Rural and Islands Report: 2023

An Insights Report

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(Version 2)

Scottish Government Strategic Research Programme 2022-2027

SRUC-E1-1: Novel insights on Scotland's rural and island economies (NISRIE) & **SRUC-E2-1** Reimagined rural and island communities (ReRic)

Deliverable NISRIE D1.1 Annual "rural and island economy report"

The Scottish Government
Riaghaltas na h-Alba

Highlights

What were we trying to find out?

There is a limited evidence base on the makeup and drivers of change in our rural and island communities and economies. This report is the first of an annual series of reports stemming from research funded by the Scottish Government's Strategic Research Programme 2022-27, that aims to provide novel insights on Scotland's rural and island economies and communities. This new lens is particularly timely, with our First Minister, Humza Yousaf, and his cabinet recently committing to a Rural Delivery Plan and a Remote, Rural and Island Housing Action Plan by 2026.

What did we do?

We firstly reviewed rural and island policy to see how it has evolved over time. We also scanned a wide variety of data sources to help provide statistics that could help us provide insights into the specific characteristics of, and issues faced by, rural and island economies and communities. As a starting point we extended the Scottish Government Urban Rural classification to provide a more nuanced lens with which to highlight specific challenges facing our islands and very remote mainland regions.

What did we learn?

We found that our rural and island economies and communities are incredibly diverse, and issues faced in one locality are not always the same in the next. Whilst not universal, on average we found that very remote mainland areas, as well as islands, are faced with some of the most significant demographic challenges: – slow population growth; ageing populations; fewer young children that lead to a long-term shrinking of the economic base; high levels of vacant and second home ownership; affordable housing concerns from locals; higher fuel prices; etc. In accessible parts of Scotland there has been rapid population growth, leading to a growth in housing developments and pressures on local services.

What do we recommend?

We believe the new Novel Insights on Scotland's rural and island economies (NISRIE) peripherality classification offers a more nuanced lens with which to monitor communities and economies of our islands and very remote mainland areas, which share similar traits. There would be benefits for the Scottish Government in adapting such a classification to improve the evidence base that is vital to deliver the Rural Delivery Plan.

Our research re-emphasises the diversity of economic activity, demographic change and pressure, as well as economic infrastructure challenges (e.g. transport, affordable housing) faced by rural and island communities. This heterogeneity points to a need for greater emphasis on place-based policy, or indeed extending the legislative requirements for Island Community Impact Assessments into our remote and very remote mainland communities.

Executive Summary

Introduction and Policy Context

- Rural areas (settlements with less than 3,000 people) make up 98% of Scotland's landmass and 17% of its population. Scotland has a total of 790 islands, with 93 of those currently inhabited.
- Ensuring the sustainability of these rural and island communities is critical to current and future land use and land management in Scotland, to achieving a sustainable and just national economy, and to Scotland achieving its target of net zero by 2045.
- Accurate and up-to-date evidence about the characteristics of, and challenges and opportunities facing, these communities and the businesses within them, is vital to our knowledge and understanding of how they can be supported to be more sustainable, resilient, and just in the future.
- From 2022-2027, as part of the Scottish Government's Rural and Environment Science and Analytical Services (RESAS) Strategic Research Programme 2022-27, Scotland's Rural College (SRUC) researchers are working on two inter-related projects: 'Novel insights on Scotland's rural and island economies' (NISRIE, SRUC-E1-1) and 'Reimagined Policy Futures: Shaping sustainable, inclusive and just rural and island communities in Scotland' (ReRIC, SRUC-E2-2). This report, which presents and discusses up-to-date evidence on various different socio-economic themes, is based on ongoing research in these two projects.
- The project has refined the Scottish Government's 8-fold rural-urban classification to provide a better focus on our most peripheral communities. The "very remote" regions (defined as being more than 60-minute drive-time from population centres of over 10,000 people) were split into "Very Remote Mainland" and "Island" categories. This classification is used where the data permits, but in other occasions the Scottish Government's rural-urban classification is used, or the RESAS rural-urban classification of local authorities.
- This research work is particularly important in providing an evidence base to inform the development of the Rural Delivery Plan, a commitment set out in the First Minister's vision for Scotland and his priorities up until 2026. More generally, the evidence presented here helps to understand how Scotland's rural and island communities are faring at a time of considerable change relating to Brexit, the COVID-19 pandemic and the cost-of-living crisis.

Our people

- Scotland's Very remote mainland areas are the most sparsely populated areas of Scotland with 5.3 people per km^2. Indeed, many data zones across the hill and mountainous areas of the Highlands have fewer than 2 people per km^2 that make them some of the most sparsely populated regions of Europe. This sparsity of population makes these areas particularly vulnerable to socio-economic change.

- Urban and Accessible parts of Scotland saw steady growth in their populations over the last two decades. Urban areas had population growth of 6.7% between 2003 and 2021, now accounting for 70% of Scotland's population. The population of Accessible mainland areas grew rapidly (16%) between 2001 and 2021, and now accounts for more than 22% of Scotland's population. This additional 168,000 people living in accessible small towns and rural areas of Scotland (including in the Scottish Borders and Midlothian in the central belt) has put pressure on housing, transport, and service infrastructure.
- In contrast in the Very remote mainland areas there was low (2%) population growth between 2001 and 2010 followed by a period of decline (2%) to 2020, with a sudden increase of 1.5% between 2020 and 2021 – likely a result of COVID-19 relocations.
- Remote mainland areas and Islands had similar patterns of change – with modest growth of 6% and 4% respectively between 2001 and 2010 followed by a decade of marginal decline before a 1% increase between 2020 and 2021.
- There was significant local geographical variation in population dynamics, with some areas experiencing population growth (e.g. parts of Skye, Mull, Islay and Jura) and other areas experiencing significant decline (e.g. parts of Lewis, the north coast of Caithness and Sutherland and Dumfries and Galloway).
- Scotland's population, as a whole, is ageing, with over-80s now accounting for almost 6% of the population of remote and very remote mainland areas, and islands. This brings pressures for health and social care services. Over-65s account for 25% of the population in Very remote mainland areas. This brings both challenges and opportunities for communities, including an increase in the dependency ratio for these areas (that will be exacerbated in the long term by a declining school age population).
- In terms of wellbeing, while islands had the lowest proportion of people that were income and employment deprived and living in overcrowded dwellings, very remote mainland areas had higher proportions of people experiencing these challenges than accessible mainland areas. According to the Office for National Statistics' (ONS) national wellbeing dashboard, higher levels of personal wellbeing were reported the more remote respondents were from larger cities.

Our Transport

- The number of registered private cars was highest per head of population in Mainly rural local authorities in 2021 at an average of 0.50 cars per person. The level was second highest in Islands and remote rural authorities at 0.48 cars per person. Similar proportions of privately owned cars were battery electric and hybrid (around 4%) in rural and urban areas.
- Evidence suggests a higher reliance on car driving as a means of transport in rural areas, with people in accessible rural areas and small accessible and small remote towns more likely to drive more regularly. Journey times in rural areas are also longer, with 19% of journeys in remote rural areas being 20km or over.

- Data on the price of fuel (petrol and diesel) at forecourts in different rural and urban locations demonstrates the rise in fuel prices since early 2020 (after the crude oil price crash brought on by COVID-19 travel restrictions), and particularly since early 2022 and the war in Ukraine. These price rises led to households facing an additional (approximately) £50.00 on the cost of each tank of fuel they purchased.
- Ferry and air transport services are vital to Scotland's Island and remote rural residents. Data shows that between 2017 and 2022, Barra, Campbeltown, Tiree and Islay airports had higher proportions of flight cancellations than other island/remote rural and urban airports.

Our Housing

- There is a particularly clear trend of significant house price inflation from 2004 to 2021, most notable in the Islands and Very remote mainland areas, where weighted average prices increased by 102% and 92% respectively, compared to only 71% in Urban areas. This has led to increased challenges regarding housing affordability for lower waged households in these regions.
- High proportions of second and vacant homes are a particular, and persistent, challenge in Island (13%) and Very remote mainland (11%) locations. Analysis at data zone level shows that some specific rural and island communities have over a third of their housing stock taken up by second homes (e.g. Millport on the island of Great Cumbrae, part of the Cowal peninsula and Earlsferry in Fife). When vacant homes are added, some areas have high proportions of their housing stock unavailable to local residents, or those seeking to move in (on a permanent basis).
- Second home ownership appears to be driving house price inflation in many rural areas, with 51% of residential transactions in Island and remote local authorities being cash sales – compared to 27% in larger cities. House price inflation also appears to be affected, in part, by new housing stock where as their average price was at least £50k higher than existing housing in 2020 (£80k-£100k high, on average, in all local authorities outwith the Islands and remote classification).
- There is very limited data on rental costs of private housing. However, average houses are generally unaffordable to purchase by the average resident. In areas such as East Lothian the lower quartile house price was nearly 6 times median earnings. Na h-Eileanan Siar had the some of the most affordable lower quartile house prices in comparison to median earnings (2.5 times earnings) although median house prices were nearly 5-times median earnings. Lower quartile earners are generally priced out of the home ownership market with, for example, lower quartile prices in Orkney being 6 times lower quartile earnings. In many areas (that relate to high vacant and second home ownership and declining resident populations) median house prices were more than 10 times median resident earning.

- Mainly rural local authorities had 19% more dwellings in 2021 than 2001 compared to 13% in Island and remote rural areas. Following the 2008 financial crisis, a decade of lower rates of new housing completions occurred – dropping from 1.2% of dwellings in Mainly rural and Urban with substantial rural local authorities in 2007 to around 0.7% of total dwelling in 2012. In 2021 c.12k newbuild properties across Scotland accounted for 11% of the private sector housing transactions – but only 3-4% of transactions in Island and remote local authorities.

Our Workforce & Earnings

- There was a 17% increase in the number of retirees (188k people) in the period 2005-22, with the lowest levels of economic activity in over 16 year olds to be found in Orkney, Highland and Dumfries and Galloway at just over 50%, reflecting these local authorities' age profiles and high levels of retirees.
- On average, there was a higher level of self-employment in Mainly rural (14%) and Island and remote (17%) local authorities compared with Large cities or Urban with substantial rural local authorities (both around 10%). Those more rural and peripheral areas have less (c.5% lower) reliance on paid employment than more urban local authorities.
- The economic inactivity rate for all of Scotland in 2022 was just over 39%. Using the NISRIE classification the Islands, Very remote mainland and Remote mainland areas experienced an increase of around 10% in inactivity rates in the population aged 16 and over between 2017 and 2021. Whilst economic inactivity due to long-term sickness was lowest in island regions, inactivity due to retirement increased substantially in Island, Remote mainland and Very remote mainland areas.
- There was wide variation in the reliance on the public sector compared to private businesses for jobs across Scotland. Island and remote local authorities stand apart, being considerably more reliant (by c.10%) on public sector jobs than other local authorities. Public sector accounted for 43% of employees in Shetland and 41% of employees in Na h-Eileanan Siar in 2022, compared to only 22% in South Lanarkshire and 24% in Dumfries and Galloway.
- Across rural Scotland there is also wide variation in local and regional reliance on different sectors of employment. In remote rural and accessible rural areas the largest industrial sector in terms of private sector employment during 2022 was Agriculture, Forestry and Fishing, at 18% and 15% of total employment in these areas respectively. Other important sectors in relation to total employment in rural areas include: Accommodation and Food Services Activities (17% remote rural, 10% accessible rural); Wholesale and retail trade -repair of motor vehicles and motorcycles (12% remote rural, 14% accessible rural); Manufacturing (11% remote rural and 12% accessible rural); and Construction (9% remote rural, 10% accessible rural).

- Where there is high levels of commuting (some Urban with substantial rural local authorities) there is often a wider difference between earnings of those working in the local authority (workplace earnings) compared to those living there (resident earnings). East Renfrewshire, East Dunbartonshire and Stirling all had higher average resident earnings in 2021 compared to the earnings from local employers – that also impact on local house prices, and affordability for local workforce. For example in East Renfrewshire, average resident earnings were 50% higher than average earnings from jobs located in the local authority – whilst resident based earnings in Aberdeenshire were, on average, 12% higher than earnings from within the region.
- Whilst the gender pay gap generally narrowed for fulltime workers in Scotland between 2004 and 2021, it persists. Full time workplace earnings of females were 21% lower than males in 2004 compared to 12% lower in 2021. There were however variations in the gender pay gap across local authorities and between resident earnings and workplace earnings that also reflect, for example, types of job and sectors of work.

Our Businesses and Economy

- Between 2010 and 2022 there was a consistently higher proportion of businesses per resident adult in the Islands and remote local authorities (6.5% in 2022) and Mainly rural local authorities (4.9% in 2022). This ranged from 8.8% in Shetland to 2.7% in Inverclyde in 2022.
- Using the Scottish Government's 6-fold rural-urban definition 11% Scotland's businesses were located in Remote rural areas in 2022 with 16% in Accessible rural areas (considerably higher than the proportion of Scotland's population living in these areas). Remote rural areas (5%) and accessible rural areas (10%) also accounted for 15% of Scottish employment and 14% of Scottish business turnover (4% remote rural and 10% in accessible rural areas).
- Rural Small and medium-sized enterprises (SMEs) were found to be less likely to report that the Covid-19 pandemic was a major obstacle to business success in 2020 and 2021 compared to urban counterparts. However, they were more likely to report regulations/red tape as their major obstacle in 2020 and to state Brexit as a major obstacle, compared to urban businesses.
- Rural and island areas had a higher reliance on micro enterprises (less than 10 employees). Business sizes were, however, highly variable between geographies and sectors. For example, in the remote and very remote mainland areas only 46% of business had less than five employees in the Accommodation and food service sector in 2022, compared to 86% of the businesses in the Agriculture, Forestry and Fishing sectors.
- In remote rural areas the Manufacturing sector was the most important in terms of private sector turnover (20%), followed by Agriculture Forestry and Fishing sector (18%), Mining, quarrying and utilities (15%) and Wholesale, retail and repair (15%). In accessible rural areas, the Wholesale, retail and repair sector was the

most important in terms of private sector turnover generated (21%), followed by Manufacturing (21%), Mining, quarrying and utilities (15%) and Agriculture, Forestry and Fishing sector (12%).

- Using the NISRIE classification the growth of Gross Value Added (GVA) of Island data zones in absolute terms lagged mainland geographies between 2011 and 2020. Accessible mainland areas saw the greatest growth in GVA – 33% higher between 2011 and 2019, compared to only 14% growth in Island data zones. All NISRIE peripherality classes saw a decline in GVA during 2020 due to the COVID-19 pandemic – with the worst affected areas being Remote mainland (7.3% decline in 2020), followed by very remote mainland (5.4% decline) then Islands (4.8% decline).
- Whilst the absolute GVA on Islands showed the slowest growth rates, when GVA was expressed in terms of per working age resident the Islands collectively outperformed other peripherality classifications, except Urban areas. Per (working age) capita GVA increased from £23k to £41k in Island areas between 2001 and 2020, compared to £20k to £38k in Very remote areas, £19k to £34k in Remote areas and £19k to £32k in Accessible areas. The poorer performance of Accessible areas and better performance of Urban areas reflect the denominator used (resident working age population, where accessible areas have a high degree of resident commuters and urban areas a high proportion of in-coming working commuters).
- Urban SMEs were found to be more likely than rural SMEs to furlough staff or lay staff off in the short-term without furlough in response to the COVID-19 impact, whilst urban SMEs were found to provide more facilities for remote working compared to rural SMEs. Rural SMEs in Scotland tended to report lower application rates to Government-backed accredited loans/finance agreements or COVID government or local authority funded business grants than urban counterparts. This may reflect the industrial sectors businesses operate in, or that rural SMEs face greater barriers in accessing these funding schemes.

Recommendations and Next Steps

- This 2023 report has presented a range of data, where appropriate using a new analytical framework, to provide novel insights on key demographic and socio-economic trends across rural and island Scotland. We believe that it provides a useful lens with which to monitor and assess the performance of our most peripheral and fragile economies and communities. As the Scottish Government prepare a Rural Delivery Plan and a Remote, Rural and Islands Housing Action Plan by 2026 we believe this framework could ensure that the evidence base used to inform policy fully recognises the unique challenges faced by our Islands and Very remote mainland areas, which share similar traits.
- There is incredible diversity of socio-economic performance and drivers of change across our rural and island areas and it is important that future policy recognises those differences, and more placed based approaches are considered.

- The NISRIE and ReRIC projects are helping to build novel insights on rural and island communities and economies - with more data-driven reports on sectoral business densities, economic peripherality, economic infrastructure (including mobile and broadband access), agricultural policy impacts forthcoming. In future, our ongoing work programme will offer insights on community wealth building and the persistent challenges faced in rural and island communities (demographic change, housing and social exclusion). These will be available through our Rural Exchange in coming months and years.

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Version 2* *(August 2023) of this report corrects an error on the reported number of inhabited islands in Version 1* ***from 73 to 93 islands**.*

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List of Acronyms

ASHE	Annual Survey of Hours and Earnings
BEIS	Department for Business, Energy & Industrial Strategy
CAA	Civil Aviation Authority
CAP	Common Agricultural Policy
COSLA	Convention of Scottish Local Authorities
COVID	Coronavirus disease
DVLA	Driver and Vehicle Licensing Agency
EU	European Union
EV	Electrical vehicle
GVA	Gross Value Added
HIAL	Highlands and Islands Airports Limited
HIDB	Highlands and Islands Development Board
ICIA	Island Communities Impact Assessment
IDBR	Inter Departmental Business Register
LSBS	Longitudinal Small Business Survey
MSP	Member of the Scottish Parliament
NCRA	National Council of Rural Advisers
NHS	National Health Service
NISRIE	Novel insights on Scotland's rural and island economies
NOMIS	ONS Official Census and Labour Market Statistics
NRS	National Records of Scotland
NSET	National Strategy for Economic Transformation
OECD	The Organization for Economic Cooperation and Development
ONS	Office for National Statistics
PAYE	Pay as You Earn
PFG	Programme for Government
RESAS	Rural and Environment Science and Analytical Services Division of the Scottish Government
ReRIC	Reimagined Policy Futures: Shaping sustainable, inclusive and just rural and island communities in Scotland
SICRAS	Small Industries Council for Rural Areas of Scotland
SIMD	Scottish Index of Multiple Deprivation
SME	Small and medium-sized enterprise
SRUC	Scotland's Rural College
UK	United Kingdom
VAT	Value Added Tax

Report Photos: Steven Thomson, Alexa Green, Rory Richardson, SAC Consulting, Pixabay

1 Introduction

1.1 Rural and Island Economies and Communities

Rural areas make up 98% of Scotland's landmass and are home to 17% of the population. Scotland has a total of 790 islands, with 93 of them currently inhabited. There is great diversity amongst these rural and island communities, with some demonstrating consistent population growth, an expansion of economic activity and vibrant communities with high levels of locally-generated action. Others, however, have been experiencing population loss, in many cases over the long-term, and an associated decline in services and socio-economic activity. In many instances, those communities experiencing socio-economic challenges are located in areas of very high environmental value, where future land use changes may be significant, bringing with them further socio-economic change, as Scotland transitions in a just way to a 'net zero' country by 2045. Maintaining populations in these areas is therefore critical to ensuring a sustainable agricultural sector and the delivery of a variety of environmental services, including peatland restoration and carbon sequestration, tree planting and other nature-based activities, all of which have a vital role to play in Scotland reaching its ambitious climate change target of net zero by 2045.

