same period, employment had remained relatively stable (66%). Exports were more likely to have decreased than increased (30% vs 13%) but had remained stable for around half of businesses (51%) (Figure 2.4).

Figure 2.4 – Aspects of business performance in past 6 months

Q. Please tell me if the following has increased, stayed the same or decreased over the last six months?



Base: All businesses for whom each applied

Variation in aspects of business performance

Businesses in the Highlands and Islands and the South of Scotland were more likely than those in the rest of rural Scotland to report an increase in sales and turnover. Highlands and Islands businesses were also more likely to report an

increase in employment, although most experienced stability in this aspect of performance (Table 2.2).

Table 2.2 – Aspects of business performance by area

Aspects of business performance	Highlands and Islands	South of Scotland	Rest of Rural Scotland	Total
	% saying 'increased'			
Sales or turnover	38	36	28	31
Employment	19	14	14	15
Exports	14	10	14	13

Base (All businesses for whom each applied in each area)

On sales or turnover:

- Decreases were more common than average among tourism and creative industries (47% and 44% respectively).
- Food and drink were more likely than average to report stability (47%).

On employment:

- Increases were more common than average among larger businesses (25+ staff) (34%), and those operating above pre-pandemic levels (37%).
- Decreases were more common among tourism (31%), and those operating below pre-pandemic levels (34%).

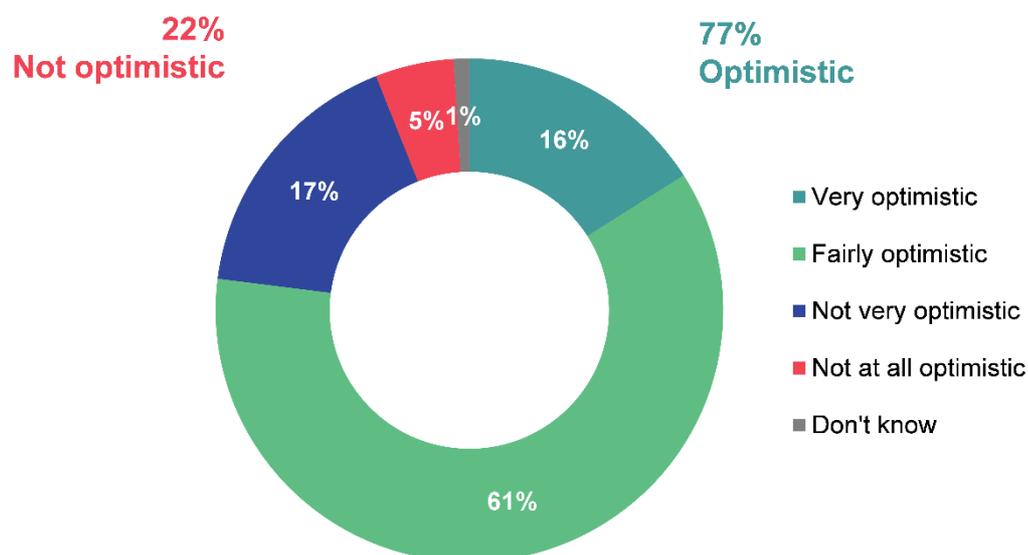
Exports were more likely to have increased for businesses selling to the EU (20%) and outside the EU (22%) but decreased for those selling to England and Wales (35%).

Future prospects

More than three quarters of businesses (77%) were optimistic about their prospects in the next 12 months, while 22% were not (Figure 2.5)

Figure 2.5 – Optimism

Q. How optimistic are you for your business's prospects in the next 12 months?



Base: All businesses (2,726)

Variation in optimism

Optimism was higher among businesses in the Highlands and Islands (82% optimistic) than in the South of Scotland (77%) or rest of rural Scotland (75%).

Others that were more optimistic than average:

- large businesses (25+ staff) (90% optimistic),
- those operating above their pre-pandemic levels (92%), and
- striving for growth (83%).

The businesses which were less optimistic than average included:

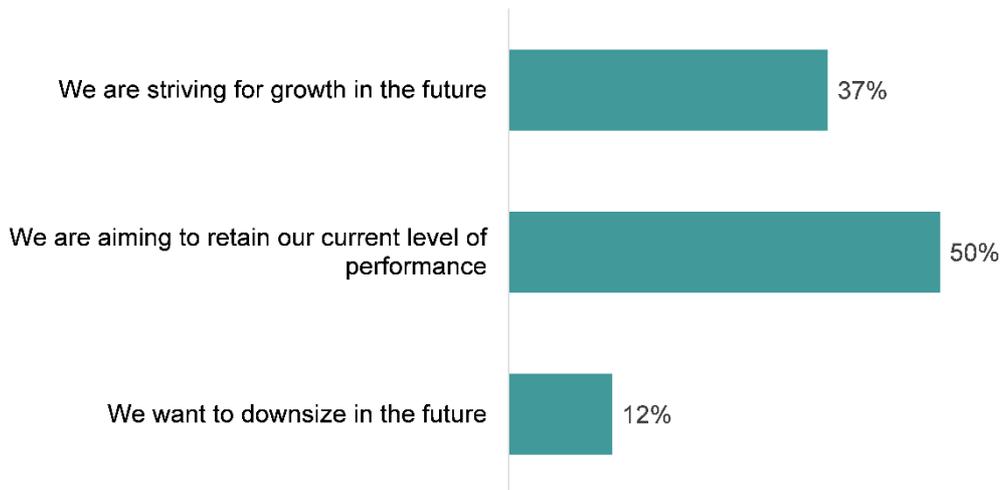
- food and drink (67% optimistic, 32% not),
- sole traders (71% optimistic, 27% not) and other small businesses (1-4 staff) (75% optimistic, 24% not),
- those in remote rural areas (74% optimistic, 25% not), and
- operating below pre-pandemic levels (63% optimistic, 37% not).

Growth aspirations

Just over a third (37%) of businesses were striving for growth while half (50%) were content with their current level of performance. Around one in ten (12%) wanted to downsize (Figure 2.6).

Figure 2.6 – Growth aspirations

Q. Which of these statements best describes your current aspirations for the business?



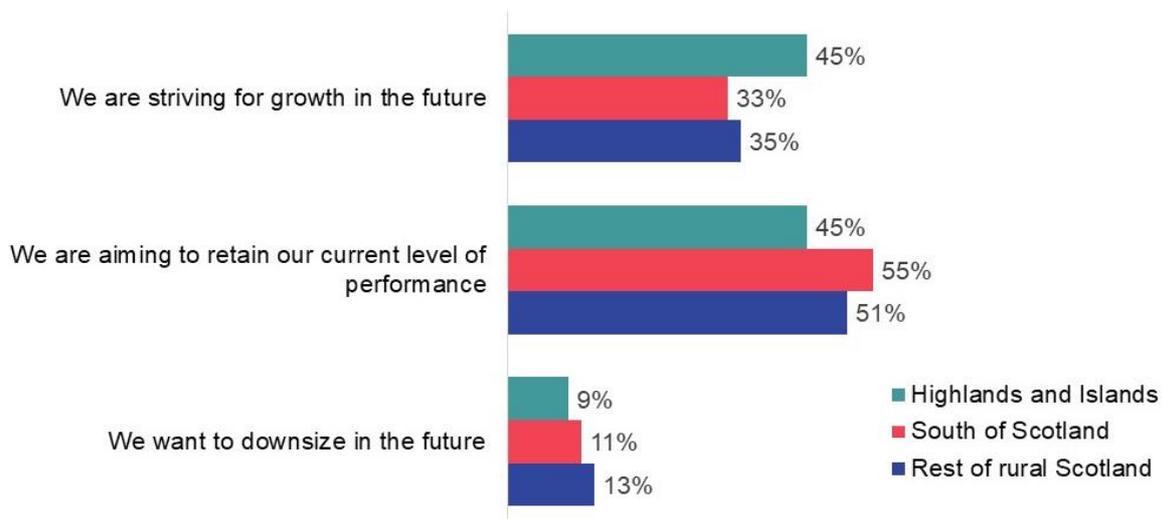
Base: All businesses (2,726)

Variation in growth aspiration

As with economic confidence and business optimism, growth aspirations were higher among businesses in the Highlands and Islands than in the South of Scotland and rest of rural Scotland (Figure 2.7).

Figure 2.7 – Growth aspirations by area

Q. Which of these statements best describes your current aspirations for the business?



Base: All businesses in Highlands and Islands (1,003), South of Scotland (602) and the rest of rural Scotland (1,121)

In terms of further variation:

- Tourism businesses were more likely than average to be striving for growth (49%), while food and drink were more likely to want stability (57%) and financial and business services to want to downsize (19%).

- Larger businesses (25+) were more likely to want growth (62%) while small businesses with 1-4 staff were more likely to want to downsize (12%).
- Growth aspirations were higher than average among businesses importing from (45%) and exporting to (48%) international markets.

3. Top priorities and concerns

Key findings

Of the five areas explored in the survey, top priorities for businesses over the next 12 months were keeping pace with new technology (54%) and innovating or evolving what they do (47%).

Moving to low carbon ways of working was least likely to be a priority within the next 12 months (26% said it was). A further 39% said it was a priority for the next 5 years, suggesting that businesses acknowledged the importance of the move to low carbon, but that other priorities were seen as more relevant or pressing in the short term.

Reaching new markets and reskilling staff ranked lowest overall, with around two in five saying these were not priorities.

The most significant concerns for businesses were increased costs (81%), followed by economic uncertainty (67%), changing regulations (56%), supply chain issues (56%) and retaining customers (56%).

Food and drink businesses had higher than average levels of concern with a wide range of issues. Certain concerns were also more prevalent among tourism businesses, those in remote rural locations, and those importing and exporting internationally.

Priorities

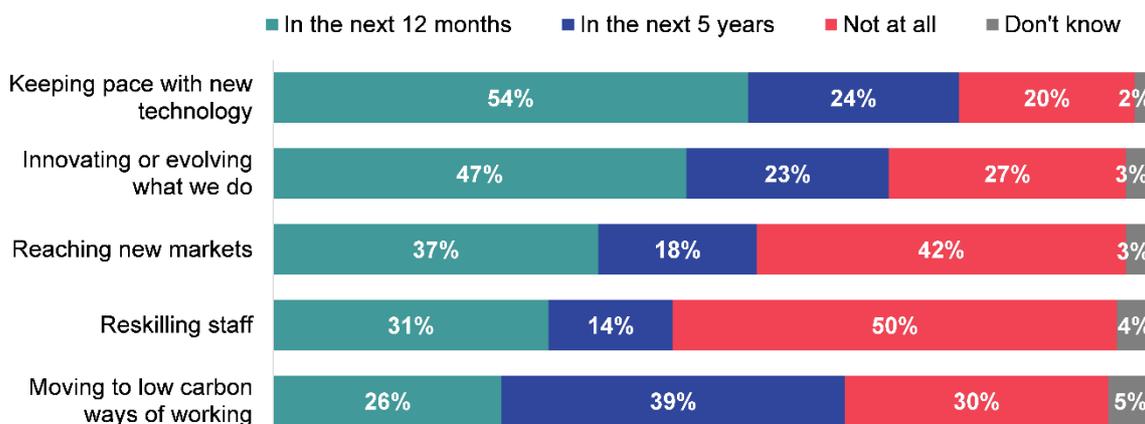
Of the five areas explored in the survey, the most common priorities for businesses over the next 12 months were keeping pace with new technology (54%) and innovating or evolving what they do (47%).

Where issues were seen as a priority, they were typically more of a priority in the short-term (within the next 12 months) than longer term (next five years). The exception was moving to low carbon ways of working, which was least likely to be a priority within the next 12 months (26% said it was), but a further 39% said it was a priority for the next 5 years. This suggests that businesses acknowledged the importance of the move to low carbon, but that other priorities were seen as more relevant or pressing in the short term.

Reaching new markets and reskilling staff ranked lowest overall, with around two in five businesses saying these were not priorities for them at all (42% and 50% respectively) (Figure 3.1)

Figure 3.1 – Priorities for businesses

Q. Would you say the following are an immediate priority for your business in the next 12 months, a priority in the next 5 years, or not at all?



Base: All businesses (2,726)

Variation in short term priorities

Businesses that viewed all of these factors as priorities in the short term (in the next 12 months), rather than the long term, tended to be:

- those that were trading outside of Scotland
- businesses striving for growth, and
- those that had seen their level of performance change (either higher or lower) since COVID-19.

Businesses which considered keeping pace with new technology as a top short term priority included creative industries (64%) and financial and business services (64%).

Innovating or evolving was seen as a top short term priority for tourism businesses (56%) and large businesses with over 25 staff (60%). Large businesses also considered reskilling staff as a high short term priority (50%). See Appendix A for further variations.

Variation in longer term priorities

Food and drink businesses tended to consider these factors in the longer term, being more likely to say that each of the following was a priority in the next five years:

- moving to low carbon (49%),
- keeping pace with technology (34%),
- innovating (32%),
- reaching new markets (27%), and
- reskilling staff (18%).

Sole traders were more likely than employers to say that these factors were **not** a priority:

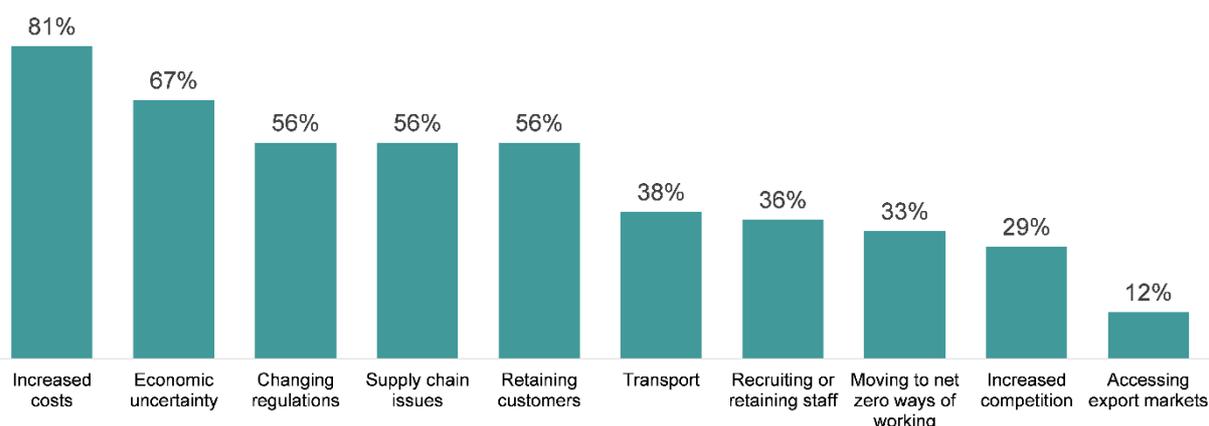
- reaching new markets (53% saying “not at all” compared with 39%),
- moving to low carbon (41% vs 27%),
- innovating (37% vs 24%), and
- keeping pace with new technology (27% vs 18%).

Concerns

The most significant concern for businesses was increased costs (81%), followed by economic uncertainty (67%), changing regulations (56%), supply chain issues (56%) and retaining customers (56%) (Figure 3.2). These top concerns reflected the economic context for the survey, taking place during a period of increased inflation, rising costs and disruption to the wider supply chain.

Figure 3.2 – Concerns for businesses

Q. Which of the following, if any, is currently a significant concern for your business?



Base: All businesses (2,726)

Variation in concerns

Highlands and Islands businesses were more concerned than those in other areas about transport (45% vs 36% in South of Scotland and 35% in rest of rural Scotland) and recruiting or retaining staff (42% vs 34% and 35%).

Businesses whose highest concern was increased costs included food and drink (91%), remote rural businesses (84%), and island businesses (85%).

In contrast, businesses with a highest concern about economic uncertainty included tourism (76%), and those importing and exporting to international markets (75% and 71% respectively). See Appendix A for further variations.

4. Financial concerns and access to finance

Key findings

Overall, around a third (35%) of businesses were concerned about at least one of these aspects of their finance: low or no cash reserves (26% concerned), access to finance (15%) and existing debt (15%).

Just over half (55%) were currently using or planning to use finance. A quarter were already using loans from banks or financial institutions (25%), public sector loans or grants (25%) and credits or overdrafts (23%).

The main reason for using, or planning to use, finance was for cash flow (28%) followed by buying new assets (16%) and working capital (14%). The main reason for not doing so was that businesses felt there was simply no need (80%), while 12% said they wished to remain debt free.

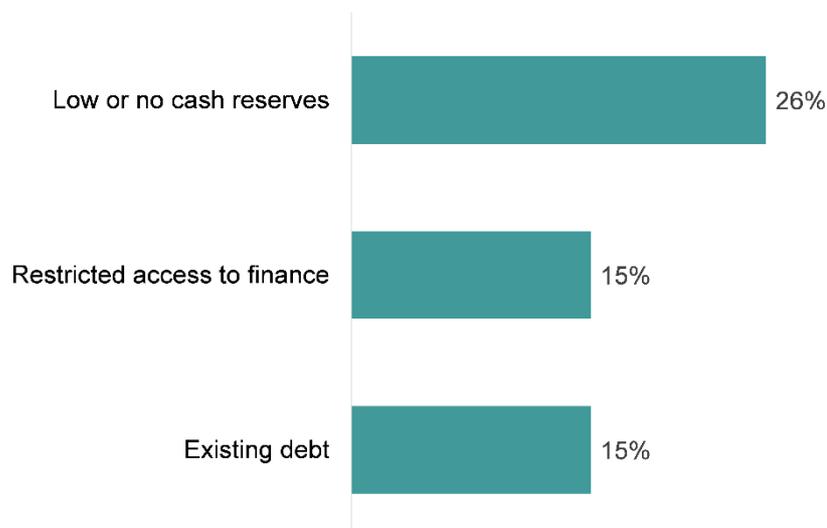
Half (50%) of businesses had applied for financial support in the past 12 months. Of those, 95% had been successful (78% getting all and 17% some of what they wanted). Only 5% were turned down on everything.

Current financial concerns

Overall, around a third (35%) of businesses were concerned about at least one of these aspects of their finance: low or no cash reserves (26% concerned), restricted access to finance (15%) and existing debt (15%) (Figure 4.1).

Figure 4.1 – Current financial concerns

Q. Which of these, if any, are financial concerns for your business at the current time?



Base: All businesses (2,726)

Variation in financial concerns

As might be expected, those operating below pre-pandemic levels, and those not optimistic about their future, were more likely to say each was a concern: low or no cash reserves (38% and 45%), access to finance (22% and 22%) and existing debt (19% and 22%).

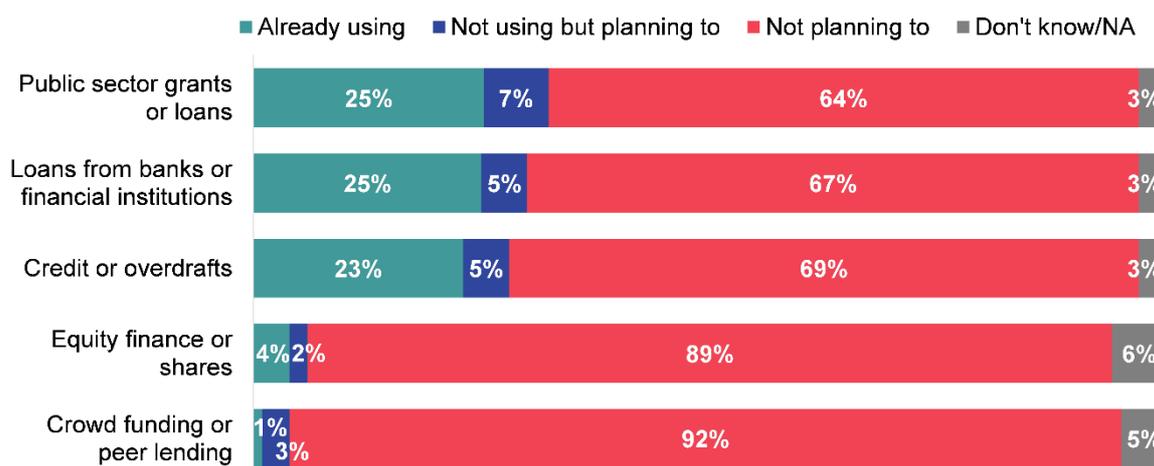
Food and drink and tourism businesses also each had higher than average concern with existing debt (21% and 24% respectively).

Use of finance

Just over half (55%) of businesses were currently using or planning to use some form of finance. A quarter were already using loans from banks or financial institutions (25%), public sector loans or grants (25%) and credits or overdrafts (23%) (Figure 4.2).

Figure 4.2 – Use of finance

Q. Which of the following forms of finance is your business currently using or planning to use?



Base: All businesses (2,726)

Variation in use of finance

Use of finance was higher than average among: food and drink and tourism businesses, those in the Highlands and Islands and in remote rural areas, large businesses (25+ staff), and those importing internationally. The specific types of finance that these types of businesses were more likely to be already using are shown in Table 4.1.

Table 4.1 – Types of businesses with higher than average current use of finance

(Figures shown are those that are higher than the average)

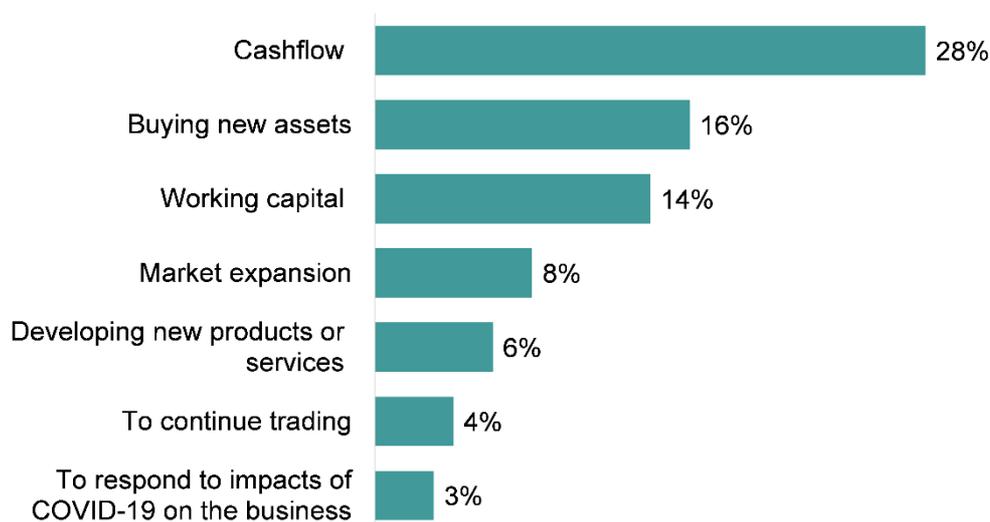
Type of finance	Food and drink	Tourism	Highlands and Islands	Remote rural	Large (25+)	All
Public sector grants or loans	33	39	32	30	38	25
Loans from banks or other financial institutions	44	33	31	30	46	25
Credit or overdrafts	41	In line with average		26	In line with average	27
Base	502	301	1,003	876	155	2,726

Reasons for using finance

The main reason for using or planning to use financial support was for cash flow (28%) followed by buying new assets (16%) and working capital (14%) (Figure 4.3).