In April 2022, researchers at SRUC started several new projects exploring the characteristics of, and current challenges and opportunities facing, economies and communities in rural and island Scotland, as part of the Scottish Government's Rural and Environment Science and Analytical Services (RESAS) Strategic Research Programme 2022-27. This report is based on work undertaken in two of these projects: 'Novel insights on Scotland's rural and island economies' (NISRIE, SRUC-E1-1) and 'Reimagined Policy Futures: Shaping sustainable, inclusive and just rural and island communities in Scotland' (ReRIC, SRUC-E2-2). These projects sit within Theme E: Rural Futures of the 2022-27 Programme, alongside a third project exploring land reform, land management and land values. Colleagues at the James Hutton Institute are undertaking parallel work focusing on these topics.

This report will be produced annually by the team to present highlights from our analysis of rural and island economies and businesses. It takes a thematic approach and is set within the current policy context, both broadly for Scotland and more specifically for rural and island communities. We anticipate that the themes covered will vary from year to year as the focus of work in the two projects shifts over time.

This 2022-23 report starts by briefly describing the overarching policy context in Scotland, with reference to the Scottish Government's 10-year National Strategy for Economic Transformation[1] and other current policy priorities, including those set out

[1] Scotland's National Strategy for Economic Transformation - gov.scot (www.gov.scot)

recently in the new First Minister's vision for Scotland and his priorities up until 2026[2].

Drawing on work undertaken in ReRIC, the report then briefly reviews the evolution of rural and island policy in Scotland since the Second World War. There is then a set of short thematic sections, each of which discusses a key current policy issue for rural and/or island Scotland, based on analysis of up-to-date statistical data. The report concludes with a short summary of the key points raised set in the context of future policy priorities for rural and island Scotland and of planned work in the NISRIE and ReRIC projects until 2027.

1.2 Rural and Island Policy

This section of the report briefly outlines the policy context in Scotland, starting with the National Performance Framework and the National Strategy for Economic Transformation. It then sets out the key priorities outlined in the Scottish Government's 2022-23 Programme for Government, before bringing the policy review up-to-date with a description of the key priorities for rural and island Scotland set out by Scotland's new First Minister Humza Yousaf in his vision for Scotland published in April 2023[3].

[2] Equality, opportunity, community: New leadership - A fresh start - gov.scot (www.gov.scot) and https://spice-spotlight.scot/2023/04/21/the-first-ministers-statement-on-our-priorities-for-scotland/
[3] Equality, opportunity, community: New leadership - A fresh start - gov.scot (www.gov.scot)

1.2.1 Scotland's National Performance Framework and National Strategy for Economic Transformation

All of the Scottish Government's legislation and policies are set within the context of the National Performance Framework, which shares the same aims as the United Nation's Sustainable Development Goals.

The ten year National Strategy for Economic Transformation: Delivering Economic Prosperity (NSET) was published in March 2022 and sets out the priorities for Scotland's economy and the actions needed to reach the vision of a wellbeing economy, in which (economic, social and geographical) inequalities are reduced, biodiversity and net zero targets are reached, and Scotland recovers from the negative impacts of Brexit, the COVID-19 pandemic and the war in Ukraine.

The NSET places great emphasis on Scotland being successful in 2032, but in a way where the economy is strong, with good, secure and well paid jobs, growing businesses which have contributed to significantly reducing poverty - and in particular, child poverty - resilient supply chains and competitive advantages in new industries generated by technological change, scientific advance and Scotland's response to the climate and nature crises: *"It means a society in which everyone can participate in economic success, in every community and in every region."* (p4)

The document acknowledges how the COVID-19 pandemic has hit the economy of Scotland hard and forced a re-evaluation of questions of economic value and national resilience, and revolutionising the way in which some of the country's industries work. The NSET set out five bold new policy programmes of action:

- To establish Scotland as a world-class entrepreneurial nation founded on a culture that encourages, promotes and celebrates entrepreneurial activity in every sector of our economy;
- To strengthen Scotland's position in new markets and industries, generating new, well-paid jobs from a just transition to net zero;
- To make Scotland's businesses, industries, regions, communities and public services more productive and innovative;
- To ensure that people have the skills they need at every stage of life to have rewarding careers and meet the demands of an ever-changing economy and society, and that employers invest in the skilled employees they need to grow their businesses;
- To reorient our economy towards wellbeing and fair work, to deliver higher rates of employment and wage growth, to significantly reduce structural poverty, particularly child poverty, and improve health, cultural and social outcomes for disadvantaged families and communities.

The document argues that these five policy programmes have the greatest potential benefit, based on the evidence. It also notes a sixth programme on delivery, which notes the need for greater clarity on roles and accountability, and encourages people

and organisations from all sectors and across all regions, rural or urban, to work together in a 'Team Scotland' approach.

In terms of rural and island areas, the NSET recognises the deep-seated regional inequalities in Scotland (p3), including where post-industrial areas are performing less well and rural and island areas face particular challenges such as declining populations and a falling labour supply, poorer access to infrastructure and housing challenges which are holding back local businesses. At the same time, the Strategy recognises the opportunities in all areas and the potential for them all to contribute in different ways based on their unique strengths and assets (p31). The NSET sets out a vision where economic power is distributed fairly across regions, cities and towns and rural and island communities (p1), and also recognises the potential new opportunities for nature-based businesses and jobs in rural and island economies, thereby spreading the benefits of a just transition across Scotland (p11) and helping to rebuild the natural capital that underpins prosperity, health and wellbeing (p24). The Strategy also recognises the potential for entrepreneurship to bring wider benefits in terms of sustaining rural communities (p17).

The Strategy includes a commitment to:

- take forward Community Wealth Building legislation with pilot areas in both rural and urban Scotland (p36)
- focus on future skills provision through work on the Climate Emergency Skills Action Plan and the Skills Action Plan for Rural Scotland (p39)
- progress the actions from Scotland's Population Strategy aimed at attracting, welcoming and supporting in-migrants to Scotland to help address rural and island population challenges and sectoral skills shortages in the labour market (p41)
- take forward the Rural Entrepreneur Fund (which was originally introduced in the 2021-22 Programme for Government), although this is now not being taken forward.

Since the publication of the NSET, Kate Forbes Cabinet Secretary (at the time) for Finance and Mairi Gougeon Cabinet Secretary for Rural Affairs and Islands made a commitment to apply a light touch 'rural lens' to NSET projects. Work has been undertaken by the Scottish Government's Rural Economy Policy Team to prepare rural lens guidance for policy teams across Scottish Government and there is an ambition to roll out this rural lens activity beyond the NSET in future. The ReRIC team is providing advice to inform this work within Scottish Government[4].

[4] For more information, see: Rural Exchange by NISRIE

1.2.2 Scottish Government's Programme for Government 2022-23 – Key priorities[5]

The Scottish Government's Programme for Government (PFG) 2022-23 'A stronger and more resilient Scotland' detailed the Government's priorities and proposed legislative programme for the year from September 2022. It is worth noting that the document is much shorter than recent PFGs (the 2022-23 PFG is 36 pages, compared with 123 pages in 2021-22 and 139 in 2020-21) and it does not contain specific commitments as has been the case in previous years, nor does it report on commitments set out in 2021-22.

The 2022-23 PFG is focused primarily on the *"cost crisis"* and the Government's response to it. The Scottish Government prefers to use the broader term *"cost crisis"* to emphasise that the current situation is about more than the cost of living, but also the cost of doing business and the rising costs for other organisations, including in the third and public sectors. It also places emphasis on the climate emergency and notes that *"addressing the cost crisis is not, and should not be viewed as, separate from addressing the ongoing climate and nature crises"*. In recognition of this, the PFG mentions the policies and proposed legislation that have been in development recently, including the land reform bill, the new Energy Strategy and Just Transition Plan for the energy sector, and a new climate change plan. Interestingly, while the Scottish Government had previously committed to consult on a Sustainable Development and Wellbeing Bill, the 2022-23 PFG now contains a commitment to explore *"placing duties on public bodies and local government to take account of the impact of their decisions on wellbeing and sustainable development, and the creation of a Future Generations' Commissioner".*

The PFG sets out the Scottish Government's commitments to help families, households, businesses and communities struggling with the cost crisis, including rolling out free school meals to P6 and P7 pupils (subject to COSLA's agreement), a continuing commitment to widening access and student support for those entering further and higher education, continuing the focus on tackling child poverty, a new health and wellbeing strategy, and a plan to introduce a Local Visitor Levy (i.e. a tourist tax) legislation.

1.2.3 Rural, island and related priorities in the 2022-23 Programme for Government

The PFG also mostly reiterates pre-existing commitments and work already underway in relation to rural and related issues. These include:

- a commitment to align behind the Vision for Agriculture, to consult on a future Agriculture Bill, roll out the National Test Programme and move towards

[5] This section draws on a blog produced by SPICe in September 2022 summarising the key points in the 2022-23 Programme for Government. This is available online here: Programme for Government 2022-23 – a focused response to the "cost crisis" – SPICe Spotlight | Solas air SPICe (spice-spotlight.scot)

shifting 50% of direct payments to climate action and funding for on-farm nature restoration and enhancement by 2025

- a commitment to *"explore capping and/or tapering base-level payments to release additional funding to meet the goals of our agricultural vision, including the urgent actions required to reach net zero emissions"*
- creating new crofting opportunities by delivery of the National Development Plan for Crofting and continuing to look at legislative options for support the future of the sector and the contributions it brings to rural mainland and island communities
- act on the recommendations from the Commission for the Review of Land-Based Learning (which reported in January 2023) and invest in advice and skills for farmers and crofters to support a just transition
- the introduction of the Wildlife Management (Grouse) Bill to implement the recommendations of the Werritty Review to introduce licensing for grouse moor management to ensure the management of driven grouse moors is done in an environmentally sustainable manner (the new Wildlife Management and Muirburn Bill was published in the Scottish Parliament in March 2023);
- a commitment to update 'Catering for Change' and align public procurement with sustainable, low carbon farming and food and to establish a Food Security Unit in Scottish Government to monitor ongoing supply chain vulnerabilities and link with future food security work; however, there are no commitments relating to the recently passed Good Food Nation (Scotland) Act
- a commitment to start developing a new National Marine Plan
- a commitment to publish a Remote, Rural and Island Housing Action Plan to support the provision of homes in these areas, including consideration of funding arrangements for community housing trusts to ensure they can support the delivery of our enhanced rural home building plan
- an acknowledgement that *"The way we use our land, and who owns it, will take on increasing significance as we tackle the nature and climate crises. That is why we have already committed to a package of measures aimed at addressing long standing issues with the highly concentrated pattern of land ownership in rural areas of Scotland."*
- A commitment to *"…urge the UK Government to extend gigabit and mobile networks to some of our most rural communities, given telecommunications is an entirely reserved matter"*
- Finally, in terms of islands, a commitment to Consult on a new Islands Connectivity Plan in 2022-23, progress the small vessel development programme and continue to improve the resilience of the ferry fleet by sourcing additional vessels. We will publish the independent review of ferry governance arrangements, and set out how we can provide stronger accountability, transparency, and good outcomes for our island communities.

1.2.4 Equality, opportunity, community – New leadership, a fresh start

In March 2023, Humza Yousaf MSP became Scotland's sixth First Minster, the first from an ethnic minority background, and the youngest at age 37. In April 2023, the

First Minster announced his vision for Scotland in 2026, based around three critical and interdependent missions:

- Equality – tackling poverty and protecting people from harm
- Opportunity – a fair, green and growing economy
- Community – prioritising our public services.

In his speech announcing the vision and in the document itself, Mr Yousaf sets out who from his Cabinet Secretary team will have responsibility for the different commitments, and it is interesting to note that two significant rural commitments sit in the portfolios of 'non-rural' Cabinet Secretaries. The following commitments (to be achieved by 2026) are especially significant for Scotland's rural and island communities:

- **The publication of a Rural Delivery Plan** – this commitment is set within the section on public service reform (led by Shona Robison, Deputy First Minster and Cabinet Secretary for Finance), as one of a number of actions for central Government, working with local government, the trade unions and the third sector, amongst others. The Plan will show *"how all parts of the Scottish Government are delivering for rural Scotland. As well as policies on agriculture, land reform, marine, and our Islands Plan, this will cover areas such as transport, housing, social justice, repopulation, digital connectivity and economic development."* (p8)
- **The publication of a Remote, Rural and Island Housing Action Plan** "*setting out our approach to rural housing delivery, including support for community housing trusts, and actions to allow suitable properties, including empty homes, to be purchased, or long leased, and turned into affordable housing for those who need them in rural areas, including key workers*." (p15). This commitment is led by Shirley-Ann Somerville, the Cabinet Secretary for Social Justice.
- The Cabinet Secretary for Social Justice has a further commitment to continue to tackle poverty and to make the case to the UK Government for tailored migration solutions such as the **Rural Visa Pilot**.
- In addition to work to create jobs, tackle inequalities, strengthen food production and food security, and support repopulation and green skills development in rural communities, there are **a number of specific commitments for Mairi Gougeon, Cabinet Secretary for Rural Affairs, Land Reform and Islands**, including (p24-25):
  a) To ensure that, through the Route Map to transition, agriculture support is delivering increased conditions on Direct Payments to better incentivise sustainable and regenerative practice, on-farm nature restoration and climate mitigation and adaptation efforts, while supporting producers in high quality food production
  b) To introduce land reform legislation to further improve transparency of land ownership, to help ensure large scale land holdings deliver in the public

interest, and empower communities by providing more opportunities to own land and to have more say in how land in their area is used

c) To create new crofting opportunities through delivery of the National Development Plan for Crofting and reform the law to support the future of crofting

d) To continue to support six Scottish islands (Hoy, Islay, Great Cumbrae, Raasay, Barra and Yell) to become carbon neutral by 2040 and to share good practice and lessons learned from this work with all other Scottish islands.

e) Other commitments include: to publish and start to implement Scotland's Good Food Nation Plan; to respond to the recent Commission for the Review of Land Based Learning to help create new job opportunities and support sustainable communities; to implement the recommendations of the Werritty Review; and to increase woodland creation to 18,000 ha per year and deliver 110,000 ha of restored peatland.

This report now turns to review the evolution of rural and island policy in Scotland, before then providing a number of short thematic analysis pieces on a range of topics pertinent to rural and island economies and communities in Scotland.

2 Evolving rural and island policy in Scotland

As part of work in our *'Reimagined policy futures: Shaping sustainable, inclusive and just rural and island communities in Scotland (ReRIC, SRUC-E2-2)'* project, SRUC researchers have undertaken a review of the evolution of rural and island policy in Scotland since the Second World War. This section of the report summarises some of the key points of this review and provides some suggestions for how rural and island policy may evolve in future.

2.1 The evolution of rural policy in Scotland

In the immediate post-Second World War period, the focus of 'rural' policy in Scotland (as in the rest of the UK) was on the agriculture sector, initially through deficiency payments and then through price support mechanisms for farmers. Notable also at this time was the opposition of landowners and local authorities to the proposal for National Parks to be created in Scotland (through the Ramsay Committee for example).

In the 1960s, the work of the Hydro Board to bring electrification and therefore 'modernisation' to the Highlands is worth noting, but of particular importance was the setting up of the Highlands and Islands Development Board (HIDB) in 1965 (through the Highlands and Islands Development (Scotland) Act). This was a response to 'the Highland problem' of chronic depopulation and economic underdevelopment.

While the work of HIDB was shaped by the particular priorities of the different Chairs and therefore changed over time, a general shift can be observed away from the 'exogenous growth pole strategy'[6] followed in the early years (with large-scale investment in the nuclear facility at Dounreay for example, or in the aluminium smelter in Invergordon), to one more focused on local scale, community-based enterprise and building the capacity of communities (such as through the Initiative at the Edge). This encouragement for advance factory building and small-scale businesses to facilitate more endogenous, locally-initiated and controlled action was also followed at national level by the Small Industries Council for Rural Areas of Scotland (SICRAS), under the auspices of the UK-wide Development Commission. Other policy initiatives at this time, including the movement of people out of Glasgow to resettle in rural towns (as a means of tackling the significant socioeconomic challenges in inner city Glasgow, including poverty, poor housing, poor health, etc.), also had a role to play in shaping the evolution of rural Scotland.

In support of the promotion of community-based enterprises, a cost-benefit analysis of the forestry sector in the 1970s revealed that neither agriculture nor forestry were really giving positive value in the uplands and what would be better would be

[6] This refers to an approach where development decisions are driven from outside the local area, with little input from local people, and emphasis is placed on large-scale development projects with the assumption that the benefits of these will trickle out to surrounding communities.

promoting small enterprises. Also, by this time, it was becoming apparent that agricultural policy needed to change to focus more on protecting the environment, and that changes were underway in the economic structure of rural areas with a decline in dependence on agriculture in some areas and a growth in service sector activity. By the 1980s and 1990s the images of 'food mountains' and 'wine lakes' in the European Community[7] demonstrated the problem of overproduction and large surpluses driven by the Common Agricultural Policy (CAP). These surplus combined with evidence of negative environmental impacts and international trade pressures, were driving ongoing reform of the CAP, although the shift towards greater support for the environment and recognition of the broader economic structure of rural areas was occurring (and indeed continues to occur) too slowly for some.

Moving forward to the 1990s, the 1992 Rural Framework was followed by the Rural White Paper in 1995 'People, Prospects, Partnership', which provided a statement of the overall aims of rural policy in Scotland in one document and encouraged partnership working at both national and local level. One year later, the document was critiqued as leaving too big a gap between policy aims and delivery mechanisms, demonstrating a lack of strategic thinking, and focusing too lightly on policy tensions.

'Towards a Development Strategy for Rural Scotland' was published in 1998 at the time of the Labour Government coming to power in Westminster. The document was heavily informed by research going on at the time at the Arkleton Centre for Rural Development Research at the University of Aberdeen, and focused on the importance of sustainable rural communities and the need to break down barriers to that sustainability (such as the concentration of land in private ownership), and to improve the capacity of communities to enhance their sustainability. Importantly, the document framed rural people as subjects rather than objects of development for the first time. 1999 saw the creation of the Scottish Parliament and there have been various rural documents since then, including Rural Scotland: A New Approach (2000), Rural Scotland: Taking Stock (2003), Rural Scotland: Better Still Naturally (2007), the OECD's Review of Rural Policy in Scotland (2008) and then Speak up for Rural Scotland (2010) from the independent Rural Development Council, and the Government's response 'Our Rural Future' (2011). However, what is perhaps most striking about these documents is that very little changed in their content over the years. In most instances too, they lacked detail, focusing instead on broader principles rather than detailed descriptions of specific actions and how they would be implemented, and there has been limited – if any – evaluation of their impacts and success.