Figure 4.3 – Reasons for using/planning to use finance

Q. What is your main reason for using or planning to use financial support?
[Top unprompted responses]



Base: All using/planning to use finance (1,580)

Variation in reasons for using finance

Findings were fairly similar across different types of business, however:

- Food and drink businesses were more likely to have used/planned to use finance for working capital (19%) or market expansion (13%).

- Using finance for cash flow was more common among those operating below their pre-pandemic levels (31%).

Reasons for not using finance

The main reason for not using or planning to use financial support was that businesses felt there was simply no need (80%), while 12% said they wished to remain debt free. Other reasons, such as plans to retire or close the business, the economic climate, the cost of repayment, and funding being provided from elsewhere, were given by only small proportions (fewer than 3%).

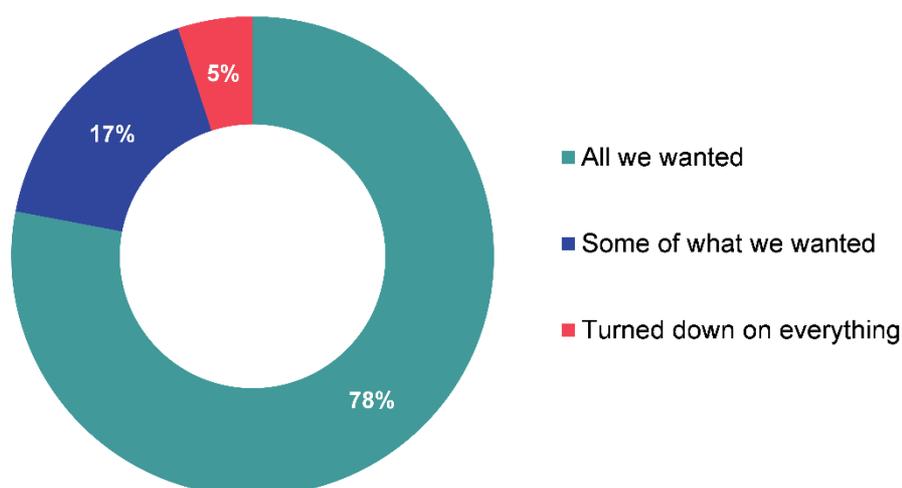
There was little variation by type of business. However, those that were operating below their pre-pandemic levels (16%) and were not optimistic about their future (23%) were more likely than average (12%) to say they wanted to remain debt free.

Applying for financial support

Half (50%) of businesses had applied for financial support in the past 12 months. Of those, 95% had been successful (78% getting all and 17% some of what they wanted). Only 5% were turned down on everything (Figure 4.4).

Figure 4.4 – Experience of applying for financial support

Q. Over the past 12 months, when your business has applied for or sought finance, have you been offered all of what you wanted?



Base: All that applied for finance (1,362)

Variation in experience of applying for finance

Similar to their use of finance, outlined above, both tourism (69%) and food and drink (55%) businesses were more likely than average (50%) to have applied for financial support. In contrast, financial and business services were least likely to have applied (37%).

Impact of not receiving finance

For those that were not offered the finance they wanted, around one in five (22%) said this had impacted on their plans in some way:

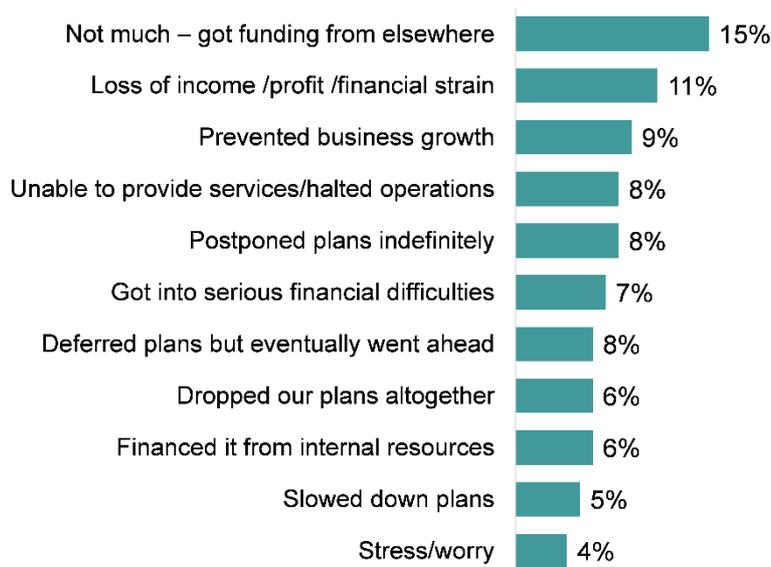
- 8% said they were unable to provide the services they had planned to,
- 8% had postponed plans indefinitely,
- 6% had dropped them altogether, and
- 9% said it had prevented business growth.

Around one in five also mentioned negative financial impacts, as in loss of income or profit (11%) and getting into serious financial difficulties (7%).

For 15%, there was little impact as they had received funding from elsewhere (Figure 4.5).

Figure 4.5 – Impact of not receiving financial support asked for

Q. What effect did not being offered the finance you wanted have on your business?
[Top unprompted responses]



Base: All that had not been offered the finance they wanted (318)

5. Increased costs

Key findings

It was clear that businesses in the region were feeling the effects of the economic challenges occurring at the time of the survey, with the majority reporting cost increases across almost all measures asked about in the survey. The exceptions were cost of premises and business rates, which remained relatively stable.

Among those that had experienced cost increases in the last 12 months, 36% had absorbed those costs internally, 13% had increased their prices, and 49% had done both.

Nearly two thirds (63%) of businesses that had absorbed costs said they could do so for up to 12 months before having to increase their prices, while a quarter (27%) felt they could do so beyond 12 months

Among businesses that had increased their prices in response to rising costs, 47% felt they could maintain or increase prices further for up to 12 months before absorbing costs, while 41% felt they could do so for longer than 12 months.

Cost changes in the last 12 months

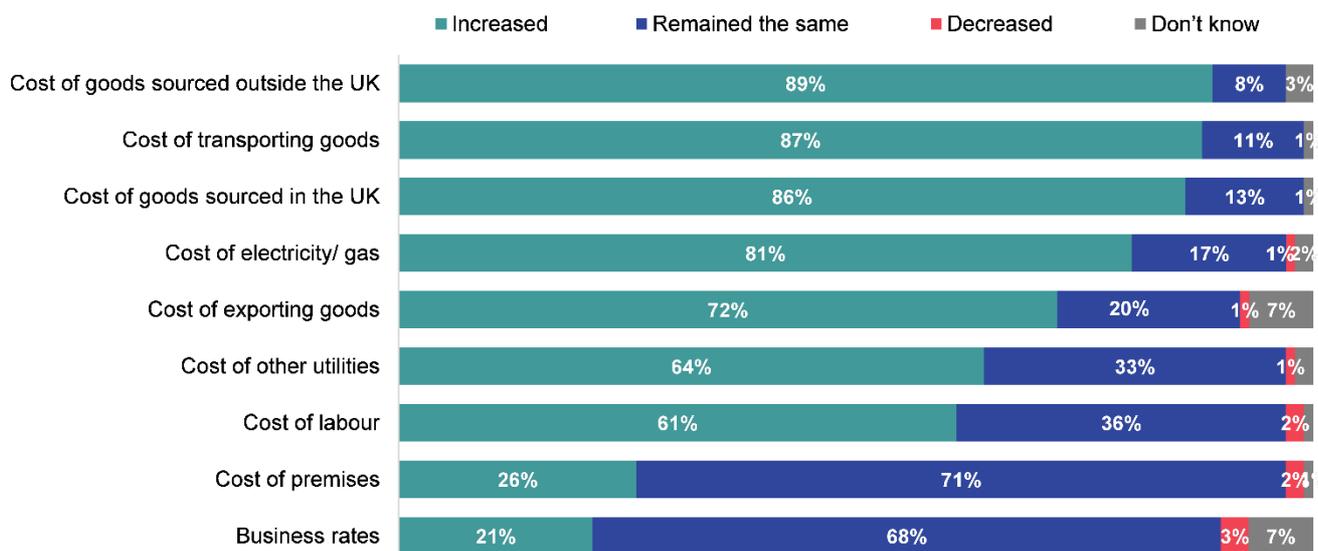
The majority (95%) of businesses had experienced at least some form of cost increases over the last 12 months, highlighting the impacts of the economic challenges facing rural businesses at the time of the survey. The majority of businesses reported cost increases across almost all measures, with the exception of cost of premises and business rates (Figure 5.1).

The most common increases related to costs of goods including: sourcing goods from both outside (89%) and within (86%) the UK, transporting goods (87%) and exporting goods (72%). Increased cost of utilities was also common: 81% experienced an increase in electricity and gas and 64% in other utilities. Almost two thirds experienced increased labour costs (61%).

Cost of premises and business rates remained relatively stable (for 71% and 68% respectively). The general stability in business rates may reflect the Scottish Government's rates relief for businesses during COVID-19 (up to until 31 March 2021). However, 26% said cost of premises had increased, while 21% said business rates had increased.

Figure 5.1 – Changes in costs over the last year

Q. Thinking now about costs. In the past 12 months, would you say the following have increased, decreased or remained about the same?



Base: All for whom it applied

Variation in experience of cost changes

Cost changes were more apparent among certain types of business, including those in the Highlands and Islands, the food and drink and tourism sectors, and larger businesses. The following were more likely than average to experience specific cost changes (see Appendix A for further variations).

- Highlands and Islands (78%), remote rural locations (79%), and island locations (85%) were all more likely than average to experience increased costs of exporting goods.
- Accessible rural locations were more likely than average to experience increased costs of goods sourced within the UK (88%).
- Food and drink businesses were also more likely to experience increased costs of goods sourced in the UK (92%).
- Tourism businesses were more likely than average to experience increased costs of utilities (other than electricity/gas) (72%) but also a decrease in business rates (10%). This decrease likely reflects the Scottish Government rates relief for leisure businesses during and after the pandemic (they received 100% rates relief due to continue until March 2022).
- Increased cost of labour was more commonly experienced by businesses employing 25+ (82%), 11-24 (78%) and 5-10 (73%) staff, compared with those employing 1-4 staff (55%).
- Views on the costs of goods did not vary much by the markets outside of Scotland that businesses were importing from – this was the case for both cost of goods from within and outside of the UK.

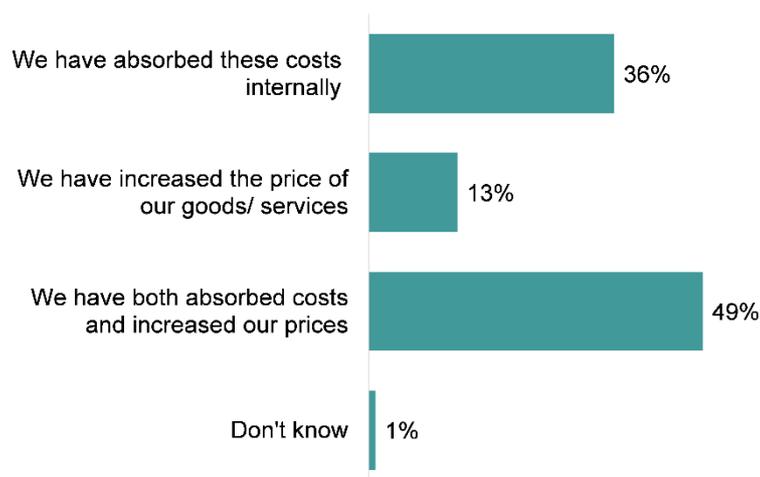
- Increased costs of exporting goods were also experienced at similar levels by exporters to each market outside Scotland.

Responses to increased costs

Among those that had experienced cost increases in the last 12 months, 36% had absorbed those costs internally, 13% had increased their prices, and 49% had done both (Figure 5.2).

Figure 5.2 – Responses to increased costs

Q. Which of the following best describes how your business has responded to increased costs?



Base: All that had experienced cost increases (2,606)

Variation in response to increased costs

Businesses more likely to have absorbed costs included:

- food and drink (54%) and financial and business services (48%),
- sole traders (45%) and other small businesses (1-4 staff) (40%),
- those in remote rural areas (40%), and
- those with lower levels of optimism (48%) and economic confidence (40%).

Those more likely to have increased the price of goods/ services included:

- non-growth sector businesses (17%), and
- those operating above pre-COVID-19 levels (19%).

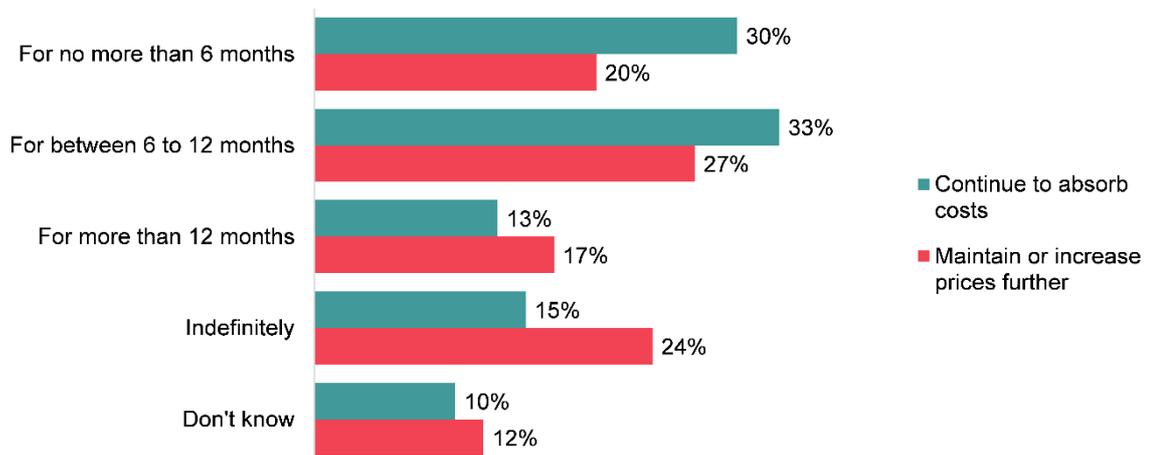
Outlook for responding to cost increases

Nearly two thirds (63%) of businesses that had absorbed costs said they could do so for up to 12 months before having to increase their prices, while 28% felt they could do so beyond 12 months (Figure 5.3).

Among businesses that had increased their prices in response to rising costs, 47% felt they could continue do so for up to 12 months before absorbing costs, while 41% felt they could for longer than 12 months.

Figure 5.3 – Perceived length of time for response to increased costs

Q. And assuming costs remain at the same level, how long do you expect to be able to absorb costs before you increase prices/maintain or increase prices before you need to absorb costs?



Base: All that had absorbed cost increases (920); all that increased prices (328)

Variation in outlook or responding to cost increases

Among those that absorbed costs, the financial and business services sector were more likely than average to say they could continue doing so indefinitely (30%). Those only able to absorb costs for up to 6 months were more likely to be:

- tourism businesses (45%),
- operating below pre-pandemic levels (37%), and
- striving for growth (35%).

Businesses more likely to be able to absorb costs for more than 12 months included:

- those with increased economic confidence (28%),
- operating above their pre-pandemic levels (25%), and
- those trading with Northern Ireland (31%) and England and Wales (25%).

6. Labour and supply chain issues

Key findings

Among businesses for whom it was relevant, 48% said they had experienced labour shortages: 39% arising from recruitment or retention challenges, and 38% arising from staff absence.

Businesses reported a range of impacts from labour shortages. The three most common were: increased workload for other staff (36%) difficulties in delivering services or fulfilling orders (16%) and scaling back production or services (14%).

Among those for whom it was relevant, just under three quarters (73%) were experiencing some form of supply chain issue. In particular, 70% were experiencing issues accessing the goods, materials, or supply of services they needed, while around half were experiencing issues with export processes (47%) and transportation of goods to customers (44%).

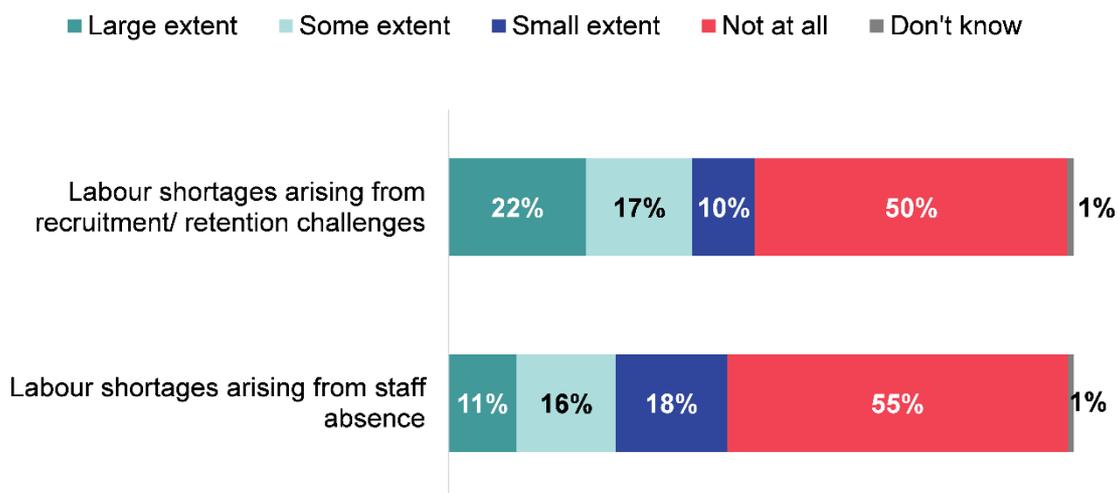
Four in five (82%) businesses that were experiencing supply chain issues said this had led to increased costs.

Experiences of labour shortages

Among those for whom it was relevant, 48% said they had experienced labour shortages. Of those, 39% said it arose from recruitment or retention challenges, and 38% said it arose from staff absence (Figure 6.1).

Figure 6.1 – Businesses experiencing labour shortages

Q. To what extent is your business currently experiencing issues with the following?



Base: All for whom it applied

Variation in experience of labour shortages

Labour shortages were more common than average among businesses in the Highlands and Islands overall (57% experienced shortages, compared with 49% in the South of Scotland and 44% in the rest of rural Scotland). The Highlands and Islands were also more likely to have experienced each type of shortage: those arising from recruitment or retention challenges (49% compared with 40% and 35% respectively), and those arising from staff absences (44% compared with 37% and 36%).

Businesses on islands were more likely than average to have experienced both shortages as a result of recruitment and retention challenges (52%) and staff absence (46%).

Larger employers (with 25+ staff) and tourism businesses were also more likely to experience labour shortages (85% and 59% respectively had experienced some form of shortage).

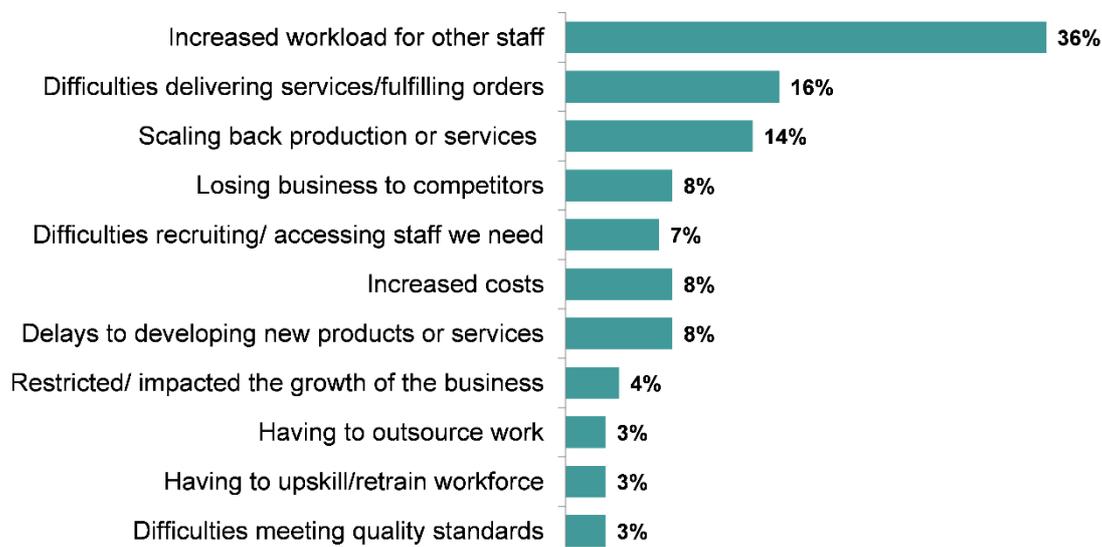
Those aiming to grow (46%) and importing from Northern Ireland (45%) were more likely than average (39%) to experience labour shortages specifically as a result of recruitment or retention challenges.

Impacts of labour shortages

Businesses reported a range of impacts from labour shortages (Figure 6.2). The three most common were: increased workload for other staff (36%) difficulties in delivering services or fulfilling orders (16%) and scaling back production or services (14%).

Figure 6.2 – Reported impacts of labour shortages

Q. What impact are these labour shortages having on your business?
[Unprompted responses]



Base: All experiencing labour shortages (1,012)

Variation in impacts of labour shortages

Impacts of labour shortages varied somewhat by region. Businesses in the Highlands and Islands were more likely than average to say their labour shortages resulted in: difficulties delivering services or fulfilling orders (21%) and delays to developing new products or services (11%).

Those in the South of Scotland, on the hand, were more likely to say labour shortages had caused increased workload for other staff (48%).