From 2011 onwards there have been no further rural policy documents and the Scottish Government has taken the approach of mainstreaming rural issues into

[7] The European Community (EC) was created in 1957 by six member countries to foster trade cooperation and reduce tensions in the aftermath of World War II. The EC was replaced by the European Union (EU) in 1993.

general policy formation. However, while rural policy itself has not evolved in the way that many stakeholders would perhaps have liked, there are many issues that are critical to rural areas and islands on which there has been significant legislative and policy change over the past 20 years, including agriculture, land reform and community empowerment. Following a neo-endogenous or networked approach[8] to development, these latter two policy areas effectively provide examples of the state facilitating or enabling local level change through providing legislative and/or policy change, funding and/or other forms of support.

It is also worth noting that, alongside the mainstreaming approach, there have been a number of specific policy commitments to rural issues and rural areas since 2011 (most often through the annual Programmes for Government), including support for the National Rural Mental Health Forum, for Scottish Rural Action, the biennial Scottish Rural Parliament and for creating and strengthening a rural movement for Scotland, for a Skills Action Plan for Rural Scotland and for funding schemes tackling housing or digital connectivity, for example.

Most recently, the work of the National Council of Rural Advisers (NCRA) in 2017-18 and the Rural Economy Action Group in 2019-20 has seemingly not impacted on policy in a major way. As described earlier, in late 2022, the Cabinet Secretary for Rural Affairs and Islands Mairi Gougeon and the (then) Cabinet Secretary for Finance Kate Forbes committed to undertake light-touch rural proofing of projects funded as part of the National Strategy for Economic Transformation (NSET) and there have been a number of rural and island commitments set out by new First Minister Humza Yousaf in his vision for Scotland in 2026 published in April 2023.

2.2 The evolution of island policy in Scotland

The situation with island policy in Scotland is somewhat different. Scotland has 790 islands in total, with 93 currently inhabited. At least in part because of the islands organising themselves to have a strong voice during the campaign for independence in 2015/6, the Scottish Government passed the Islands (Scotland) Act in 2018. This resulted in the first National Islands Plan being published in 2019, with an annual progress report and five-yearly reviews, and a legislative commitment to undertake Island Communities Impact Assessments (ICIAs) (or 'island proofing') to assess policies and legislation for their potentially different impacts on island communities.

There have also been further island-specific commitments, including for a Young Islanders Network and for funding for island communities. In contrast, therefore, to the policy of mainstreaming for its rural communities, Scotland has dedicated legislation and a clear plan for its islands.

[8] This refers to an approach whereby activities are 'bottom-up' and driven locally, but extra-local resources are drawn in in support of them. Crucially, the power to drive development processes remains in the local area.

2.3 The future of rural and island policy in Scotland

Scotland still lacks a clear vision, strategy and policy for its rural communities; in contrast Scotland's island communities have dedicated legislation and plans. It will be interesting to see whether the recent introduction of a Rural Lens approach for the NSET and the commitment for a Rural Delivery Plan for 2026, combined with evidence supporting (or not) the impact of the dedicated legislation and plans for islands, will lead to calls for specific legislation and/or a clear vision and specific and coordinated, holistic policy commitments for rural communities.

If such a call were to come, the work by the NISRIE team (reported in Section 3) to create a new analytical framework for Scotland's rural and island areas will be helpful in exploring the particular challenges faced by Scotland's remote rural mainland communities and in informing policy responses to tackle them.

The work of Scottish Rural Action and partners to establish and strengthen Scotland's rural movement, including in the build-up to the November 2023 Scottish Rural and Islands Parliament, is critical in ensuring that rural and island communities have a stronger voice in influencing policy formation. This is especially important at a time when evidence suggests that the cost-of-living crisis is impacting on rural and island communities and businesses particularly severely (for several reasons, including already higher fuel (and food) bills), and there are additional ongoing challenges around ferry transport for example. At the same time, there are new opportunities opening up for these communities from the net zero transition, including in terms of new jobs in land-based activities such as peatland restoration and tree planting. All these processes will shape the future of these communities in new ways, while other persistent challenges, such as a lack of affordable housing, demographic decline and exclusion and marginalisation remain.

This section of the report has summarised the evolution of rural and island policy over recent decades in Scotland. It now turns to outline a new analytical framework for rural and island Scotland developed by the research team, and then to present and discuss a range of issues currently affecting the socio-economic development of rural and island Scotland.

3 A new rural and islands analytical framework

There are a wide range of geographic classifications available to assess socio-economic data in Scotland. For example, population, business and household data can be combined from individuals to households, to various postcode geographies, to data zones, to intermediate geographies, to local authorities, to regions – and ultimately to broad rural-urban classifications of Scotland.

Data is often only publicly available at higher level geographies (such as Local Authorities, International Territorial Level regions, parliamentary constituencies) due to data disclosure risks and the target audience having a higher-level geography requirement. Whilst analysis at higher level geographies permits broad differences to be quickly understood (such as through the RESAS Urban Rural classification of Local Authorities[9]), analysis at lower-level geographies permits the data variances and detail at local level to be observed.

Throughout the NISRIE project a wide range of geographic scales are being used to analyse, summarise and report data. Wherever possible the data is classified by: (i) rural, urban, or island locations; or, importantly, (ii) by remoteness / peripherality from urban centres. To provide 'future-fit' assessments of the socio-economic performance of Scotland's most peripheral areas a more nuanced analytical approach is now required. The Islands (Scotland) Act 2018, and the associated National Islands Plan and Islands Community Impact Assessments commitments, has focused attention on Scotland's diverse island communities in the last five years, but the approach for rural Scotland has been one of mainstreaming. A better understanding of Scotland's remote mainland communities is required to inform the rural lens work which has recently been started in relation to NSET projects and NISRIE's new analytical framework provides an important tool for this. It may also be worth considering whether there should be a revival of the Private Members Bill on Remote Rural Communities which was introduced by Gail Ross MSP in the last Parliamentary session[10].

The NISRIE analytical framework added a new classification for '**Islands**'[11] that extends the 2020 Scottish Government's 8-fold Urban Rural classification to 10 unique categories (one of the 11 categories in the original framework was dropped due to very small size as described in Table 1 below). All postcodes were allocated to these NISRIE classifications based on data zone allocation with the Scottish

[9] See the Scottish Government's (2018) Defining the Rural Economy section of their Understanding the Scottish Rural Economy paper)
[10] https://archive2021.parliament.scot/parliamentarybusiness/Bills/113252.aspx
[11] Some data zones are made up of mainland and island geographies that means 'island' classification is not as straightforward as it should be. The Scottish Government are expected to publish a list of data zones classified as islands in 2023.

Postcode Directory[12] maintained by National Records of Scotland. These classifications are defined in Table 1 and shown in Map 1.

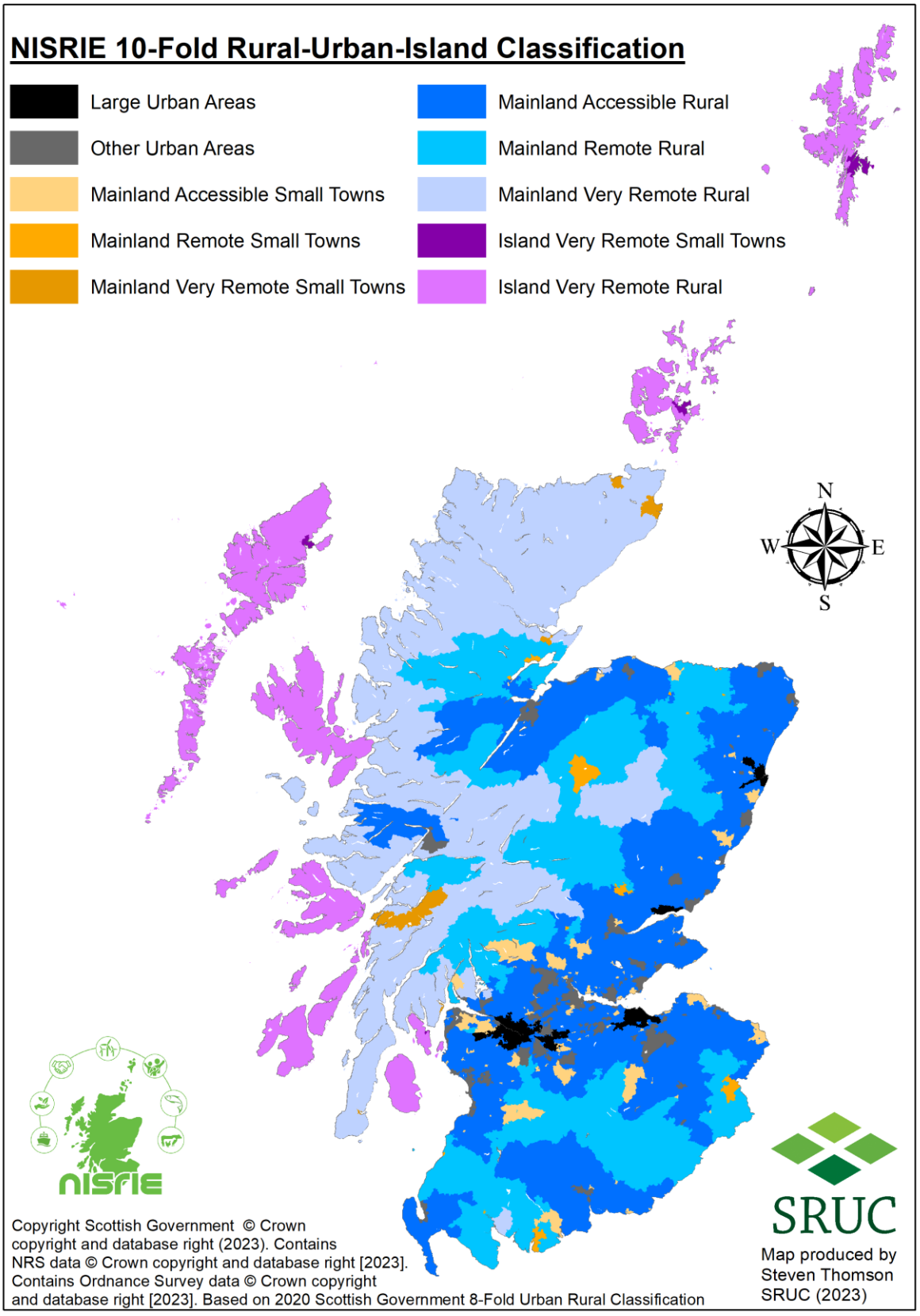
Table 1 NISRIE 10-Fold Rural-Urban-Islands Classification

Classification	Description
Large Urban Areas	Settlements of over 125,000 people.
Other Urban Areas	Settlements of 10,000 to 124,999 people.
Mainland Accessible Small Towns	Mainland settlements of between 3,000 and 9,999 people and within a 30 minute drive time of a settlement of 10,000 or more.
Mainland Remote Small Towns	Mainland settlements of between 3,000 and 9,999 people and with a drive time of over 30 minutes to a settlement of 10,000 or more.
Mainland Very Remote Small Towns	Mainland settlements of between 3,000 and 9,999 people and with a drive time of over 60 minutes to a settlement of 10,000 or more.
Island Very Remote Small Towns	Island settlements of between 3,000 and 9,999 people and with a drive time of over 60 minutes to a settlement of 10,000 or more.
Mainland Accessible Rural	Mainland areas with a population of less than 3,000 people, and within a 30 minute drive time of a settlement of 10,000 or more.
Mainland Remote Rural	Mainland areas with a population of less than 3,000 people, and with a drive time of over 30 minutes to a settlement of 10,000 or more.
***Island Remote Rural**	Island areas with a population of less than 3,000 people, and with a drive time of over 30 minutes to a settlement of 10,000 or more. **NOTE that **only two data zones fall into this category so they are merged with 'Island Very Remote Rural**)*
Mainland Very Remote Rural	Mainland areas with a population of less than 3,000 people, and with a drive time of over 60 minutes to a settlement of 10,000 or more.
Island Very Remote Rural	Island areas with a population of less than 3,000 people, and with a drive time of over 60 minutes to a settlement of 10,000 or more.

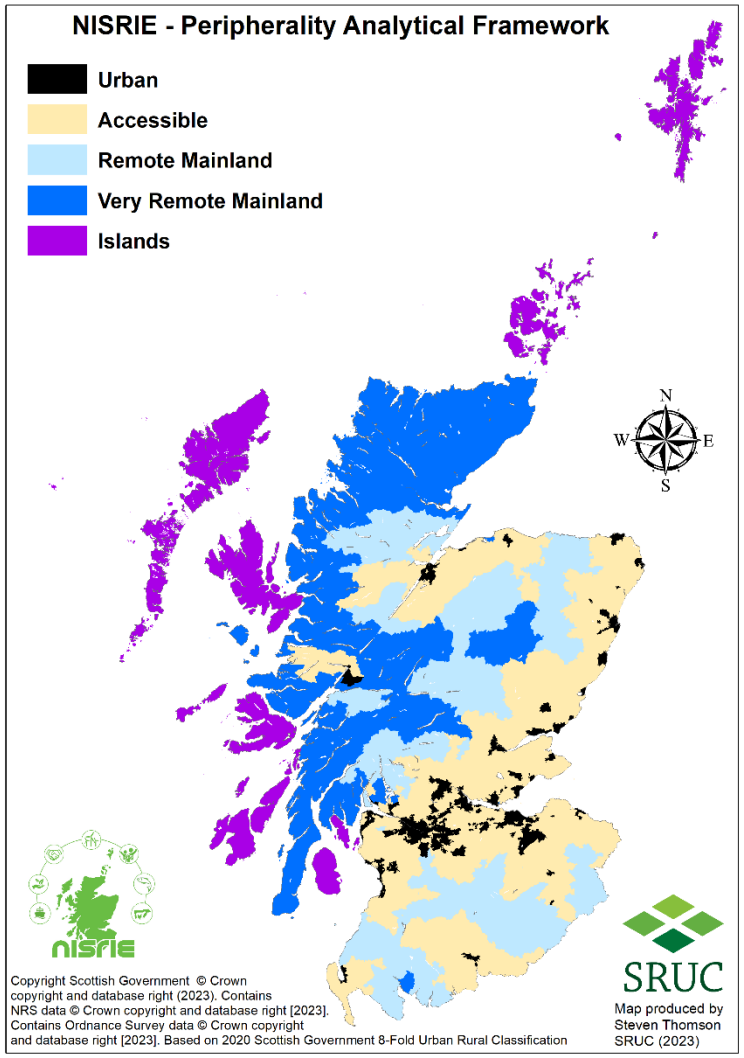
Using this analytical framework, these classifications can then be combined to provide **Novel Insights to Scottish Rural and Island Economies** – for example by comparing how performance varies between islands, very remote mainland, remote mainland, accessible mainland and urban areas (see Map 2). Moreover, using the classifications of data zones within Intermediate Geography boundaries it was also possible to create a new peripherality classification for Intermediate Geographies (see Map 3) to enable data published at that level to be assessed in a new light. A fuller description of the data and maps is provided in Thomson (2023)[13].

[12] https://www.nrscotland.gov.uk/statistics-and-data/geography/nrs-postcode-extract
[13] Thomson, S. (2023) NISRIE Geographic Analytical Framework.

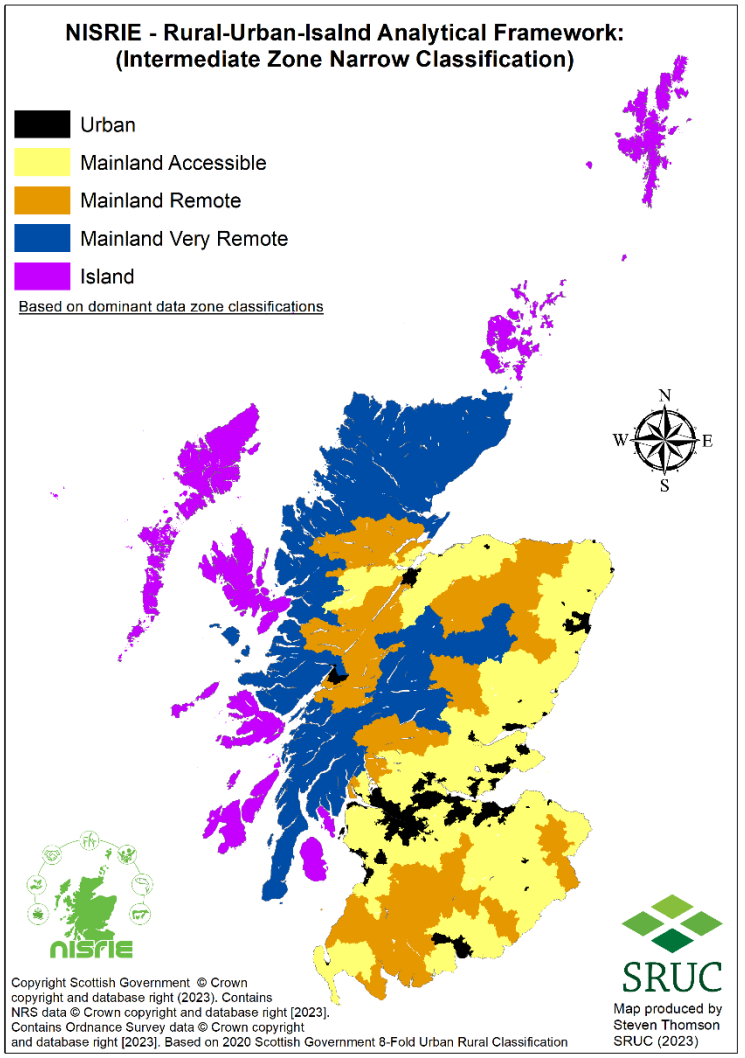
Map 1 NISRIE 10-fold rural urban analytical framework for Scotland



Map 2 NISRIE Peripherality / Remoteness classification for Scotland



Map 3 NISRIE 'narrow' peripherality classification for Scottish Intermediate Zones

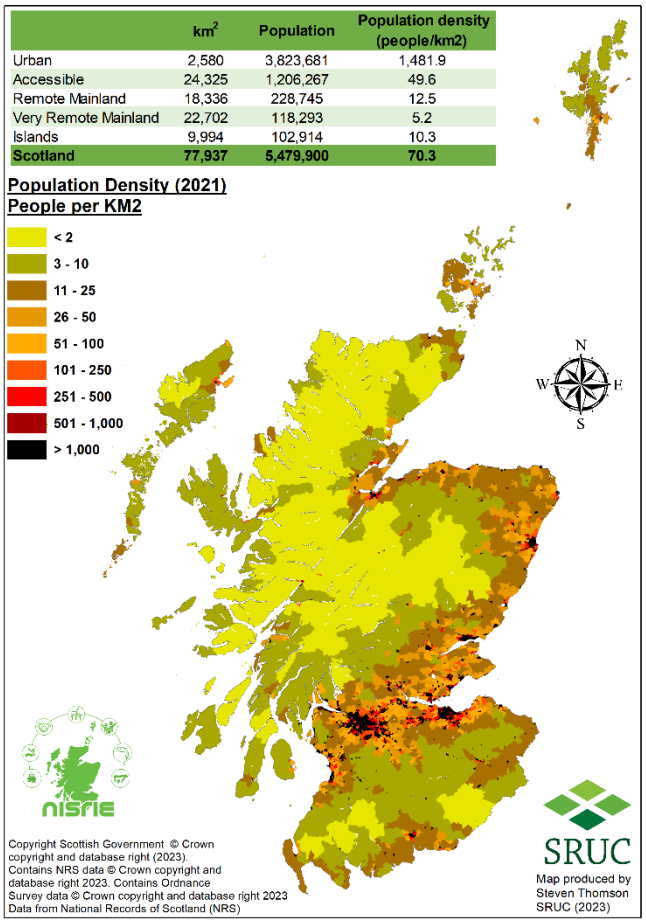


4 People

Scotland's rural and island economies are a function of their populations, both in terms of their entrepreneurial activity in the provision of private and public service provisioning. Reflecting Scotland's landscape and economic diversity (as well as its long-term historic urbanisation trends) there is significant variation in population dynamics and densities across the country.