In terms of further variation:

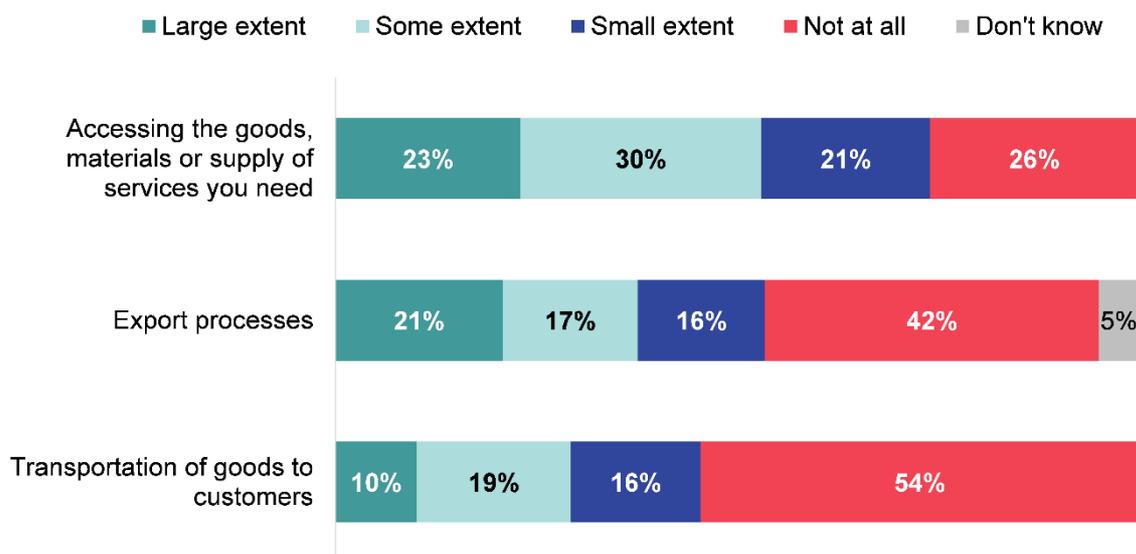
- Tourism businesses were more likely to report scaling back production or services (25%).
- Those in remote rural locations were more likely to say it caused difficulties recruiting or accessing the staff they needed (13%)
- Larger businesses (25+) were more likely to say they had to upskill or retrain their workforce (7%), or had difficulties introducing new practices (7%) and meeting quality standards (6%).

Experiences of supply chain issues

Among businesses for whom it was relevant, just under three quarters (73%) were experiencing some form of supply chain issue. In particular, 70% were experiencing issues accessing the goods, materials, or supply of services they needed, while just under half were experiencing issues with export processes (47%) and transportation of goods to customers (44%) (Figure 6.3).

Figure 6.3 – Experiences of supply chain issues

Q. And to what extent is your business currently experiencing issues with the following?



Base: All for whom it applied

Variation in supply chain issues

Supply chain issues were more of an issue for businesses in the Highlands and Islands and South of Scotland than the rest of rural Scotland, specifically in relation to accessing the goods, materials or services they needed (74% and 71% compared with 68%) and export processes (53% and 50% compared with 44%) (Table 6.1).

Table 6.1 – Experience of supply chains by region

(figures marked with * are higher than those for rest of rural Scotland)

Supply chain issue	Highlands and Islands (%)	South of Scotland (%)	Rest of Rural Scotland (%)	Total (%)
Accessing the goods, materials or supply of services you need	74*	71*	68	70
Export processes	53*	50*	44	47
Transportation of goods to customers	45	40	45	44
Base (all for whom it applied)				

Businesses in remote rural and island areas were both more likely than average to have experienced issues accessing the goods, materials or services they needed (73% and 75% respectively).

It was clear that supply chain issues were impacting on the full range of import and export markets, but particularly for those trading outside of the UK (Table 6.2 and 6.3):

- Issues with transportation of goods were highest for businesses importing from both the EU (51%) and outside the EU (57%) as well as those selling to both markets (58% and 54%)
- Trouble accessing goods, materials and services needed was a particular issue for importing businesses, but highest for those importing from the EU (83%) and outside the EU (82%)
- Issues with export processes were felt by businesses selling to each market, but again particularly for businesses selling to the EU (73%) and outside the EU (69%).

By sector,

- Food and drink businesses were more likely to face issues with accessing what they needed (79%) and with transportation (50%).
- Tourism businesses were also more likely to face issues with accessing what they needed (78%).

Table 6.2 – Experience of supply chain issues by markets of sourced goods

(figures marked with * are higher than the average)

Supply chain issue	Sourcing goods from				
	England and Wales	Northern Ireland	EU	Outside EU	Total
	% saying at least a small extent				
Accessing the goods, materials or supply of services you need	74*	80*	83*	82*	70
Export processes	50	51	59*	66*	47
Transportation of goods to customers	45	49	51*	57*	44
Base (all for whom it applied)					

Table 6.3 – Experience of supply chain issues by markets of sold goods

(figures marked with * are higher than the average)

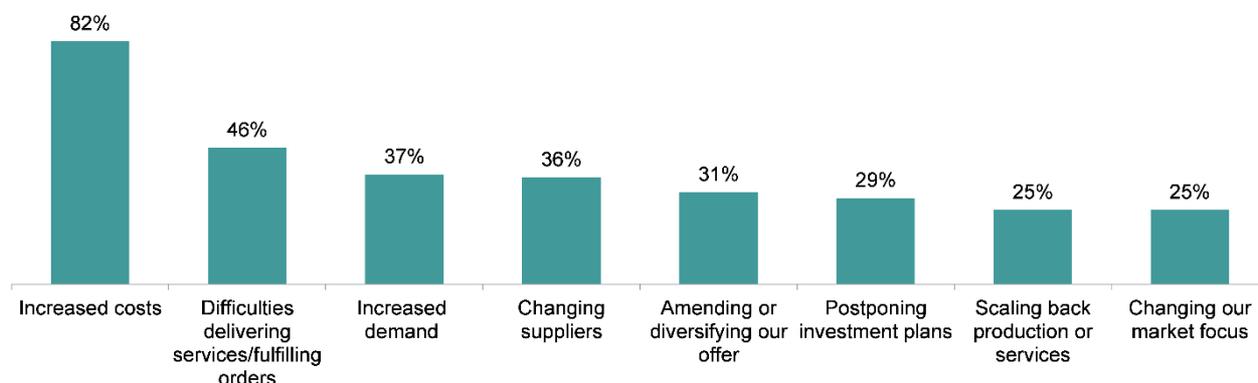
Supply chain issue	Selling goods to				
	England and Wales	Northern Ireland	EU	Outside EU	Total
% saying at least a small extent					
Accessing the goods, materials or supply of services you need	70	70	68	65	70
Export processes	60*	65*	73*	69*	47
Transportation of goods to customers	52*	51*	58*	54*	44
Base (all for whom it applied)					

Impacts of supply chain issues

Four in five (82%) businesses that were experiencing supply chain issues said this had led to increased costs (Figure 6.4). Other impacts included difficulties delivering services/ fulfilling orders (46%), increased demand (37%) and changing supplier (36%). The least common impacts were scaling back production and changing market focus, though these were still experienced by a quarter of businesses (25%) with supply chain issues.

Figure 6.4 – Impacts of supply chain issues

Q. Which of the following impacts, if any, are these issues having on your business?
[Unprompted responses]



Base: All experiencing supply chain issues (1,844)

Variation in impacts

The following were more likely than average to experience specific impacts of supply chain issues:

- Tourism (83%) and food and drink businesses (88%) were more likely than average to experience increased costs.
- Businesses importing from England and Wales (49%), and international markets (53%), were more likely than average to experience difficulties delivering services/fulfilling orders.
- Businesses exporting to England and Wales (35%), Northern Ireland (36%), or outside the EU (40%) were more likely than average to have to amend or diversify their offer.

For further variations, see Appendix A.

7. Markets

Key findings

Just under three quarters (72%) of businesses were importers, sourcing goods or materials from markets outside of Scotland. The largest market was England and Wales (67%) followed by the EU (34%), outside the EU (20%) and Northern Ireland (18%).

Businesses in the Highlands and Islands and the South of Scotland were more likely than those in the rest of rural Scotland to source goods and services from their local area, from Scotland and from England and Wales.

The majority (97%) of businesses sold goods or services within Scotland, with half selling only in Scotland and half exporting outside of Scotland.

Highlands and Islands businesses were more likely to sell to the EU (25%) and outside the EU (22%), while South of Scotland businesses were more likely to sell to England and Wales (57%).

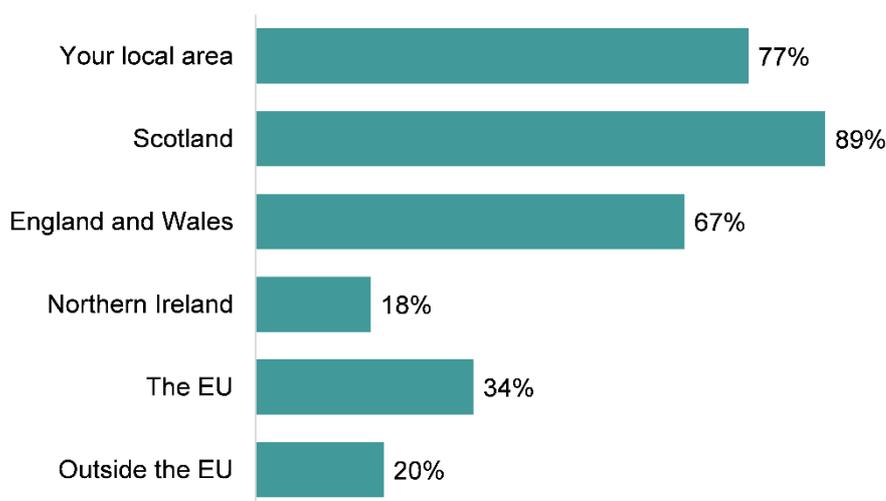
Thinking about the 12 months ahead, there was a sense of cautious optimism about future sales. Businesses generally expected either stability or an increase in sales to the markets they operated in.

Import markets

Just under three quarters (72%) of businesses were importers, meaning they were sourcing goods or materials from markets outside of Scotland. The largest market was England and Wales (67%) followed by the EU (34%), outside the EU (20%) and Northern Ireland (18%) (Figure 7.1).

Figure 7.1 – Markets from which goods were sourced

Q. From which of these markets do you currently source goods or materials?



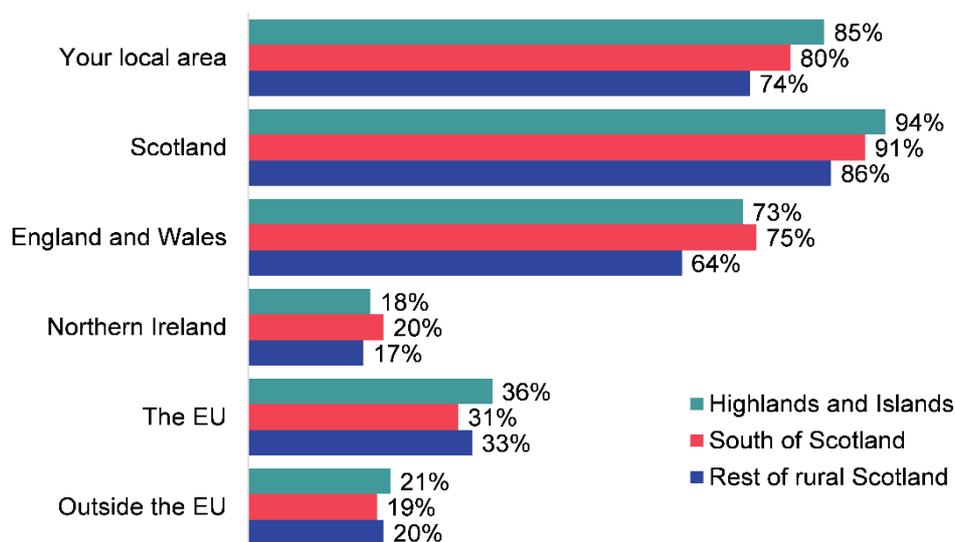
Base: All businesses (2,726)

Variation in import markets

Businesses in the Highlands and Islands and the South of Scotland were more likely than those in the rest of rural Scotland to source goods and services from their local area, from Scotland and from England and Wales. (Figure 7.2).