4.1 Population density

Map 4 Population density 2021 (based on data zones)



Across Scotland as a whole, there were 70 people per square kilometre (km^2) in 2021. This means Scotland is the most sparsely populated country within the United Kingdom (434 people per km^2 in England, 150 people per km^2 in Wales and 141 people per km^2 in Northern Ireland[14]). In an EU context, it has a similarly low population density to the Republic of Ireland and Croatia[15]. However, within Scotland there is significant variation from densely populated urban areas (1,482 people per km^2), to accessible mainland areas (49.6 people per km^2), to sparsely populated remote mainland (12.5 people per km^2) and island (10.3 people per km^2) regions – with very remote mainland areas of Scotland being the most sparsely populated areas (5.3 people per km^2). This sparse population makes them vulnerable to socio-economic changes. Map 4 demonstrates how significant parts of rural Scotland (often in hill and upland areas) have less than 2 people per km^2 making them some of the most sparsely populated regions of Europe – more sparse than Lapland in Finland, and Norrbottens and Jämtlands in Sweden[16].

14 https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/mid2021

15 Statistics | Eurostat (europa.eu)

16 https://ec.europa.eu/eurostat/databrowser/view/DEMO_R_D3DENS/default/table?lang=en&category=demo.demo_ind

EU research (Margaras, 2016)[17] suggests very sparse regions can face a "*number of structural problems that pose major challenges, such as low birth rates and a lack of transport connections, job opportunities and adequate social services*" – similarities identified by Hopkins and Copus (2018)[18].

4.2 Population Dynamics

Between 2001 and 2021, Scotland's population was estimated to have grown by 8.2% from 5.06 million people to 5.48 million people. However, that change has not been uniform across the country (see Figure 1):

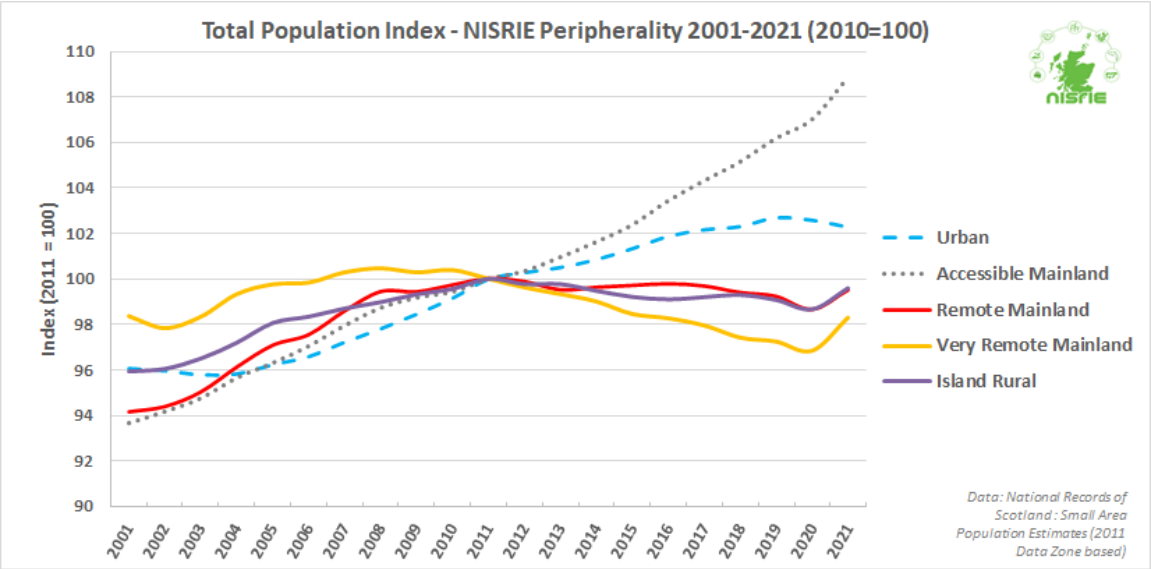
- Between 2003 and 2021, urban populations grew steadily by 6.7% to 3.83 million people (69.8% of Scotland's population).
- Between 2001 and 2021 the population in accessible mainland areas grew at a steady rate by 16.2% to 1.21 million people (22% of Scotland's population).
- In contrast, between 2001 and 2010, the populations of remote mainland areas (229,000 in 2021) and islands (103,000 in 2021) increased by 5.9% and 3.8% respectively. This was followed by a marginal decline to 2020. A sharp upturn (0.9%) followed between 2020 and 2021 (perhaps a response to COVID-19 with people moving to these locations during the pandemic[19]).
- Very remote mainland areas (118,000 in 2021) had slow population growth (2.2%) between 2002 and 2011 followed by a 2.1% decline by 2020. An uplift of 1.5% in population between 2020 and 2021, again, could be COVID-19 related.

[17] Margaras, V. (2016) Sparsely Populated and Under Populated Areas - European Parliamentary Research Service
https://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586632/EPRS_BRI(2016)586632_EN.pdf

[18] Hopkins, J. and Copus, A. (2018) A Demographic Profile of the Scottish Sparsely Populated Area (SPA) 1991-2037
https://www.hutton.ac.uk/sites/default/files/files/RD%203_4_1%20Working%20Paper%202%20O1_2ii%20270218%20-%20published.pdf

[19] A new RSE-funded international Research Network led by Jane Atterton and Ana Vuin at SRUC (part of the ReRIC team) and Ruth Wilson at the James Hutton Institute will be exploring COVID-19 related rural and island migration with colleagues in Canada, Japan, Turkey, the Faroe Islands, Sweden, Ireland and New Zealand.

Figure 1 Population index (2011 = 100) by NISRIE peripherality

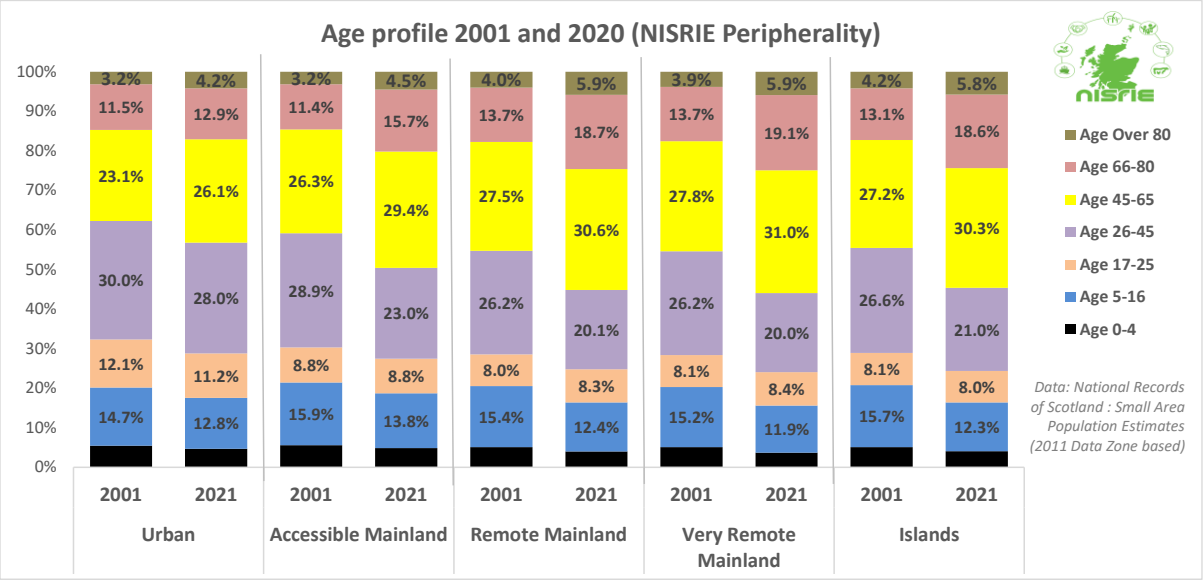


Whilst the total population is changing, so too is the age profile of Scotland's rural and island populations. Figure 2 shows the age profile by NISRIE peripherality geographies showing declining school age populations and increasing retirement age populations in remote mainland, very remote mainland and island areas. Whilst all areas have witnessed growth in the over 80-year-old population, it now accounts for over 5.8% of the population of these economies – putting pressure on public health and social care services, and indeed private care givers.

In very remote mainland areas, over 65-year-olds accounted for 25% of the population in 2021 (24.6% in remote mainland and 24.4% in islands), in contrast to 17.1% in urban areas and 20.2% in accessible areas. Whilst retirees can put stress on health and care services, they also create new economic opportunities, particularly in areas where there are wealthy in-migrant retirees (bringing with them external pension income, for example). However, having large numbers of retirees does reduce the proportion of the workforce that is of working age. Map 5 shows the ratio of over 65 year olds to the working age population (17-65 years old). There are areas where there are high densities (over 50%) of older populations compared to working age populations, particularly in the Borders, Dumfries and Galloway, Argyll and Bute, Caithness and Sutherland, and the Western Isles.

The decline in school age populations in remote mainland areas (15.4% to 12.4% between 2001 and 2021), very remote mainland areas (15.2% falling to 11.9%) and islands (15.7% dropping to 12.3%) can have long term socio-economic and sustainability consequences – and may lead to further contraction of education provisioning in some localities in the long run, unless inward migration reverses the trend. A profile of the population by each year of age is shown in Figure 47 Annex 1.

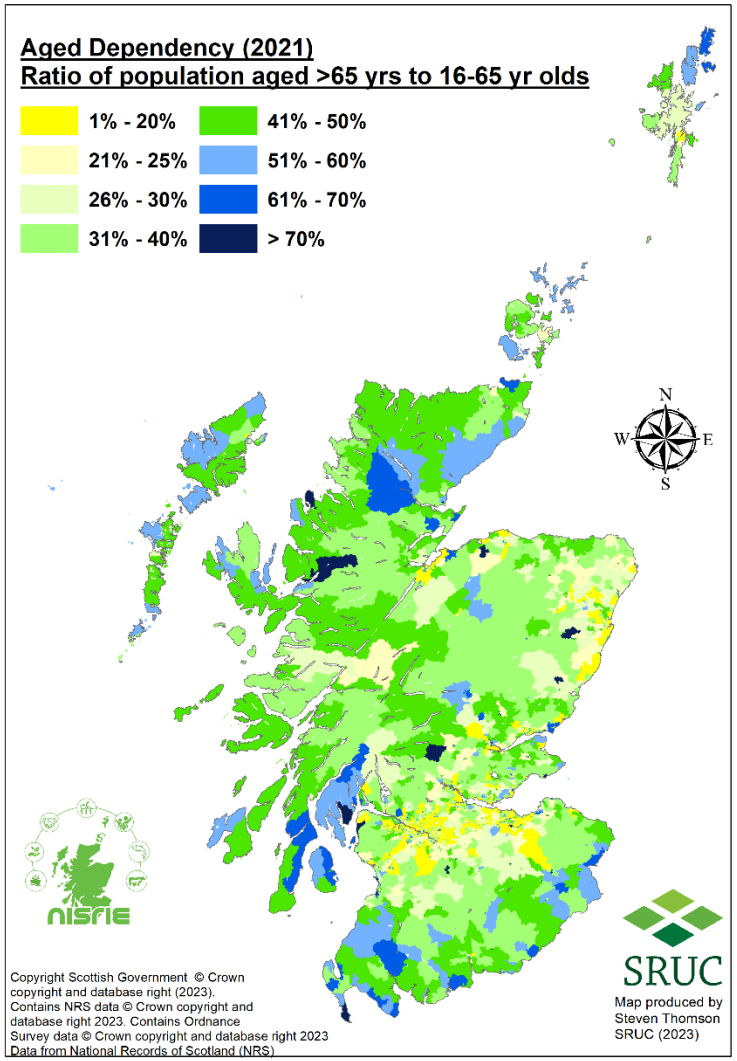
Figure 2 Age profiles in 2001 and 2021 by NISRIE peripherality regions



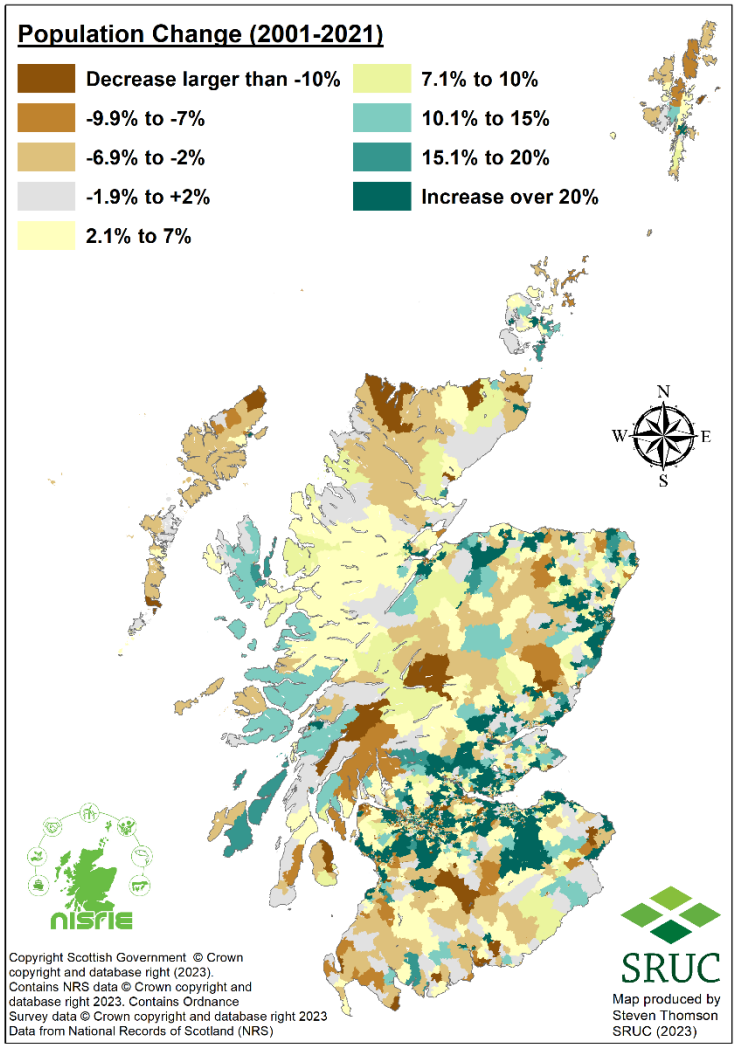
The additional 168,000 people living in accessible small towns and rural areas of Scotland in 2021 compared to 2001, puts pressure on housing, transport and service infrastructure. There are some significant localised pressures where the population (at a data zones level) increased by more than 20% in the decade between 2011 and 2021[20]. Map 6 shows how the population changed at local (data zone) level between 2011 and 2021, and the variation within regions is significant. It is noticeable, for example, in the significant growth (dark green) in many data zones around the central belt, for example in Midlothian and into the Scottish Borders, and in what might traditionally be considered commuter areas (noting in some areas there has been significant recent housebuilding activities). Whilst some remote mainland, very remote mainland and island areas witnessed population growth between 2011 and 2021 (e.g. parts of Skye, Mull, Islay and Jura), there were a number of local areas (dark brown) where the overall population fell by more than 10% over the decade - reducing the potential economic base (e.g. parts of the Isle of Lewis, the north coast of Caithness and Sutherland and Dumfries and Galloway).

[20] Data zone changes mean that assessing at data zones level over 20 years is more challenging.

Map 5 Aged dependency ratio by data zones (2021)



Map 6 Population changes by data zones (2011-2021)



4.3 Wellbeing

The Scottish Public Health Observatory[21] reflects that the "*health and wellbeing of a population is influenced by a wide range of factors, including its demographic structure, the availability of housing and employment, accessibility of services, physical environment, social networks, along with levels of crime and safety*" that are "*systematically different between urban and rural areas*." They discuss how many of the social factors that influence health and wellbeing are more favourable in rural areas – including neighbourhood satisfaction, lower crime levels and volunteering levels (although this later point is often driven by necessity).

The Scottish Index of Multiple Deprivation (SIMD) 2020 data (see Table 2) highlights that, across NISRIE peripherality geographies, Islands had the lowest proportions of people that were income deprived (8.2%)[22], employment deprived (6.7%)[23] or resided in overcrowded dwellings (6.1%)[24]. In contrast, those living on Islands were most likely not to have centrally heated housing (3.9%). Whilst residents of urban areas were more likely to face income and employment deprivation, very remote mainland areas also performed worse (9.9% and 8% respectively) than accessible mainland areas where there is better 'wellbeing' indicator performance, on average.

Table 2 Measure of SIMD wellbeing by NISRIE peripherality geographies 2020

	Urban	Accessible Mainland	Remote Mainland	Very Remote Mainland	Islands	Scotland
People who are income deprived	13.4%	8.6%	9.7%	9.9%	8.2%	**12.1%**
People who are employment deprived	10.2%	6.9%	7.4%	8.0%	6.7%	**9.3%**
People in households that are overcrowded	12.3%	6.4%	6.7%	6.8%	6.1%	**10.6%**
People in households without central heating	1.7%	1.3%	2.2%	3.5%	3.9%	**1.7%**

Source: calculated from Scottish Multiple Index of Deprivation 2020 Indicators

[21] https://www.scotpho.org.uk/life-circumstances/rurality/introduction/

[22] Income deprivation is calculated as proportion of the population (adults and their dependents) in receipt of Income Support, Employment and Support Allowance, Job Seekers Allowance, Guaranteed Pension Credits, and Child and Working Tax Credits

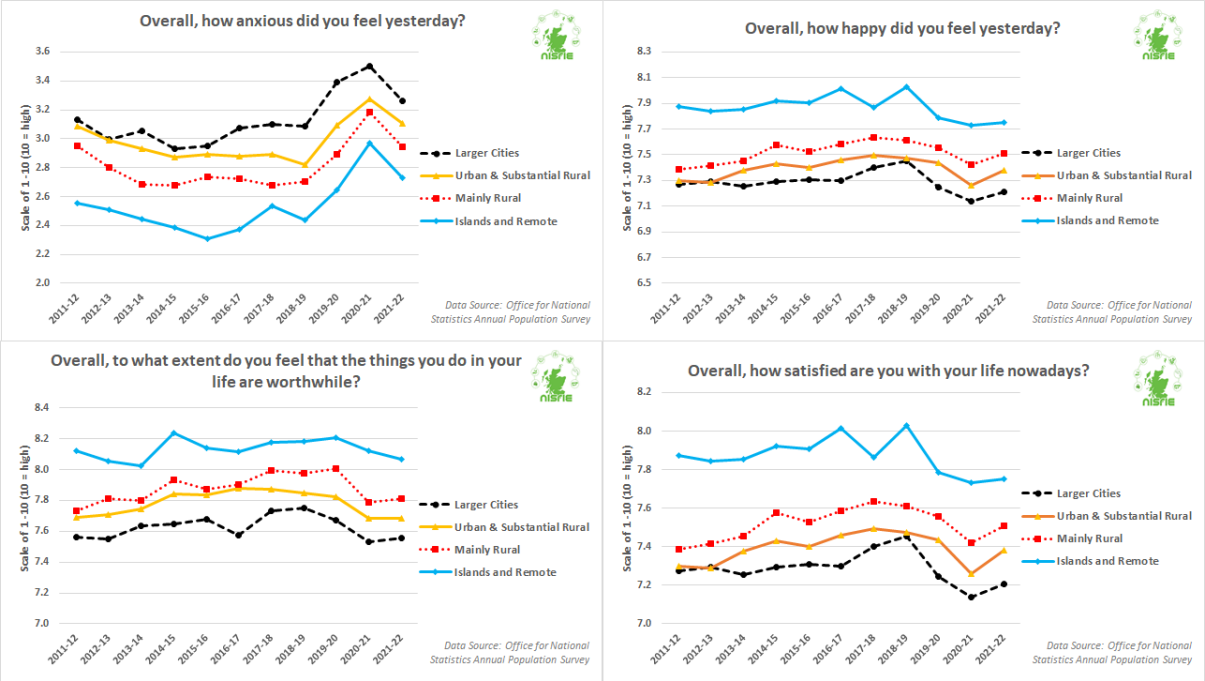
[23] Employment deprivation is the proportion of the working age population (men aged 16-64 and women aged 16-60) who are on the claimant count, receive Incapacity Benefit, Employment and Support Allowance, or Severe Disablement Allowance.

[24] There is, however, a large body of academic literature and evidence that the SIMD (i.e. a place-based measure of poverty) underestimates the scale and extent of rural disadvantage and tends to be better at measuring urban-based deprivation (for more discussion of this, see for example, Shucksmith, M., Glass, J., Chapman, P. and Atterton, J. (2023) Rural Poverty Today, Experiences of Social Exclusion in Modern Britain, Policy Press (Bristol).

The Office for National Statistics (ONS) has developed a 'national well-being dashboard' informed by their Annual Population Survey.[25] Within the data, questions relating to (i) feelings of anxiety; (ii) life satisfaction; (iii) feeling that the things done in life are worthwhile; (iv) and happiness, are produced at a local authority level (see Map 12 in Annex 1).

Summarised using the RESAS local authority rural-urban classification[26], Figure 3 demonstrates that across the four classifications there was a consistent reporting of higher personal wellbeing the more remote respondents were from larger cities. Respondents living in Island and Remote local authorities were, on average, less anxious and happier than those living in large cities. Moreover, they generally had a greater sense of satisfaction with their life, being more likely to report that the things they do in their life are worthwhile, than all other local authority classifications.

Figure 3 Assessment of personal wellbeing by RESAS local authority rural-urban classification, 2011-2021



25 https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/measuresofnationalwellbeingdashboardqualityoflifeintheuk/2022-08-12

26 This is set out here: Understanding the Scottish rural economy: research paper - gov.scot (www.gov.scot)

5 Transport

5.1 Car ownership

Towards the end of 2022, vehicle licensing statistics published by the Department for Transport and the Driver and Vehicle Licensing Agency (DVLA) revealed that there were nearly 2.4 million cars registered with private keepers in Scotland. The latest local authority data[27,28] shows that, in 2021, the number of private cars was highest per head of population in Mainly Rural local authorities, at an average of 0.50 cars per person. This was followed by Islands and Remote Rural areas at 0.48, then Urban with Substantial Rural Areas at 0.46 and lastly Larger Cities at 0.33 cars per head of population.

Table 3 summarises by RESAS Local Authority rural-urban classification level Department for Transport and DVLA data on the proportion of private cars using different fuel types in Scotland as at Q3, 2022. The proportion of other fuelled cars (which includes battery electric and hybrid cars) was similar by rurality, at around 4%. However, the proportion of diesel fuelled cars registered with private keepers was between 5-10% higher in local authorities with a rural classification.

Further analysis of Department for Transport and DVLA data reveals that there were around 174,500 company cars registered in Scotland towards the end of 2022, with a more even spread of different fuel types than private cars. Only 45% of company cars were petrol fuelled cars, with 30% diesel and 25% other fuels, suggesting a move away from petrol and diesel cars towards other fuels, including electric vehicles.

Table 3 Proportion of cars registered with private keepers by fuel type and Scottish Government 4-fold rural-urban classification, Q3 2022

	Diesel	Petrol	Other Fuels
Larger Cities	32%	64%	4%
Urban with Substantial Rural	36%	60%	4%
Mainly Rural	41%	55%	4%
Islands & Remote Rural	42%	54%	4%

Source: Department for Transport and Driver and Vehicle Licensing Agency (DVLA) (2023)

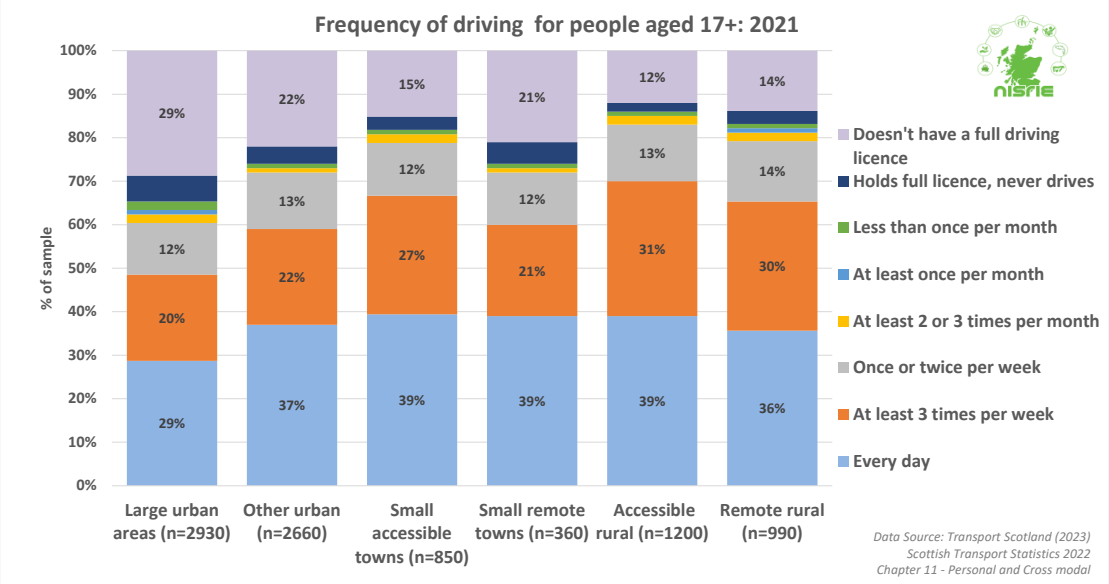
With the transport sector in Scotland responsible for more than a quarter of the nation's greenhouse gas emissions and cars accounting for the largest proportion of transport emissions[29], to facilitate Scotland's net zero target, the Scottish Government has committed to a 20% reduction in annual car kilometres driven by 2030[30]. However, car dependence is higher in rural areas where many journeys

[27] Council Area Profiles | National Records of Scotland (nrscotland.gov.uk)
[28] Vehicle licensing statistics data tables - GOV.UK (www.gov.uk)
[29] 20% reduction in car km by 2030 | Transport Scotland
[30] Securing a green recovery on a path to net zero: climate change plan 2018–2032 - update - gov.scot (www.gov.scot)

essential parts of daily life. Figure 5 illustrates the longer distances travelled by drivers in rural Scotland and, as explained in their route map to achieve a 20 per cent reduction in car kilometres by 2030, the Scottish Government does not anticipate a reduction in car usage in rural and island communities at the same level as towns and cities.

Figure 4 summarises data from the Scottish Household Survey 2021, which found that, of those surveyed, using the 2020 Scottish Government 6-fold Urban Rural classification, people in accessible rural areas, small accessible towns and small remote towns were most likely to drive every day (39%). For those in urban areas, 29% of people drove every day. Moreover, a higher proportion of rural respondents were also driving at least three times per week. Possession of a full driving licence was highest in accessible rural and remote rural areas at 88% and 86% respectively and lowest at 71% in large urban areas. These data reflect the higher reliance on car driving as a means of transport in rural areas.

Figure 4 Frequency of driving, people aged 17 and over (2021) by Scottish Government 6-fold Urban Rural classification



Data: Transport Scotland: Scottish Transport Statistics 2022: A National Statistics Publication for Scotland[31]

Travel times (see Figure 5) in rural Scotland are longer, with journey times to access key services (doctors, dentists petrol stations, post offices, schools and shopping centres) more protracted. In April 2023 the Scottish Government opened its consultation on draft guidance on local living and 20-minute neighbourhoods noting that the creation of 'local hubs' could help in alleviating the necessity for people to travel long distances through enhanced digital connectivity and good transport links.

[31] Transport and Travel in Scotland 2021: Results from the Scottish Household Survey - PDF version | Transport Scotland

However, at present, travel to key services, such as doctor's surgery, can mean trips of more than 15 minutes for 8% of those living in remote rural areas. Around a third (31%) of people living in remote rural areas have a trip of at least 15 minutes to reach a shopping centre[32]. Additionally, public transport options are more limited in rural areas, with greater availability of buses for residents in urban areas of Scotland[33].

Figure 5 Average journey distance length by Scottish Government 6-fold Urban Rural classification, 2021

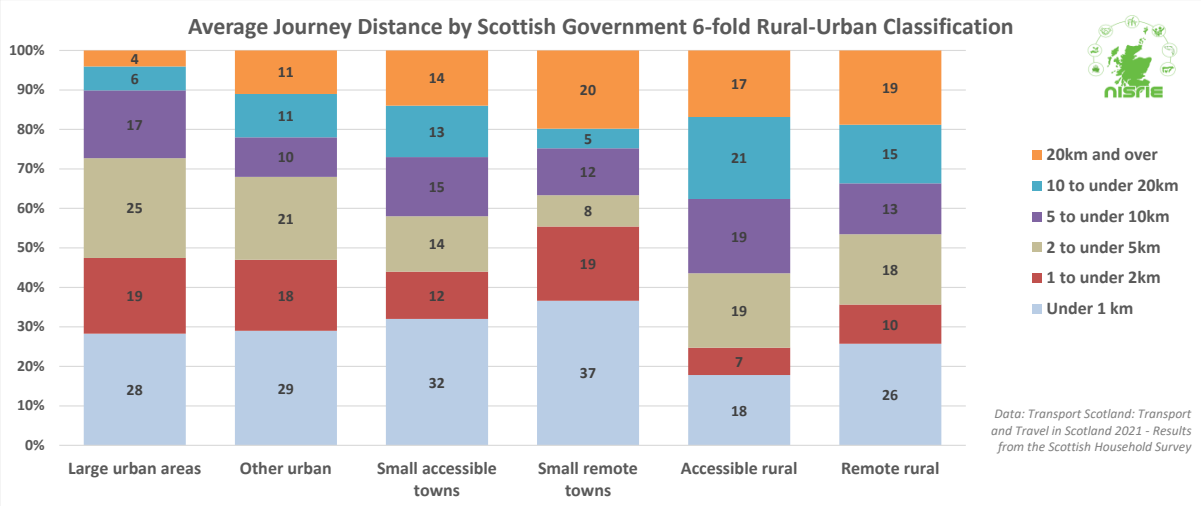


Table 4 reveals that the number of cars available for use by households was higher in rural areas and that car occupancy rates were also highest in remote rural and accessible rural areas.[34]

Table 4 Average number of cars by Scottish Government 6-fold Urban Rural classification, 2021

	None	One	Two	Three or more	*Sample size*
Large urban areas	29	50	17	4	*3,220*
Other urban	18	49	28	6	*2,970*
Small accessible towns	10	50	30	10	*950*
Small remote towns	17	50	27	6	*390*
Accessible rural	6	43	39	12	*1,340*
Remote rural	8	43	38	11	*1,080*

Transport and Travel in Scotland 2021: Results from the Scottish Household Survey[35]

[32] Rural Scotland Key Facts 2021 - gov.scot (www.gov.scot)
[33] Where can I get a bus? – SPICe Spotlight | Solas air SPICe (spice-spotlight.scot)
[34] Transport and Travel in Scotland 2021: Results from the Scottish Household Survey - PDF version | Transport Scotland
[35] Transport and Travel in Scotland 2021: Results from the Scottish Household Survey - PDF version | Transport Scotland

5.2 Fuel Costs

As residents in rural Scotland are more likely to be more dependent on cars, the price of fuel has implications for rural household budgets and for rural businesses, with higher levels of spending on fuel per month[36] more likely in rural Scotland. 'Transport poverty' (the absence of affordable transport choice alternatives to travel by car) is also a related issue, which in 2016 Sustrans found to impact upon 1 million Scottish residents[37], predominantly those in accessible small towns and accessible rural areas. Unleaded petrol and diesel forecourt prices vary across the country. Due to the challenges associated with lower volumes of fuel sold and transportation of fuel to remote rural areas, a 5 pence per litre reduction is available to the retailers of fuel intended for road use in certain areas of rural Scotland – the Inner and Outer Hebrides, the Northern Isles, the Islands in the Clyde and some IV, KW, PA and PH post codes - through the UK Rural Fuel Duty relief scheme.[38]

Between May 2020 and July 2022 average forecourt unleaded and diesel prices had increased by 75% (see Figure 6). During the COVID-19 pandemic the price of crude oil collapsed as travel restrictions impacted demand that led to production cuts to shore up prices[39]. As COVID-19 travel restrictions eased fuel demand rose leading to steady price increases through 2021. From early 2022 onwards, the rise was likely largely due to the build up to and the start and continuation of the war in Ukraine and subsequent sanctions on Russia and Belarus - and the ensuing energy cost crisis[40]. This added £50.80 to the cost of a 60-litre tank of diesel and £48.60 extra on a 60-litre tank of unleaded, with additional fuel costs hitting motorists and hauliers across Scotland hard.

[36] Rural Scotland Key Facts 2021 - gov.scot (www.gov.scot)
[37] Microsoft Word - Transport Poverty in Scotland v1.0 FINAL (sustrans.org.uk)
[38] Rural Fuel Duty Relief Scheme (Notice 2001) - GOV.UK (www.gov.uk)
[39] For example, see: May saw the UK's lowest fuel prices in four years amid Covid-19 crisis (motor1.com)
[40] For example, see: Why are UK fuel prices at a record high when cost of oil has fallen? | Petrol prices | The Guardian

Figure 6 Average forecourt fuel prices in Scotland (January 2019 – October 2022)

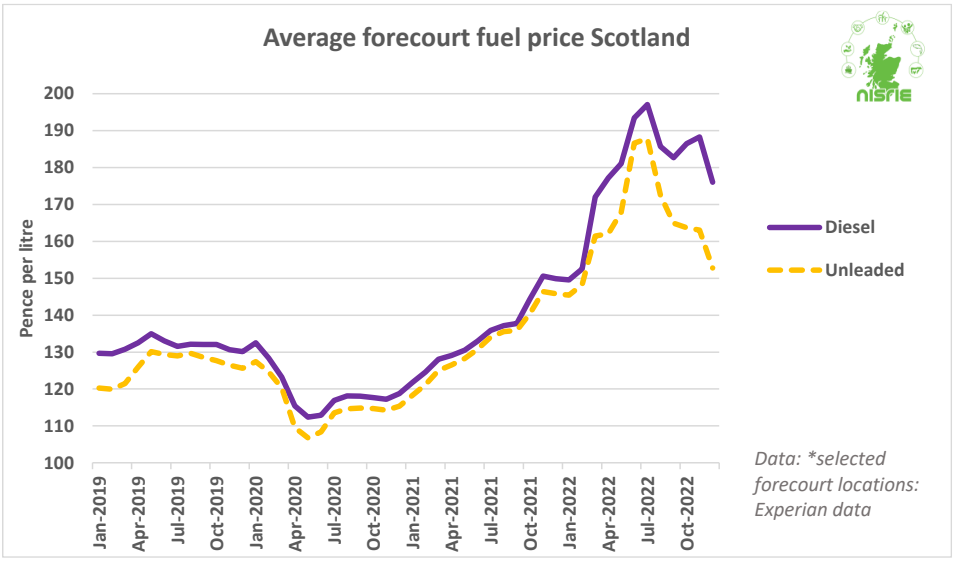


Figure 7 and Figure 8 illustrate the spike in fuel prices by fuel type during this period, revealing the highest price increases in unleaded petrol for island and very remote mainland drivers compared to those in urban areas. For drivers of diesel vehicles, again those in the islands and very remote mainland areas experienced higher average prices compared to urban drivers and more so than drivers in remote mainland and accessible rural areas.