Figure 7.2 – Markets from which goods were sourced, by region

Q. From which of these markets do you currently source goods or materials?



Base: All businesses (2,726)

Aside from regional variation, businesses more likely than average to source from particular markets were:

- food and drink – from the local area (91%) and England and Wales (70%),

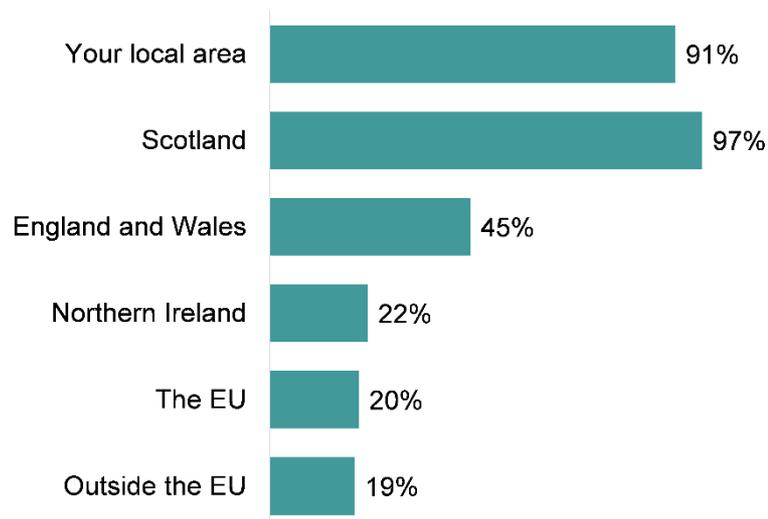
- tourism – from the local area (93%),
- large businesses (25+ staff) - local area (86%), England and Wales (79%), the EU (59%) and outside the EU (29%),
- remote rural businesses - local area (84%), and
- businesses striving for growth - England and Wales (75%), Northern Ireland (21%), the EU (41%) and outside the EU (26%).

Export markets

The majority (97%) of businesses sold goods or services within Scotland, with half (50%) selling only in Scotland and the other half (49%) selling goods or providing services to markets outside of Scotland. The top export market was England and Wales (45%), followed by Northern Ireland (22%), the EU (20%) and outside the EU (19%) (Figure 7.3).

Figure 7.3 – Markets to which goods or services were sold

Q. To which of these markets do you currently sell goods or provide services?



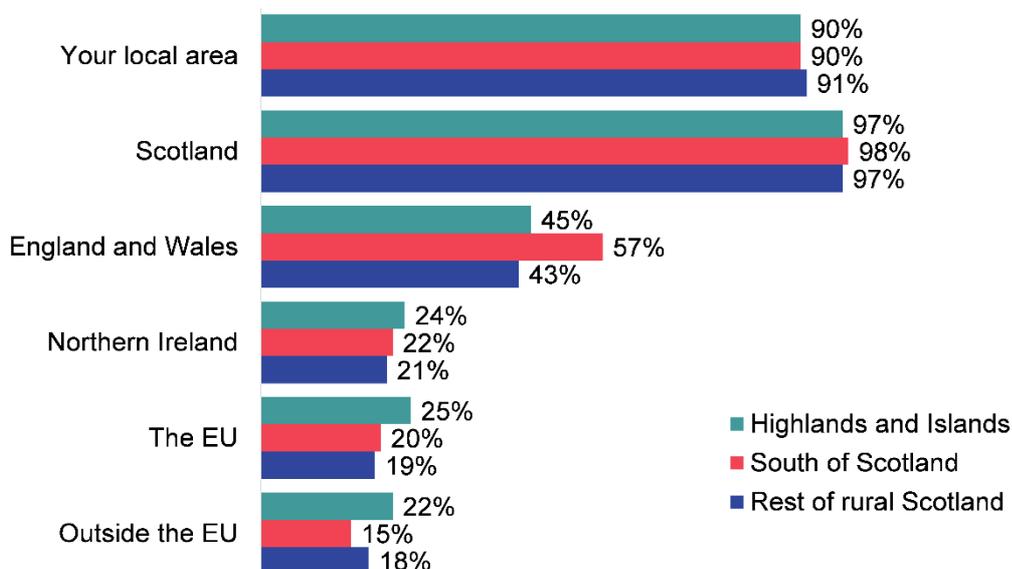
Base: All businesses (2,726)

Variation in export markets

Highlands and Islands businesses were more likely than average to sell to the EU (25%) and outside the EU (22%), while South of Scotland businesses were more likely to sell to England and Wales (57%) (Figure 7.4).

Figure 7.4 – Markets to which goods or services were sold, by region

Q. To which of these markets do you currently sell goods or provide services?



Base: All businesses (2,726)

Certain growth sectors showed higher than average levels of trading with markets outside of Scotland:

- tourism - England and Wales (60%), Northern Ireland (53%), the EU (47%) and outside the EU (43%)
- creative industries - England and Wales (59%), Northern Ireland (32%), the EU (31%) and outside the EU (36%), and
- financial and business services: England and Wales (53%), and outside the EU (24%).

There was further variation among:

- large businesses (25+) - England and Wales (59%), Northern Ireland (33%), the EU (32%) and outside the EU (29%)
- remote rural - England and Wales (49%), Northern Ireland (25%), the EU (24%) and outside the EU (21%), and
- businesses striving for growth - England and Wales (54%), Northern Ireland (29%), the EU (27%) and outside the EU (25%).

Outlook for export markets

Thinking about the 12 months ahead, there was a sense of cautious optimism about future sales. Businesses generally expected either stability or an increase in sales to the markets they operated in.

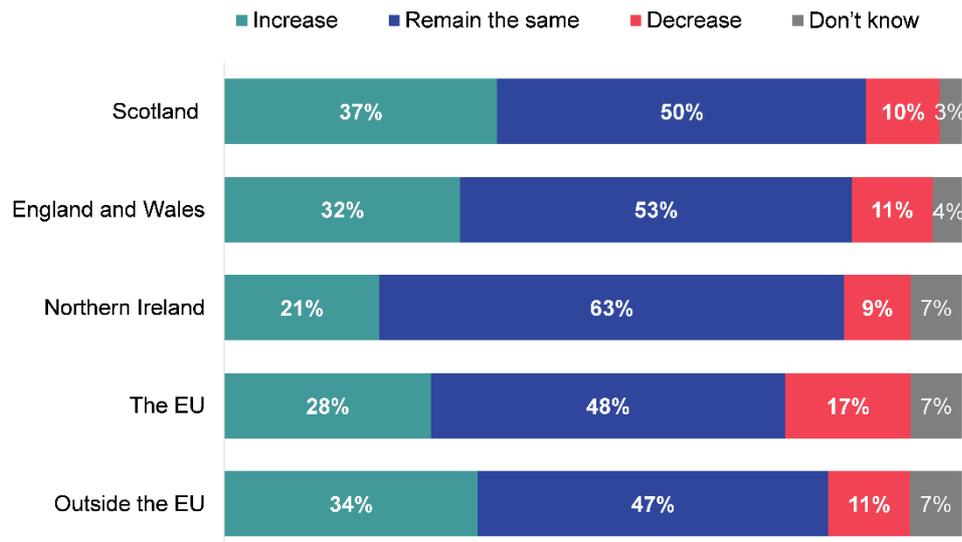
Half of businesses expected sales in Scotland and England and Wales to remain fairly static (50% and 53% respectively) while around a third expected them to

increase (37% and 32%). Businesses selling to Northern Ireland generally expected stability (63%), although 21% expected an increase and 9% a decrease.

Businesses selling to the EU and outside the EU also generally expected stability (48% and 47% respectively), while 28% expected sales to increase to the EU and 34% to outside the EU. (Figure 7.5).

Figure 7.5 – Outlook for export markets

Q. Do you expect your level of sales in the following markets to increase, stay the same, or decrease in the next 12 months?



Base: All businesses (2,726)

Variation in outlook

- Tourism businesses were more likely to expect sales to increase in England and Wales (42%), Northern Ireland (28%), the EU (46%) and outside the EU (45%).
- Food and drink business expected sales to remain stable in Scotland (64%) and in England and Wales (63%).
- Remote rural businesses expected sales to remain stable in Scotland (56%).

8. Net zero

Key findings

The vast majority (93%) of businesses were currently taking some action(s) to reduce their greenhouse gas emissions. The top three actions were: recycling and minimising waste (89%), using more locally sourced supplies (69%) and improving energy efficiency of premises (48%).

Actions that businesses were more likely to say they did not plan on taking were: reusing materials or waste from other businesses (49% not planning to), measuring their emissions (49%), reviewing transport for supplies or distribution (41%) and offsetting carbon emissions (41%).

The most frequently mentioned barriers to reducing greenhouse gas emissions were: cost of making changes (73%), lack of green transport options (55%) and difficulty making existing premises more energy efficient (55%).

Actions to reduce emissions

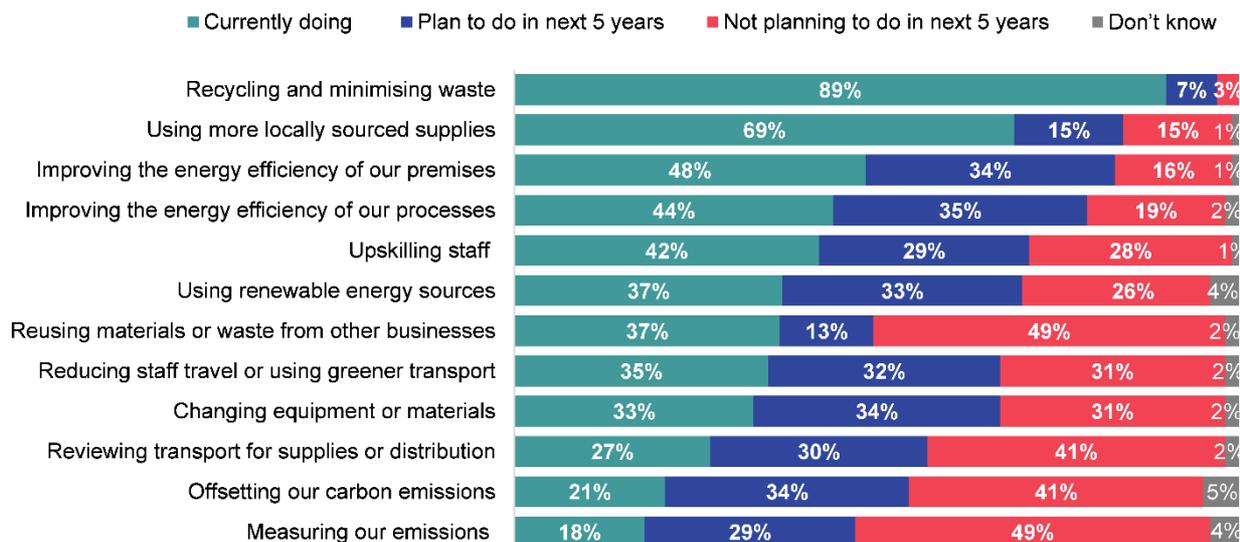
The vast majority (93%) of businesses were currently taking some action(s) to reduce their greenhouse gas emissions.

The most common actions businesses were taking or planning to take were those that arguably might require the least significant changes to the way businesses operate. The top three actions were: recycling and minimising waste (89%), using more locally sourced supplies (69%) and improving energy efficiency of premises (48%) (Figure 8.1).

Actions that businesses were more likely to say they did not plan on taking were: reusing materials or waste from other businesses (49% not planning to), measuring their emissions (49%), reviewing transport for supplies or distribution (41%) and offsetting carbon emissions (41%).