Figure 7 Forecourt Unleaded Petrol Price Differentials from Urban Areas by NISRIE Peripherality (January 2019 - October 2022)

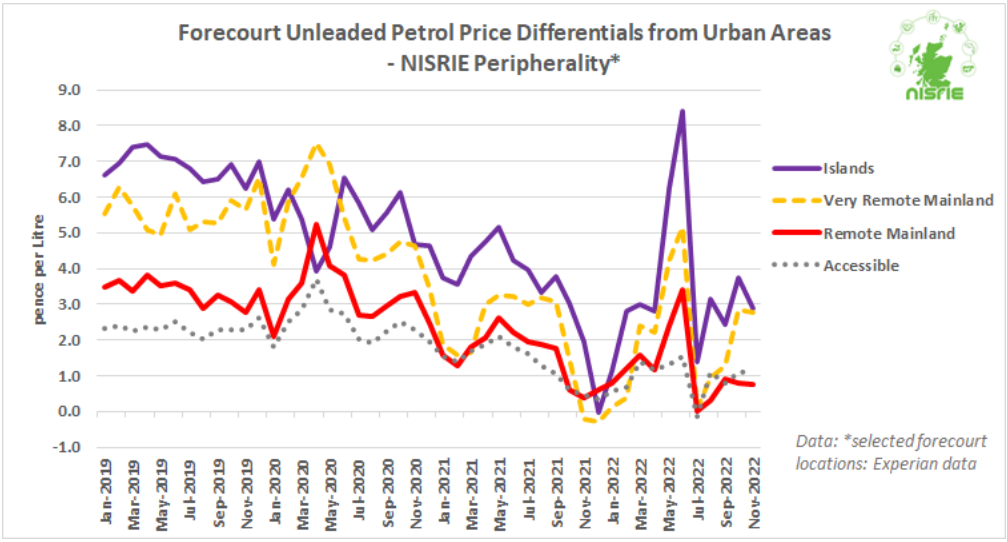
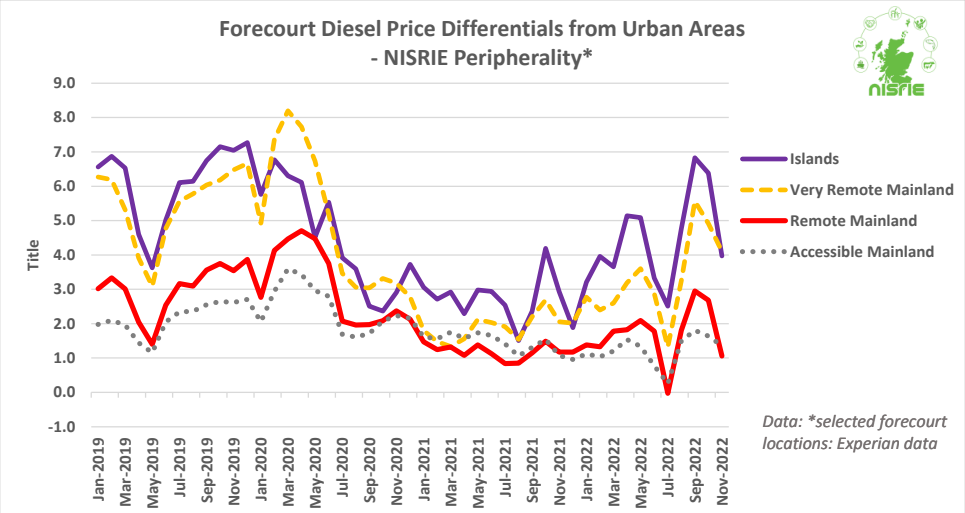


Figure 8 Forecourt Diesel Price Differentials from Urban Areas by NISRIE Peripherality (January 2019 – October 2022)



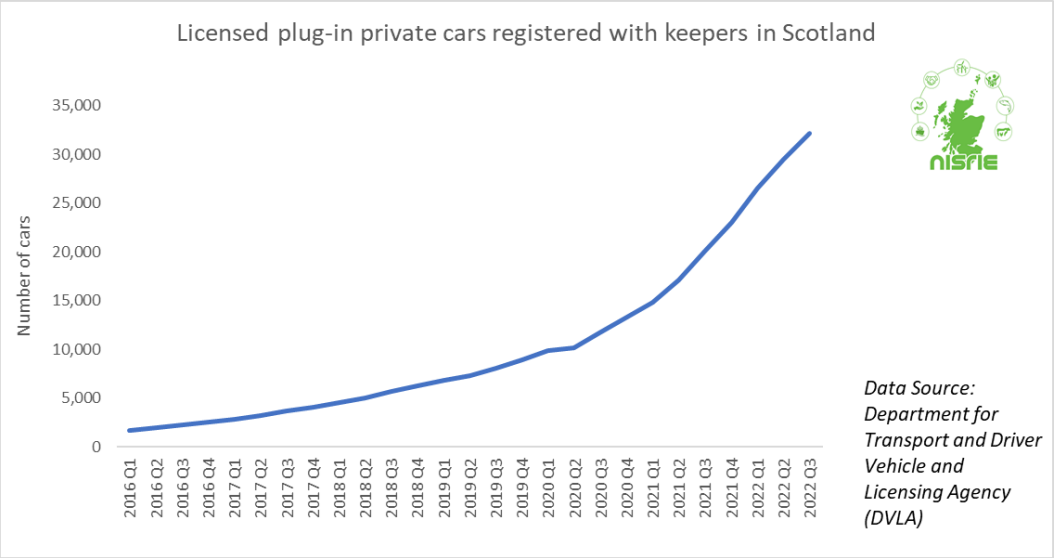
5.3 Electric Vehicles (EVs)

The transition to electrical vehicles (EVs) is a key component of the Scottish Government's plans to reach net zero emissions for all greenhouse gases by 2045. The introduction of zero-emission vehicles to Scotland has been slow, with just over 2% of those surveyed in the Scottish Household Survey 2020 saying they owned an electric car or van. But with sales of petrol and diesel cars in the UK due to end by 2030, change is coming. Independent analysis commissioned by Transport Scotland[41] predicts that there could be anywhere from 500,000 to 1 million electric cars on Scotland's roads by 2030. The Scottish Government has also set out its intention to double the number of electric charge points on the network to at least 6,000 by 2026, as detailed in Equality, opportunity and community – New leadership, a fresh start.[42]

[41] Draft Vision for Scotland's Public Electric Vehicle Charging Network (transport.gov.scot)
[42] Equality, opportunity, community: New leadership - A fresh start (www.gov.scot)

Although initial uptake has been relatively slow, as shown in Figure 9, there has been a steady rise in the number of plug-in (defined as battery electric, plug-in hybrid and range extended electric) private cars in Scotland since 2020 – with nearly 32,500 licensed cars with keepers in Scotland by Q3 2022. In terms of the breakdown by urban and rural areas, unsurprisingly due to population distribution, 22% of these cars were registered with keepers in larger cities, 42% with keepers in urban with substantial rural areas, 32% with keepers in mainly rural areas and 3% with keepers in islands and remote rural areas of Scotland. Within these classifications (as summarised in Table 3), there is an even spread of other fuel types at 4%.

Figure 9 Number of licensed plug-in private cars registered with keepers in Scotland (2016-2022)



There are some interesting comparisons on the uptake of plug-in private cars within larger cities and island and remote rural areas. Figure 10 illustrates that there has been a larger increase in uptake in Edinburgh compared with other Scottish cities, whilst Argyll & Bute and the Orkney Islands similarly have experienced increased uptake compared with the Shetland Islands and Na h-Eileanan Siar, depicted in Figure 12. However, it should be noted that uptake of EVs in Argyll & Bute is likely to be related to the higher population within this local authority. In terms of year-on-year growth rate in uptake of private car EVs in island and remote rural Scotland, Figure 13 illustrates this trend.

Uptake of EV private cars were 60% higher in 2016 compared with 2015, with year-on-year growth then falling to 2019, before starting to rise again in 2020. 2022 figures were not included due to data for the year being unavailable at the time of writing. Similarly for larger cities, there was a fall in year-on-year growth rate of EV private car uptake to 2019 before rising again in 2020, as illustrated in Figure 11.

Figure 10 Number of licensed plug-in private cars registered with keepers in Larger Cities in Scotland 2016-2022

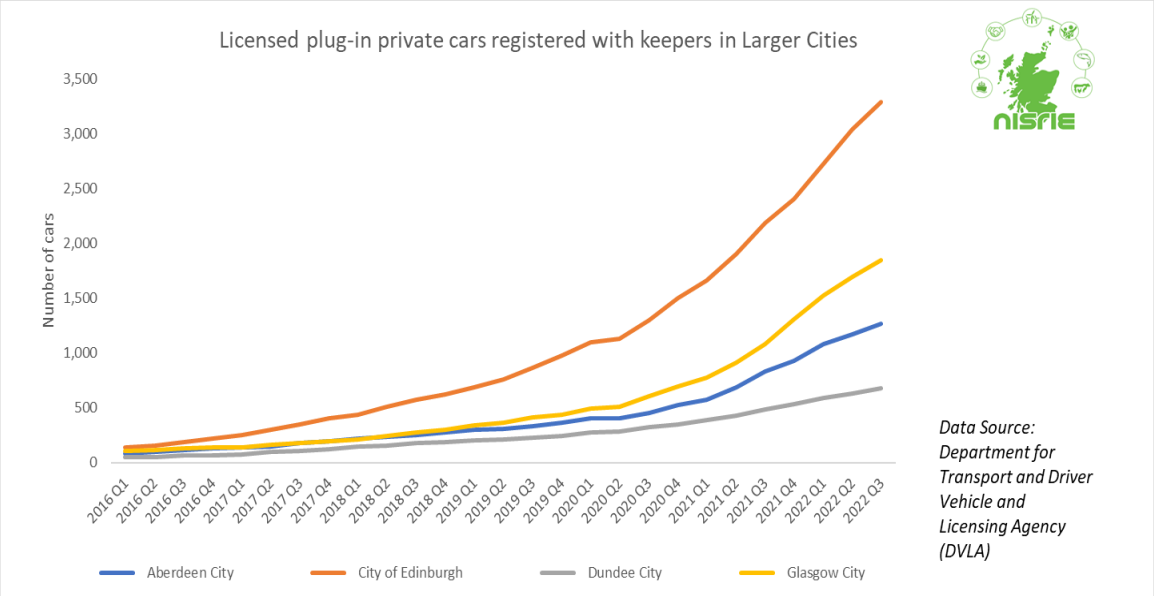


Figure 11 Larger cities EV private car uptake and year-on-year growth rate (Q4 figures 2016-2021)

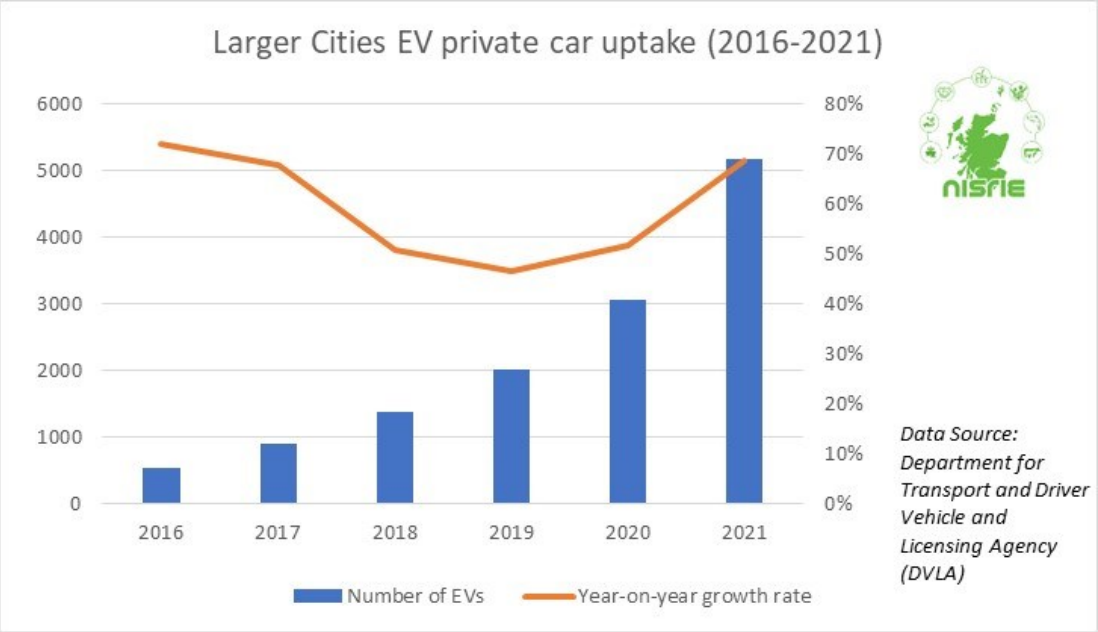


Figure 12 Number of licensed plug-in private cars registered with keepers in Island & Remote rural areas of Scotland 2016-2022

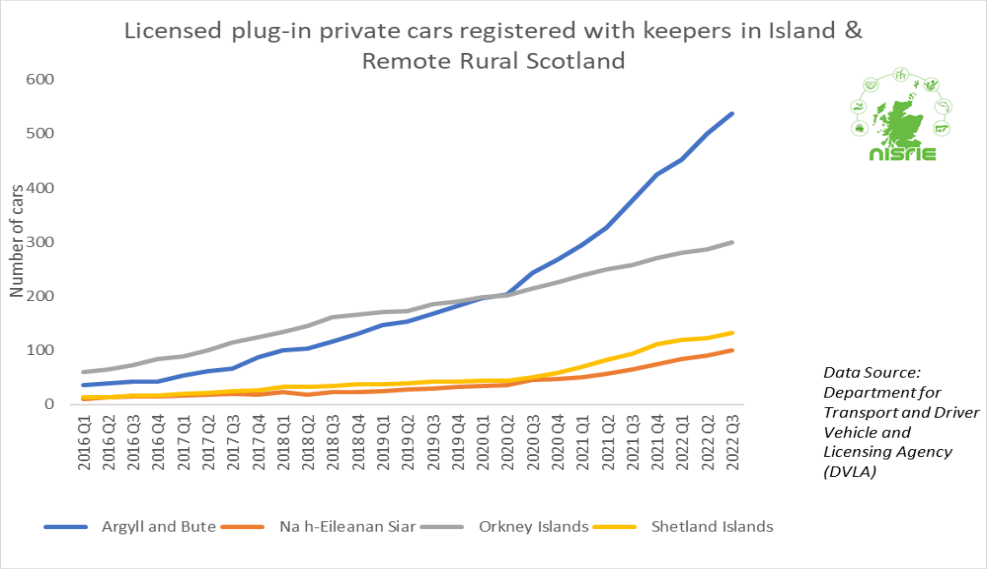
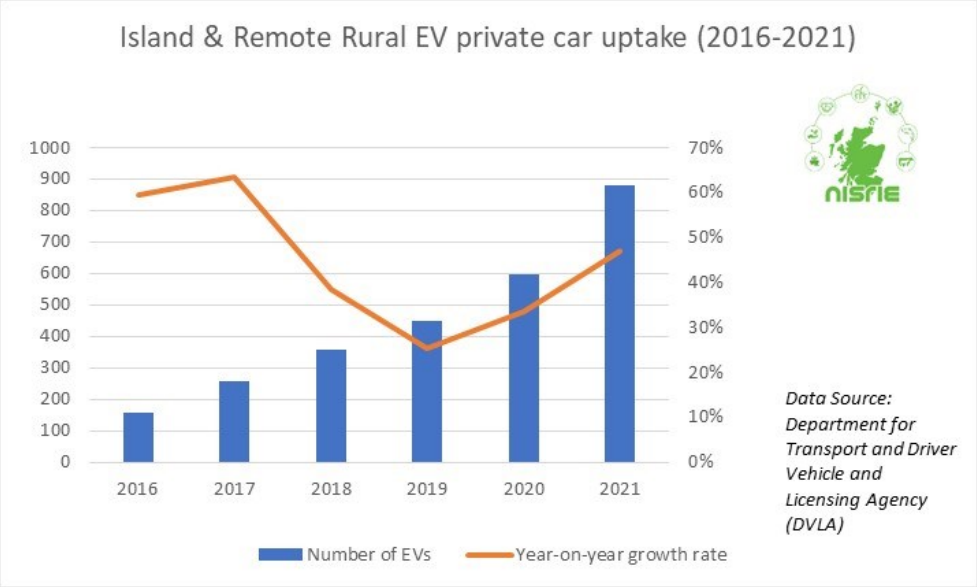


Figure 13 Island & remote rural EV private car uptake and year-on- year growth rate (Q4 figures 2016-2021)



The transport variances between urban and rural Scotland are a significant part of this discussion, with access to cars higher in rural areas and use of bus services less frequent[43]. Analysis of data from the Scottish Government on different journeys undertaken at local authority level also reveals that for 2019, bus journeys to work were considerably more common in larger cities (at an average of 16%) compared to 4% in mainly rural areas and 5% in islands and remote rural local authorities.

Key to a successful transition to EV is the availability and cost incurred from using charging stations. While EV battery technologies continue to advance, 'range

[43] Transport and Travel in Scotland

anxiety' remains a key concern, with the distance that can be travelled on a single charge being one of the biggest barriers to EV adoption for people in Scotland[44]. With journey times and distances longer in rural Scotland, this is an important issue.

While an estimated 80% of electric car charging was reported to take place at home by the Energy Saving Trust in 2019[45], the availability of public charge points in rural areas - close to key services - can assist with the convenience of charging for rural EV drivers, particularly for those who do not have access to home charging.

5.3.1 EV Charging Costs

For EV vehicle owners without the ability to charge their vehicle at home, public charge points are a vital asset but have, of course, associated cost implications. Analysis of data available at Charge Place Scotland reveals that, since April 2022, for those charge points that were changing tariffs between 1st April 2022 and 1st March 2023, nearly 27% of these charges point locations were moving to a charge of 50p or more per kilowatt hour. 26% of these were charge points located within the Highland Council area, whilst overall, 14% were located in larger cities, 12% in islands and remote rural areas, 44% in mainly rural areas and 30% in urban with substantial rural areas.

5.4 Air Travel

Travel to and from the Scottish islands and mainland Scotland, made by sea or air (where available), results in unique transport connectivity challenges for residents of Scotland's islands in the form of cost and disruption to services (often weather related). Recent disruption to CalMac ferry services to islands on the west coast of Scotland has highlighted the lifeline nature of connectivity to the mainland. Transport Scotland emphasises the social and economic welfare aspects of air services provided in the Highlands and Islands[46], with airports managed by Highlands and Islands Airports Limited (HIAL) – Barra, Benbecula, Campbeltown, Dundee, Inverness, Islay, Kirkwall, Stornoway, Sumburgh, Tiree and Wick - being loss-making and subsidised by the Scottish Government[47]. In contribution to Scotland's net zero commitments, by 2040, the Scottish Government intends to decarbonise Scottish domestic passenger flights[48].

Analysis of Civil Aviation Authority (CAA) data[49] has found that travel by air to Scotland's island and remote rural airports is subject to a generally higher proportion of flight cancellations than airports located in urban Scotland. Similar to the impacts of flight suspensions in March and April 2023 explained by NHS Eileanan Siar Western

[44] Motor vehicles, traffic and driving | Transport Scotland
[45] 23465-EST+DFT-Charging Electric Vehicles - Best Practice Guide-WEB.pdf (energysavingtrust.org.uk)
[46] Information about Highlands and Islands airports (transport.gov.scot)
[47] Information about Highlands and Islands airports (transport.gov.scot)
[48] Scotland's domestic connectivity | Transport Scotland
[49] UK airport data | Civil Aviation Authority (caa.co.uk)

Isles,[50] in addition to disruption to leisure and business travel, cancellations may have impacts on island resident access to medical appointments on the mainland and visits of consultants to the islands. Table 7 shows CAA data of the proportion of cancelled flights at Scottish airports 2017- 2022, which were highest at Barra, Campbeltown, Tiree and Islay airports. However, flights for Sumburgh and Stornoway airports had lower cancellation proportions, similar to the proportions of cancelled movements at Edinburgh, Glasgow and Aberdeen airports over the period.

Table 5 Proportion of air transport movements cancelled at Scottish airports (2017 - 2022)

Airport	2017	2018	2019	2020	2021	2022
Aberdeen	0%	5%	3%	3%	2%	2%
Barra	7%	8%	8%	16%	18%	18%
Benbecula	3%	2%	3%	3%	5%	3%
Campbeltown	9%	8%	7%	47%	31%	14%
Dundee	1%	2%	3%	9%	2%	3%
Edinburgh	1%	1%	1%	2%	1%	1%
Glasgow	0%	2%	1%	4%	3%	3%
Prestwick	0%	0%	0%	1%	0%	0%
Inverness	1%	1%	2%	2%	1%	1%
Islay	11%	10%	12%	18%	19%	9%
Kirkwall	3%	4%	5%	12%	6%	3%
Sumburgh	1%	2%	2%	1%	1%	1%
Stornoway	2%	4%	4%	4%	3%	3%
Tiree	10%	13%	8%	6%	7%	11%
Wick John O'Groats	5%	7%	8%	20%	0%	3%

Source: (CAA, 2023)[51]

[50] NHS Western Isles: Statement on the suspension of flights to/from Inverness for a six week period - NHS Western Isles | Serving the Outer Hebrides of Scotland.
[51] UK airport data | Civil Aviation Authority (caa.co.uk)

6 Affordable Housing

Access to affordable housing remains a long-running, 'persistent', challenge faced by rural and island residents. It impinges on the ability of young families to stay in their local areas and is regularly cited as an issue when try to retain and attract workforce[52] – particularly to very remote and island localities.

The Scottish Government has prioritised the issue and launched a £30 million Rural and Islands Housing Fund[53] from 2016 to 2021 as part of the Affordable Housing Supply Programme. A further £25 million support to help local authorities "*identify affordable homes for key workers in rural communities*"[54] has also been announced for 2023-2028. Further, First Minister Humza Yousaf MSP, announced proposals to permit local authorities to charge up to double the full rate of council tax on second homes from 2024, bringing second homes into line with long-term empty homes. The First Minister stressed that "*we want everyone in Scotland to have an affordable home that meets their needs and this work to improve the availability of sustainable long-term housing opportunities is a core part of that*."[55] In his vision for Scotland announced in April 2023, he also announced the publication of a Remote, Rural and Island Housing Action Plan by 2026, setting out the Government's approach to rural housing delivery, including through actions to allow suitable properties (including empty homes) to be purchased or long leased and turned into affordable housing (p15).

6.1 House prices

House price inflation is not a new phenomenon, but it can have disproportionate impacts on younger people and lower income households. There is regular media commentary that the lack of affordable housing or appropriate housing for first time buyers is now impacting on local economies and communities – that are unable to attract workforce due to housing issues.[56] Underpinning these concerns is house price inflation, driven in part by the increased penetration of second and holiday homes as well as new-builds not reflecting the needs of younger families and single person households.

Registers of Scotland (RoS) report residential house price data[57] for transactions between £20k and £1m – and this section reports on this data. The average price of

[52] See for example, this article relating to the Isle of Mull's Ethical Shellfish Company which ceased trading in 2022. One of the reasons cited for the company's closure was its inability to attract staff due to the 'explosion' of holiday accommodation on the island following COVID-19: Mull-based ethical seafood company ceases trading - BBC News

[53] https://www.gov.scot/policies/more-homes/rural-housing-fund/

[54] https://www.gov.scot/news/affordable-housing-initiative-for-key-workers/

[55] https://www.gov.scot/news/tax-changes-for-second-and-empty-homes/

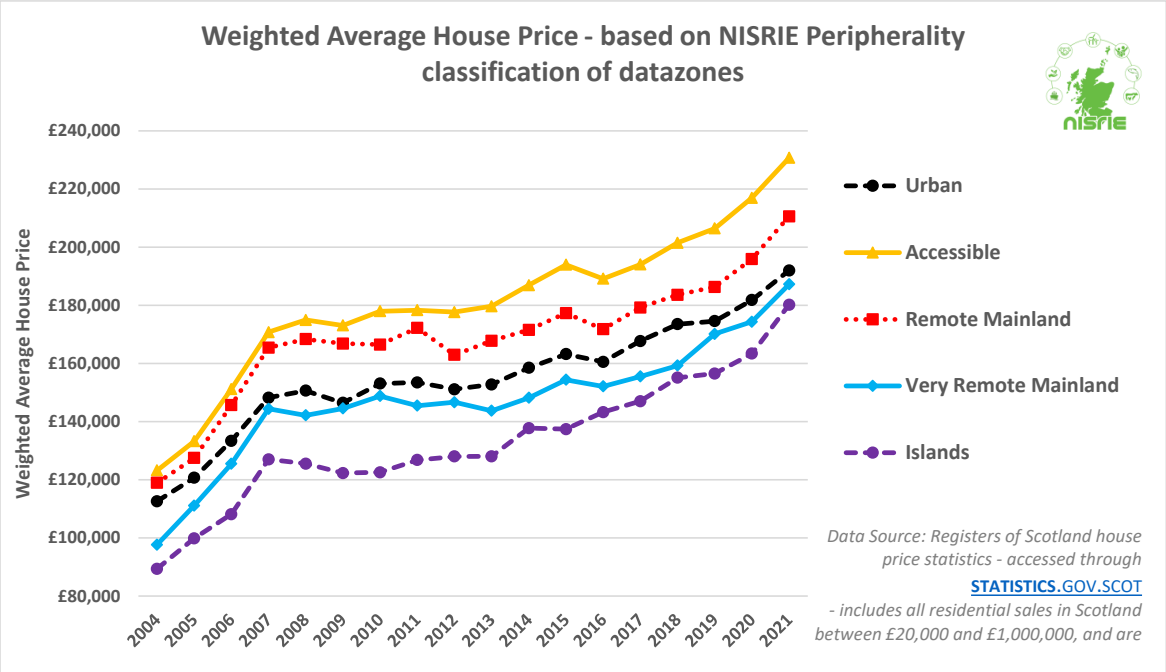
[56] See, for example: https://www.heraldscotland.com/business_hq/19961873.cost-scotlands-rural-remote-housing-crisis-ian-mcconnell/, https://www.property118.com/scotlands-housing-crisis-is-a-ticking-time-bomb/

[57] House price statistics - Registers of Scotland (ros.gov.uk)

a residential property in Scotland in 2021-2022 was £201k, but there are important regional variations in house prices. Figure 1 shows the weighted average[58] house prices by the NISRIE peripherality classification of data zones from 2004 to 2021, whilst Figure 15 shows the cumulative percentage change since 2004 (data is provided in Table 14 in Annex 3 – where summaries of lower quartile, average, median and upper quartile prices are shown over time for data zone classifications).

Reflecting the different mixes in housing stock, accessible parts of Scotland consistently had the highest average house prices in Scotland over the period, at £230k in 2021, whilst Islands consistently had the lowest prices - £180k on average in 2021. The graphs show just how rapidly house prices grew in the years before the 2008 financial crisis (34% in urban, 42% in accessible and remote mainland areas, 46% in very remote areas and 40% in islands). After 2008 there was a period of about 6 years of relative stability before a return to rapid price increases from 2016-17. Between 2016 and 2021 there was a further 21% rise in house prices across Scotland, with a 26% increase in the Islands, 23% in remote and very remote areas and 22% in accessible locations.

Figure 14 Weighted average house prices by NISRIE peripherality data zones (2004-21)

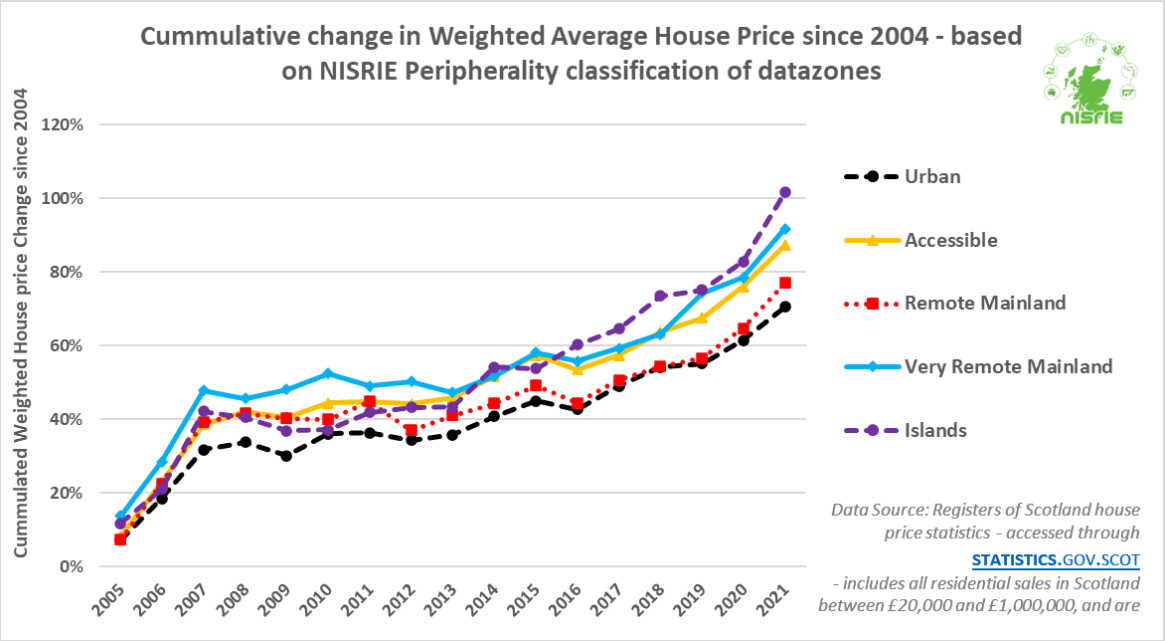


Between 2004 and 2021 Islands saw the fastest growth in average house prices (102%), followed by very remote rural areas (92%) and accessible mainland (87%), and compared to 71% in urban areas and 77% in remote mainland areas. That

[58] The number of sales in each data zone multiplied by the average price, aggregated to NISRIE peripherality classes which is then divided by the number of transactions in each NISRIE peripherality classification

house price inflation has led to increased challenges regarding housing affordability for lower waged households in these regions.

Figure 15 Cumulative change in weighted average house prices of data zones by NISRIE peripherality class (2004-2021)



There are, however, very wide variations in house prices within the broad NISRIE peripherality classes reflecting local housing markets – that are influenced by the strength and attractiveness of the local economy, communities and amenity of areas. Map 7 illustrates the local variability in house prices, showing the lower quartile, median, average and upper quartile house price[59]. Whilst, for example, the lower quartile house price was less than £100K in parts of the Western Isles, Caithness and Sutherland and the Southern Uplands, in parts of Aberdeenshire and the Borders the lower quartile price was over £300k.

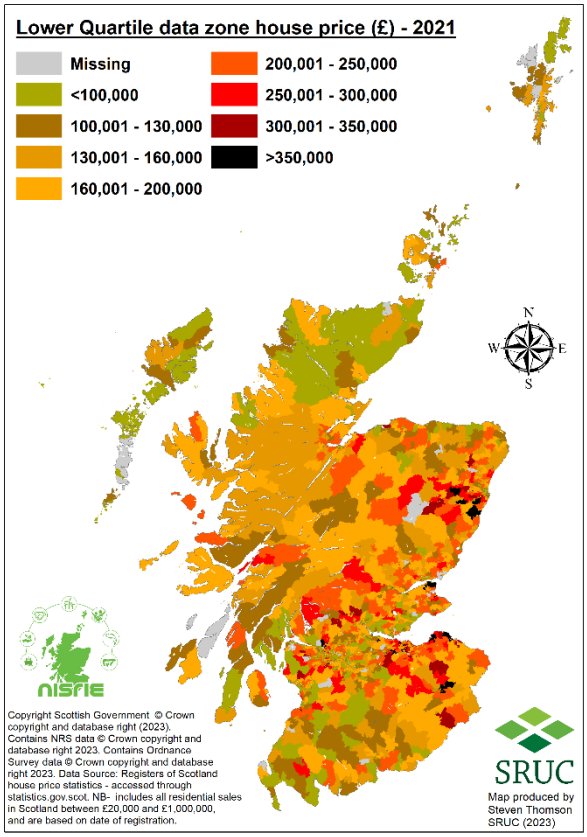
The median (50th percentile – midpoint) values generally show quite a jump across all parts of Scotland (more red and dark red), with average prices showing as even higher (caused by very high values influencing the average). Median house prices of over £300k in areas near Glencoe, Aboyne, Eddlestone, Callander and Aberfoyle, etc., likely reflect the type of housing sold in these areas – but also general affluence in the area, and/or the likelihood of commuting. The upper quartile price map shows the large number of areas across the country where 25% of the house sales were more than £300k (depicted by black data zones) in 2021.

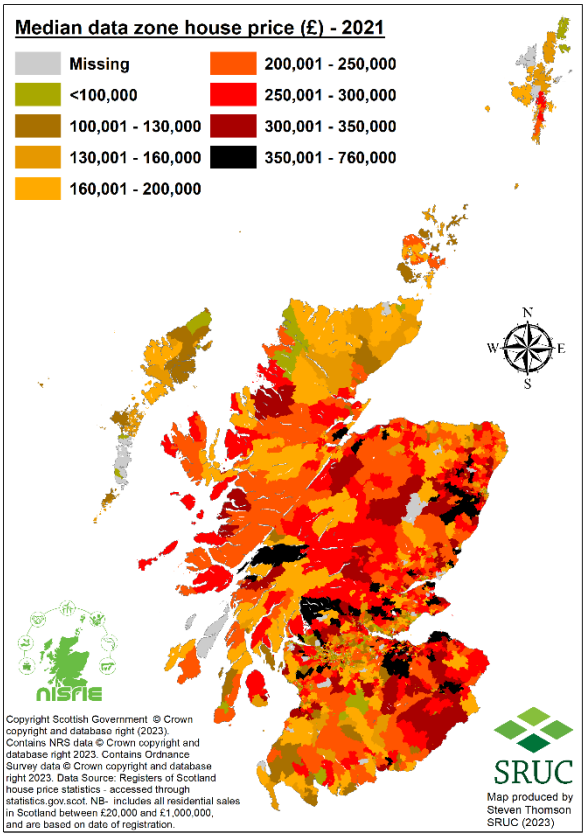
Map 8 illustrates the change in lower quartile, median, average and upper quartile house prices between 2004 and 2021. It is immediately noticeable that the changes

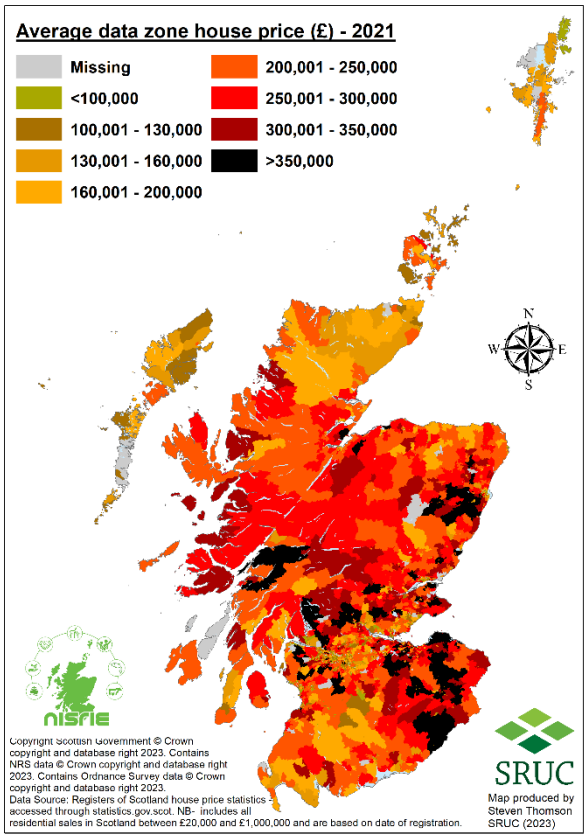
[59] The lower quartile price reflects the value of the 25th percentile house price – that is the value of the 25th transaction out of 100 when ranked from lowest to highest, meaning 25% of transaction are lower. The upper quartile reflects the 75th percentile meaning 25% of transactions were higher.

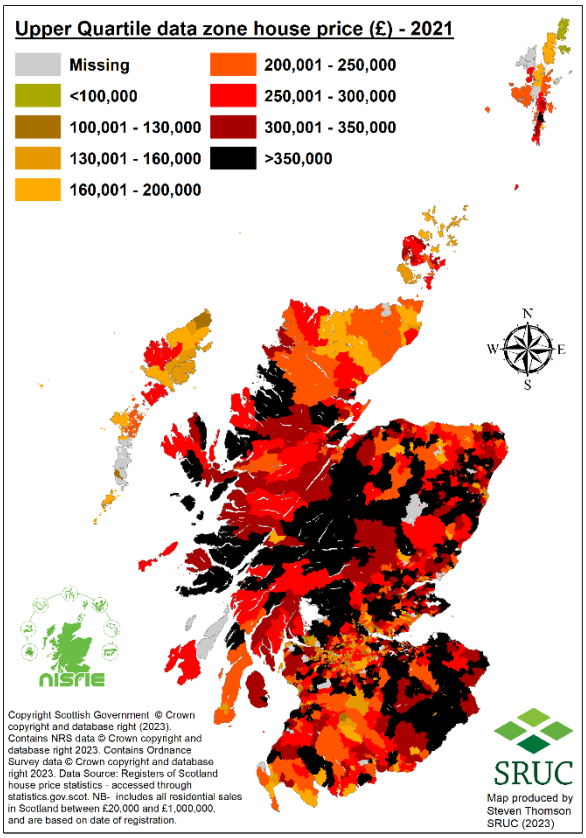
in lower quartile prices have been very high (+200% or tripling – shown by black colouring) across large parts of rural Scotland (such as South Ayrshire, Islay, Mull, West Harris, Speyside, Inverary to Crianlarich, Pitlochry to Aberfeldy, etc.). These rapid changes in the lowest quartile house prices have made it increasingly challenging for younger, lower income families in these localities to get onto the 'property ladder'. Many of these areas also show population decrease (see Map 6) suggesting second and holiday home ownership may have driven the changes.