Figure 8.1 – Actions to reduce emissions

Q. Which of the following actions is your business currently taking to reduce its greenhouse gas emissions?



Base: All businesses for whom it applied

Variation in actions to reduce emissions

By sector, businesses more likely to **currently** be taking specific actions to reduce emissions were:

- Food and drink – using more locally sourced supplies (75%), improving energy efficiency of premises (53%) and processes (49%), using renewable energy sources (46%), reusing waste or material from other businesses (42%), offsetting carbon emissions (29%) and measuring emissions (28%).
- Tourism – using more locally sourced supplies (82%), improving energy efficiency of premises (57%) and processes (53%).
- Creative industries – recycling and minimising waste (95%), improving energy efficiency of processes (53%), reusing waste or material from other businesses (49%), reducing staff travel or using greener transport (46%).
- Financial and business services – reducing staff travel or using greener transport (46%).

Businesses in remote rural areas were also more likely to be currently taking the following actions:

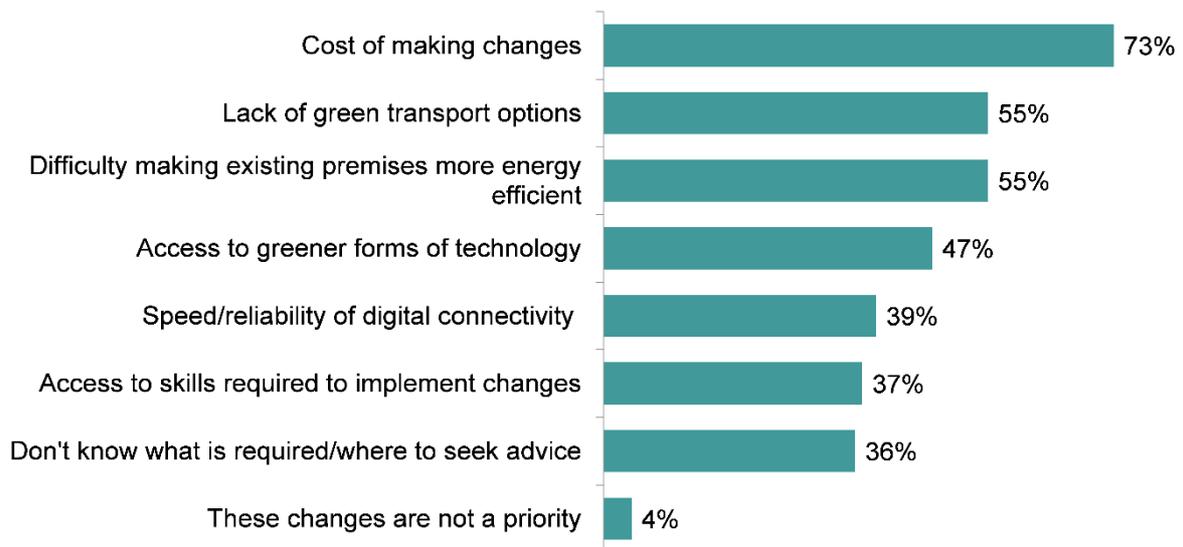
- using more locally sourced supplies (75%),
- improving energy efficiency of premises (52%) and processes (51%),
- reusing waste or material from other businesses (42%),
- using renewable energy (43%),
- offsetting carbon emissions (26%), and
- measuring emissions (21%).

Barriers faced when reducing emissions

The most frequently mentioned barriers to reducing greenhouse gas emissions were: cost of making changes (73%), lack of green transport options (55%) and difficulty making existing premises more energy efficient (55%) (Figure 8.2).

Figure 8.2 – Barriers faced when reducing emissions

Q. What barriers to making those changes do you expect your business will face, if any?



Base: All businesses expecting to make changes (1,949)

Variation in barriers to reducing emissions

The following were more likely than average to be facing specific barriers in terms of reducing emissions:

- Tourism – difficulty making existing premises more energy efficient (70%) and not knowing what is required/ where to seek advice (47%).
- Food and drink – cost of making changes (78%) and access to greener forms of technology (52%).
- Remote rural – lack of green transport options (61%), speed/ reliability of digital connectivity (45%), and access to skills required to implement changes (41%).

9. Workforce and Fair Work

Key findings

Among employers, 46% considered their business to be employee-owned, while 54% did not.

Around a third of businesses had staff on furlough in the few months leading up to the end of the scheme (up to 30th September 2021). Of those that did, the majority (84%) said recently furloughed staff were back in their usual role.

A further 8% had brought staff back but at reduced hours and 1% into a new role or different part of the business. A small minority said staff had left the business (6%) or been made redundant (4%).

The majority of businesses (76%) were taking measures to support Fair Work for their staff. Around two thirds (65%) were paying the real Living Wage, while 59% were committing to flexible working after the pandemic and 51% had Diversity and Inclusion policies. Fewer (35%) were measuring their gender pay gap.

Employee ownership

Among employers, 46% considered their business to be employee-owned, while 54% did not. Employee-ownership was more common among small businesses (1-4 staff) (55%), and those in remote rural locations (49%).

Note that “employee-ownership” was not defined in the question wording, therefore findings are based on businesses’ own understanding and interpretation of what this term means to them.

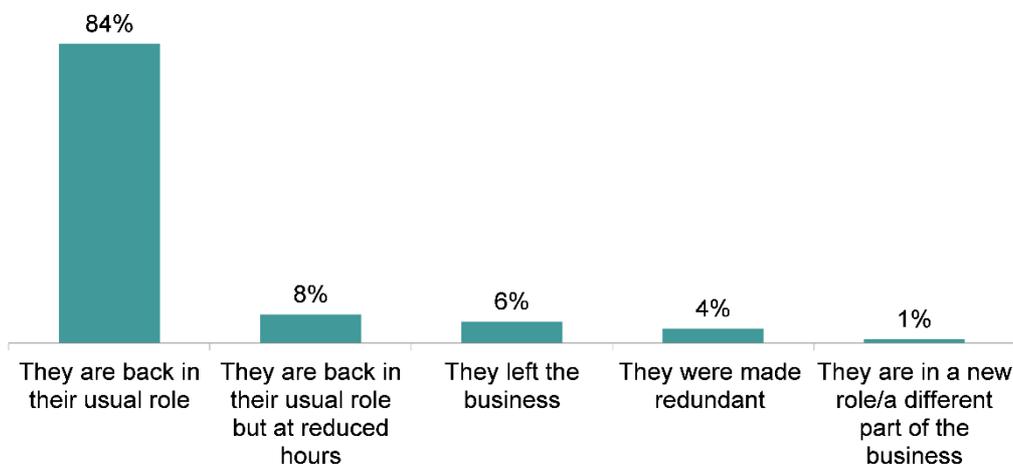
Staff on furlough

Around a third (32%) of businesses had staff on furlough in the few months leading up to the end of the scheme (up to 30th September 2021). Of those that did, the majority (84%) said recently furloughed staff were back in their usual role.

In addition to those that had brought furloughed staff back to their usual roles, a further 8% had brought staff back but at reduced hours and 1% into a new role or different part of the business. A small minority said staff had left the business (6%) or been made redundant (4%).

Figure 9.1 – Staff on furlough

Q. If you had any staff on furlough in the last few months, what happened with those staff after the end of the furlough scheme on 30th September 2021?



Base: All that had staff on furlough in recent months (863)

Variation in use of furlough scheme

Those businesses more likely to have furloughed staff were:

- tourism (39%) and non-growth sectors (37%),
- large businesses (25+ staff) (61%), those with 11-24 staff (53%) and those with 5-10 staff (50%).

Businesses more likely **not** to have furloughed staff were:

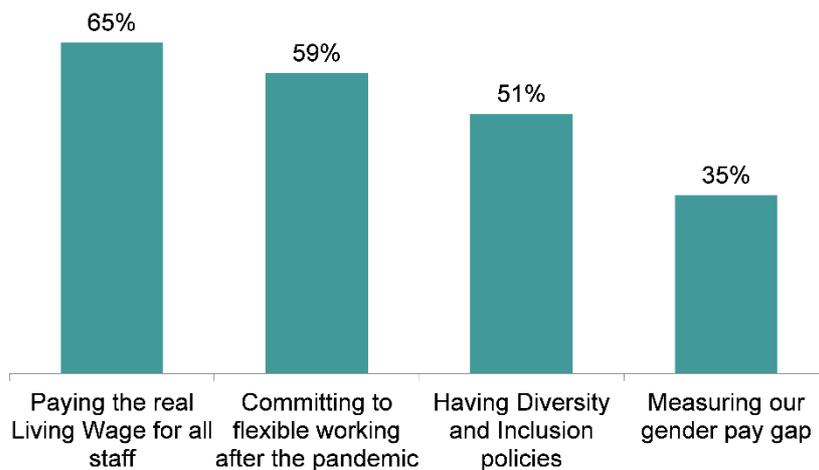
- food and drink (88%),
- small businesses with 1-4 staff (67%), and
- those in accessible rural (75%) and remote rural areas (74%).

Supporting Fair Work for staff

The majority of businesses (76%) were taking measures to support Fair Work for their staff. Around two thirds (65%) were paying the real Living Wage, while 59% were committing to flexible working after the pandemic and 51% had Diversity and Inclusion policies. Fewer (35%) were measuring their gender pay gap.

Figure 9.2 – Supporting Fair Work for staff

Q. Which of the following measures, if any, are you currently taking to support Fair Work for your staff?



Base: All businesses (2,726)

Variation in use of Fair Work measures

Each Fair Work measure was more common among businesses with 5 employees and above. In addition:

- tourism businesses were more likely to measure their gender pay gap (42%)
- those in small towns and peripheral urban areas were more likely to be committed to flexible working (63%), have Diversity and Inclusion policies (54%) and to be measuring their gender pay gap (38%).

Fair Work measures were also more common among businesses that were importing and exporting from outside of Scotland and those that were striving for growth in future.

10. Conclusion

This first wave of the Rural Scotland Business Panel survey was carried out at a time when businesses were grappling with a range of economic challenges. In addition to the ongoing recovery from COVID-19, businesses were operating against a backdrop of increased inflation, record fuel prices, widespread reports of fuel shortages and disruption to the wider supply chain.

Against this background, the survey highlighted some key findings in relation to the attitudes, behaviours and priorities for rural businesses at this time:

- 1. Despite challenging economic circumstances, rural businesses were generally confident in the economy and were optimistic about their future prospects.** Most businesses were operating at, or above, the level they were before COVID-19, suggesting signs of recovery from the pandemic. However, around two fifths were operating below their pre-pandemic levels. Around a third were striving for growth, while half were content with their current level of performance.
- 2. Most businesses had experienced increased costs in the last 12 months and this was their top concern.** Responses to increased costs varied, but businesses were more likely to have absorbed those costs than passed them on to customers through price increases.
- 3. Supply chain issues were common, with most facing problems accessing the goods, materials, or supply of services they needed.** These supply chain issues had contributed to increased costs and a range of other impacts.
- 4. Half of businesses were experiencing labour shortages, either as a result of recruitment or retention challenges or from staff absence.** These shortages had caused a range of impacts such as increased workload for other staff, difficulties delivering their services, and scaling back their offer.
- 5. Moving to net zero was seen as important, but in the short term the top priorities were keeping pace with new technology and innovation.** Most businesses were taking action to reduce their greenhouse gas emissions. The most common actions businesses were taking or planning to take were those that arguably might require the least significant changes, such as recycling and minimising waste.

These, and the other findings outlined in this report, highlight areas that may be of interest to explore in future waves of the survey, including:

- The extent to which business confidence, performance and outlook change over time. These aspects have been regularly tracked in the HIE and SOSE business panel surveys and there is value in continuing that trend for future waves covering the whole of rural Scotland.

- If cost increases continue to be an issue for business, particularly in the context of economic challenges such as inflation, fuel prices, and cost of labour. The impact of these cost increases and the way businesses respond would also be useful to continue to capture.
- The ways in which businesses trade with Scottish and international markets, whether they experience supply chain challenges and what the nature of those challenges are. What impact will changes to import arrangements have on businesses that source goods or services from outside the UK?
- To what extent will labour shortages continue and what other workforce-related issues will businesses face as they recover from the pandemic and find new ways of working. There would also be value in further exploration of the reasons driving labour shortages, the impact of these on businesses and the actions taken as result.
- On net zero, how businesses prioritise net zero adaptation in the short, medium and long term. Future waves could also explore reasons why businesses are inhibited in engaging in net zero opportunities.

Appendix A – Additional variation

Priorities

Table A.1 – 12 month priorities by growth aspiration
(figures marked with * are higher than the average)

Priority over the next 12 months	Growth aspiration			Total
	Striving for growth	Content	Aiming to downsize	
Keeping pace with new technology	64*	49	42	54
Innovating or evolving what we do	63*	40	26	47
Reaching new markets	57*	27	16	37
Reskilling staff	47*	24	14	31
Moving to low carbon ways of working	32*	23	25	26
Base	1,069	1,337	291	2,726

Table A.2 – 12 month priorities by operating level
(figures marked with * are higher than the average)

Priority over the next 12 months	Operating level compared with pre-COVID-19			Total
	Over and above	Same	Below	
Keeping pace with new technology	64*	52	51	54
Innovating or evolving what we do	55*	43	47	47
Reaching new markets	37	30	45*	37
Reskilling staff	42*	28	29	31
Moving to low carbon ways of working	30*	23	26	26
Base	583	1,105	1,001	2,726

Table A.3 – 12 month priorities by markets imported from
(figures marked with * are higher than the average)

Priority over the next 12 months	Markets goods are sourced from				Total
	England and Wales	Northern Ireland	The EU	Outside the EU	
Keeping pace with new technology	56	58	59*	63*	54
Innovating or evolving what we do	50*	53*	56*	60*	47
Reaching new markets	40*	42*	44*	45*	37
Reskilling staff	34*	36*	36*	38*	31
Moving to low carbon ways of working	27	26	28	29	26
Base	1,936	501	951	573	2,726

Table A.4 – 12 month priorities by markets exported to
(figures marked with * are higher than the average)

Priority over the next 12 months	Markets goods are sold to				Total
	England and Wales	Northern Ireland	The EU	Outside the EU	
Keeping pace with new technology	61*	63*	62*	62*	54
Innovating or evolving what we do	56*	62*	64*	64*	47
Reaching new markets	47*	53*	53*	55*	37
Reskilling staff	35*	38*	35*	37*	31
Moving to low carbon ways of working	30*	29	30*	28	26
Base	1,324	659	621	566	2,726

Other businesses that were more likely to say some of these factors were priorities in the next 12 months were:

- Creative industries - keeping pace with new technology (64%), innovating or evolving (60%), reaching new markets (45%) and moving to low carbon ways of working (36%)
- Tourism - innovating or evolving (56%) and reaching new markets (53%).
- Financial and business services - keeping pace with new technology (64%).

- Large businesses (25+ staff) - innovating (60%), reskilling staff (50%) and reaching new markets (48%).

Concerns

- Food and drink - increased costs (91%), economic uncertainty (76%), changing regulations (71%), supply chain issues (70%), transport (57%), net zero (48%), increased competition (33%) and export markets (26%).
- Tourism - economic uncertainty (76%), retaining customers (62%), changing regulations (62%), and recruiting or retaining staff (46%).
- Remote rural businesses - increased costs (84%), changing regulations (59%), transport (46%) and net zero (38%).
- Island businesses – increased costs (85%), supply chain issues (64%) and transport (56%)
- Those importing from international markets - economic uncertainty (75%), supply chain issues (70%), changing regulations (62%) and transport (47%).
- Those exporting to international markets - economic uncertainty (71%), changing regulations (60%) and export markets (27%).

Increased costs

By location:

- Highlands and Islands - increased costs of exporting goods (78%), labour (67%), and premises (28%).
- Remote rural locations – increase costs of exporting goods (79%)
- Island locations – increase costs of exporting goods (85%)
- Accessible rural locations - increased costs of goods sourced within the UK (88%) and business rates (26%).

By sector:

- Food and drink - increased costs of goods sourced in the UK (92%), utilities (other than electricity/gas) (72%), labour (70%), business rates (34%), and premises (30%).

Financial and business services - decreased cost of premises (5%) and stability in a range of other areas.

Impacts of supply chain issues

By sector:

- Tourism - increased costs (83%), changing suppliers (48%), amending or diversifying offer (42%), postponing investment plans (42%), scaling back production or services (37%), and changing market focus (34%).

- Food and drink - increased costs (88%) and postponing investment plans (38%).

By import markets:

- England and Wales and international markets - difficulties delivering services/ fulfilling orders (49% and 53% respectively), amending or diversifying offer (33% and 37%), changing supplier (38% and 39%), and changing market focus (28% and 30%).

By export markets:

- England and Wales - amending or diversifying offer (35%) and changing market focus (32%).
- Northern Ireland - amending or diversifying offer (36%) and changing market focus (34%).
- Outside the EU - amending or diversifying offer (40%) and changing market focus (37%).

Appendix B – Profile of survey sample

Table B.1 – Urban Rural classification

Category	% of participating businesses (weighted)
1 (Large urban)	-
2 (Other urban areas)	22
3 (Accessible small towns)	14
4 (Remote small towns)	9
5 (Accessible rural areas)	31
6 (Remote rural areas)	26
Base	2,726

Table B.2 – Growth sector categories

Category	% of participating businesses (weighted)
Food and drink	16
Financial and business services	13
Life sciences	*
Energy	3
Tourism	9
Creative industries	5
Non-growth sectors	54
Base	2,726

Table B.3 – Legal status of company

Category	% of participating businesses (weighted)
Sole trader	33
Limited Liability Partnership	9
Legal Partnership	15
Company Limited by Guarantee	7
Limited Company by Shares	33
Scottish Charitable Incorporated Organisation	1
Constituted Community Group	*
Unconstituted Community Group	*
Community Interest Company	*
Trust	*
Base	2,726

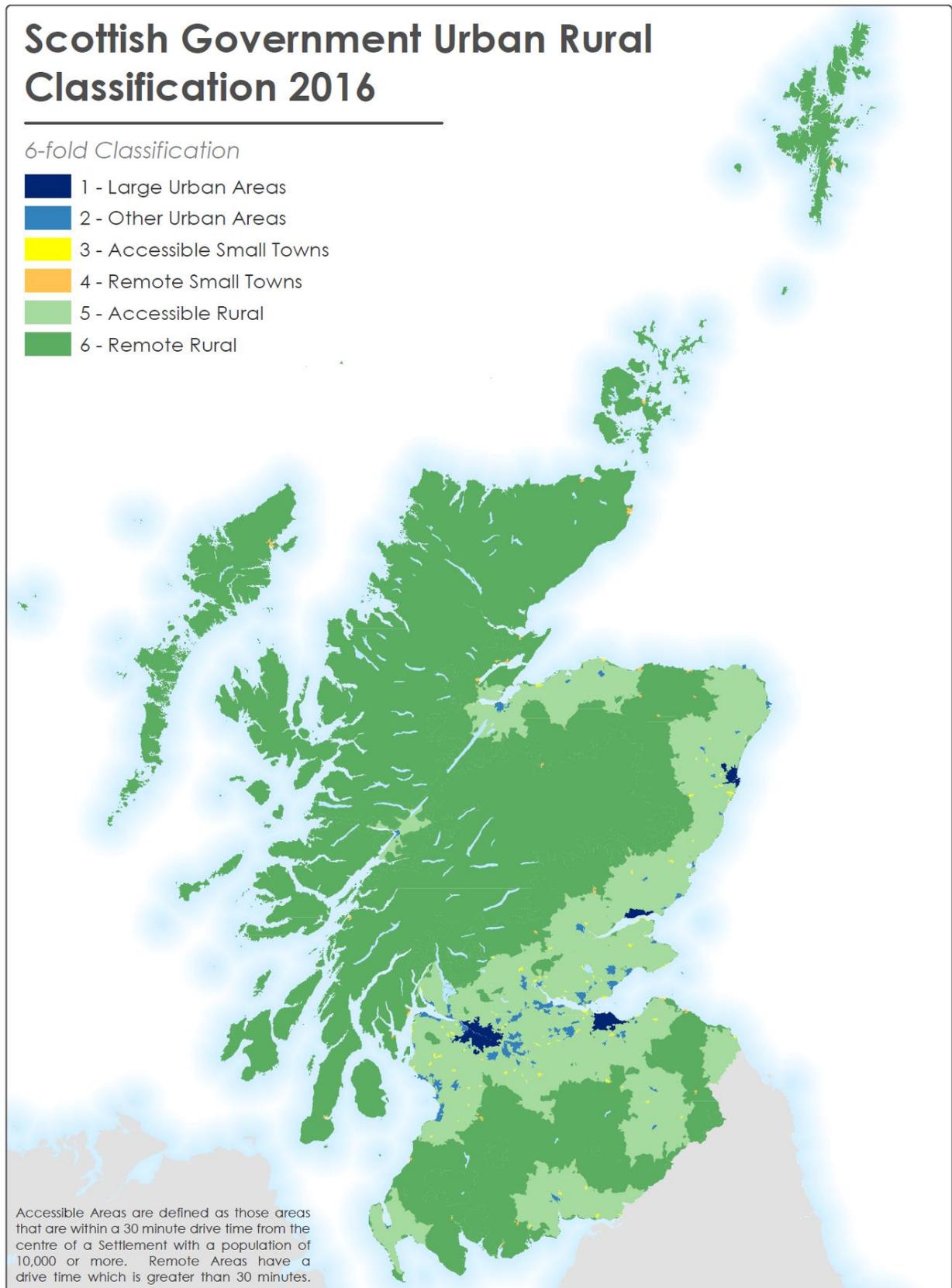
Table B.4 – Employee ownership

Category	% of participating businesses (weighted)
Yes	49
No	48
Don't know	3
Base	2,726

Table B.5 – Business size

Number of staff	% of participating businesses (weighted)
Sole trader	25
1-4	50
5-10	13
11-24	7
25+	5
Base	2,726

Appendix C – Map of urban-rural classifications





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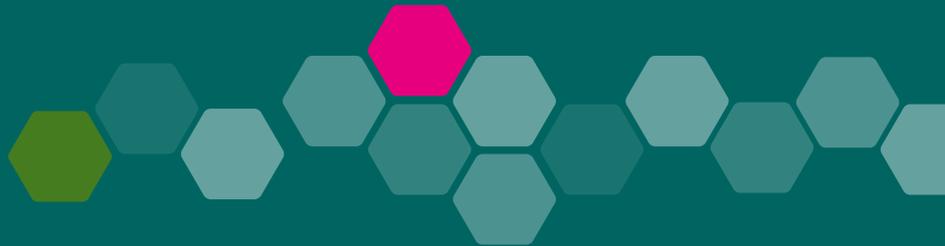
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