Map 7 Lower quartile, average, median and upper quartile house prices by data zone, by NISRIE peripherality class

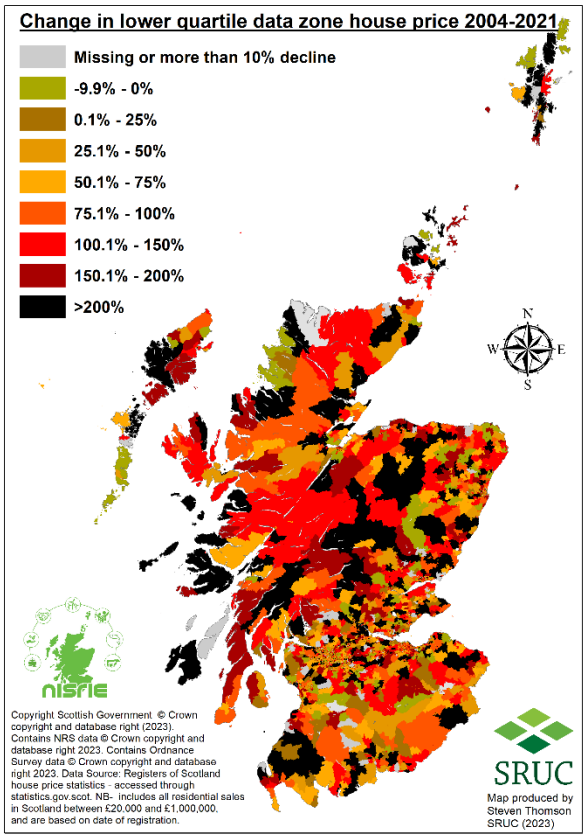


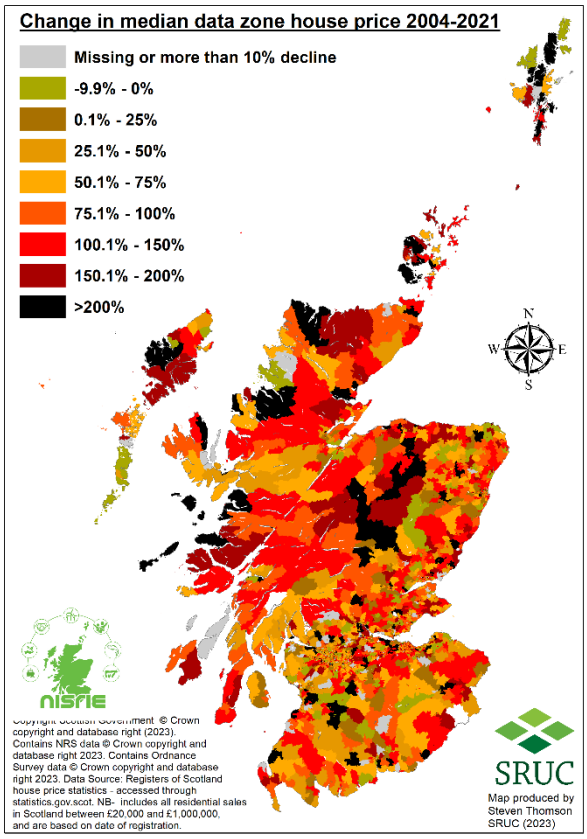


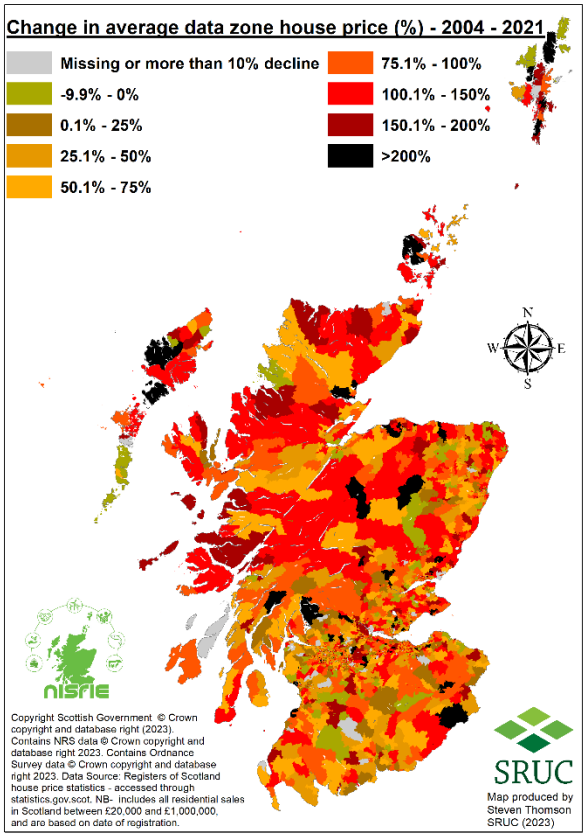


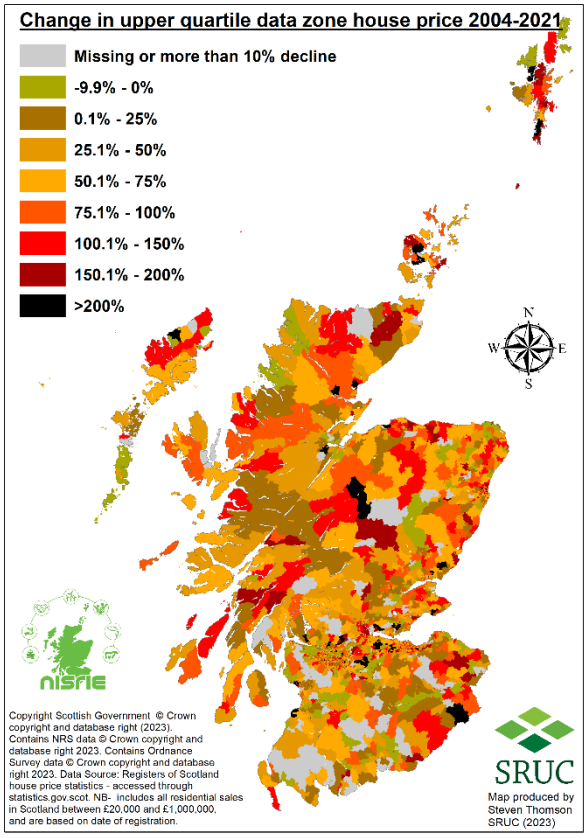


Map 8 Change in lower quartile, average, median and upper quartile house prices by data zone, by NISRIE peripherality class (2004-21)









6.2 New Builds

The type of housing being built and sold, as well as the characteristics of the existing housing stock (detached, semi-detached, flats, etc.), impact on the house price statistics. There has been long term growth in Scotland's housing stock, with an estimated 420k completions between 2001 and 2021 according to Scottish Government statistics[60]. The data is produced at local authority level, and Figure 16 shows the growth rate from 2001 by the RESAS local authority rural-urban classification. It reveals the greatest growth in Mainly rural local authorities, where there were 7.4% more houses between 2001 and 2007, with 18.6% more dwellings in 2021 compared to 2001. Island and remote areas also saw a 13.1% increase over these two decades, with Urban with Substantial Rural areas higher at 15.2% - compared to 12.5% in Large Cities.

Figure 16 Index of the number of residential dwellings in Scotland (2001=100), by RESAS rural-urban classification (2001-21)

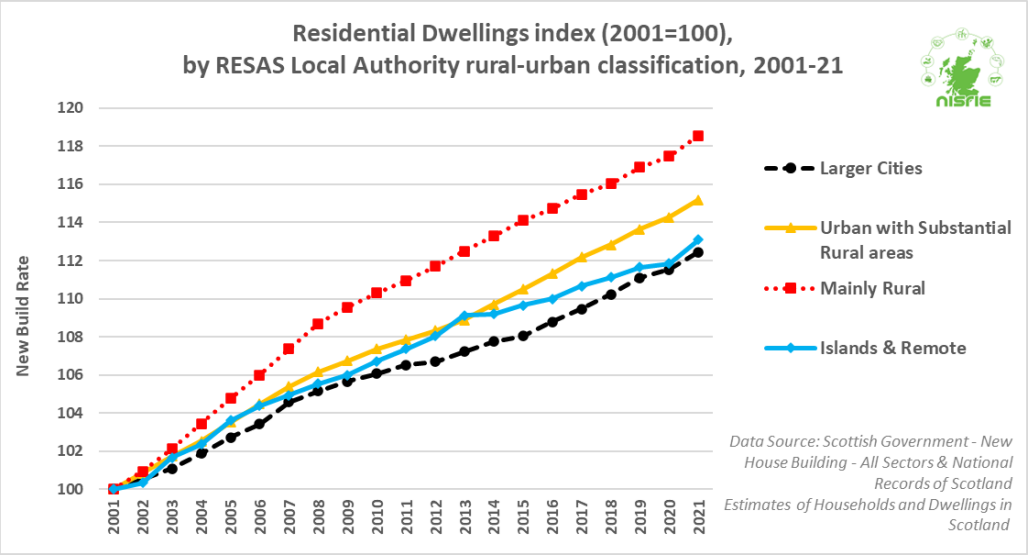
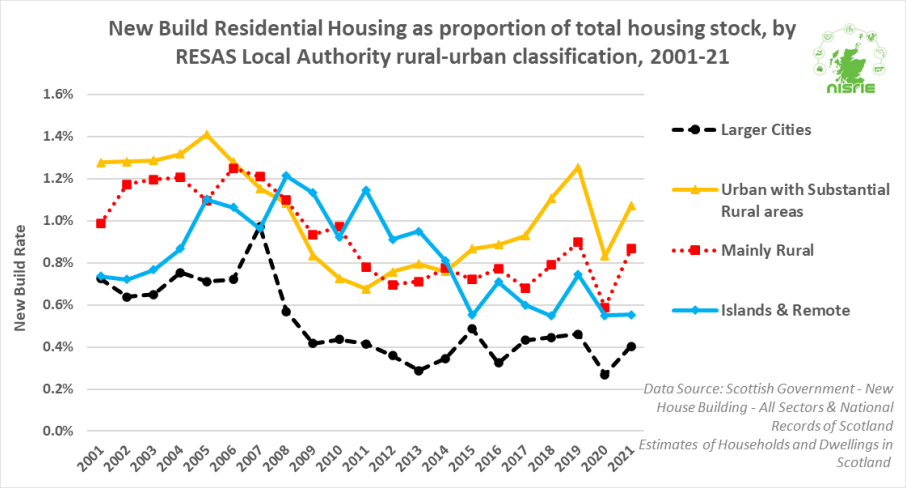


Figure 17 shows the rate of new housing completions as a proportion of total dwellings. The effects of the 2008 financial crisis are apparent – particularly in Large Cities and Urban with Substantial Rural areas and Mainly Rural areas, where a decade of lower completion rates is apparent. It is worth noting that completion rates in Island and Remote local authorities took longer to decline (post 2012), although actual completion rates are at very low levels (c.400-500 houses per year). It is worth noting the completion rates in the large cities, with the City of Edinburgh averaging 6.3% of total dwellings per annum between 2017 and 2021, compared to much lower levels in City of Dundee (0.5%), City of Glasgow (0.4%) and Aberdeen City (1%).

[60] https://www.gov.scot/publications/housing-statistics-for-scotland-new-house-building/

Figure 17 New build completions as a proportion of total housing stock by RESAS rural-urban classification (2001-21)



The Affordable Housing Supply Programme[61] data points to 9,757 affordable housing completions in 2020-21 which equated to 48% of total house completions across Scotland. Only 12% of these affordable house completions were for private home ownership (1,169) with 75% for the social rental market and 13% for other affordable rental markets.

According to RoS data in 2021-2022 there were 11,586 new build property transactions across Scotland that accounted for 11% of sales in this timeframe[62]. This was lower than the 2008-2009 peak where new build sales accounted for more than 13% of the total residential sales in Scotland (see Figure 18). In 2020-21, the fall off in the proportion of new build property sales across Scotland was likely a direct result of the COVID-19 pandemic and the inability of potential buyers to visit new build sites (including the downturn in completions). The level of new builds as a proportion of all residential housing sales was consistently higher in Urban with Substantial Rural areas (13% over 2015-16 to 2019-20) compared to, for example, only 3% on average in the Island and Remote local authorities.

[61] See Housing statistics quarterly update: new housebuilding and affordable housing supply - gov.scot (www.gov.scot) for access to data
[62] https://www.ros.gov.uk/data-and-statistics/house-price-statistics

Figure 18 Proportion of house transactions that are new build properties, by RESAS rural-urban definition of local authorities (2004-2022)

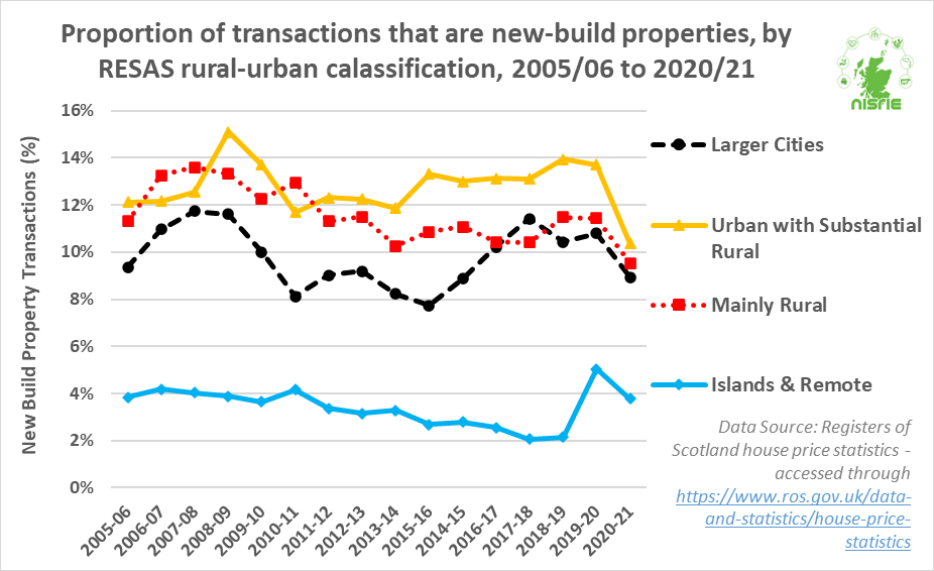
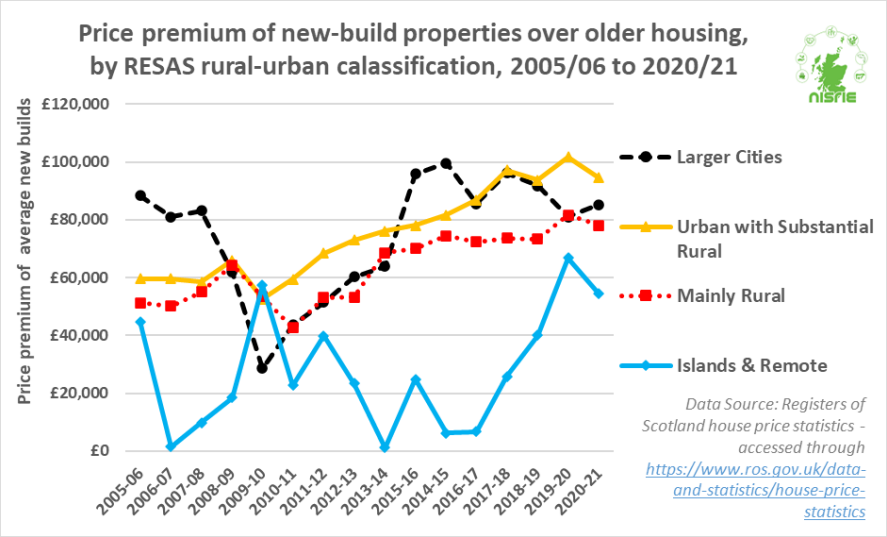


Figure 19 shows that the estimated[63] price differential between the average sale price of new build houses and older houses were over £50k across all RESAS rural-urban classifications since 2020. The pattern of the differentials in Island and Remote local authorities is worth noting, and since 2017-18 it may relate to the type of private housing being built – with perhaps more larger (expensive) housing being built in recent years. These differentials between new houses and older houses are not insignificant (for example, £95k in Urban with substantial rural local authorities in 2020-21) meaning young people and low earners are likely to be able to afford the 'average' new build property in their locality. This may suggest that the private house building sector continues to be dominated by larger houses for ownership.

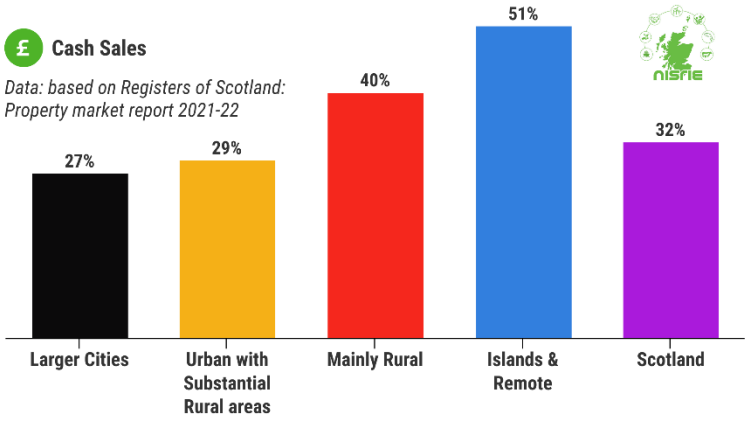
[63] These are inferred from RoS Property Market Report 2020-21 https://www.ros.gov.uk/data-and-statistics/property-market-report-2021-22. Note these exclude transactions under £20k and over £1m.

Figure 19 Price differential between new and old house prices, by RESAS rural-urban definition of local authorities (2004-2022)



These data suggest that overall house price inflation is perhaps being influenced by new build sales – but other important factors, such as who is buying housing - matter. For example, half the residential property sales in Island and Remote local authorities were cash sales, compared to only 27% cash sales in Large Cities and 40% in Mainly Rural local authorities. This possibly relates to a higher degree of wealthy incomers buying properties (including second or holiday homes) in these locations – but it could also relate to local people having less reliance on mortgages in these areas (lower house prices on average and a greater propensity to save).

Figure 20 Proportion of residential property sales transactions funded through cash sales, by RESAS rural-urban classification (2022)



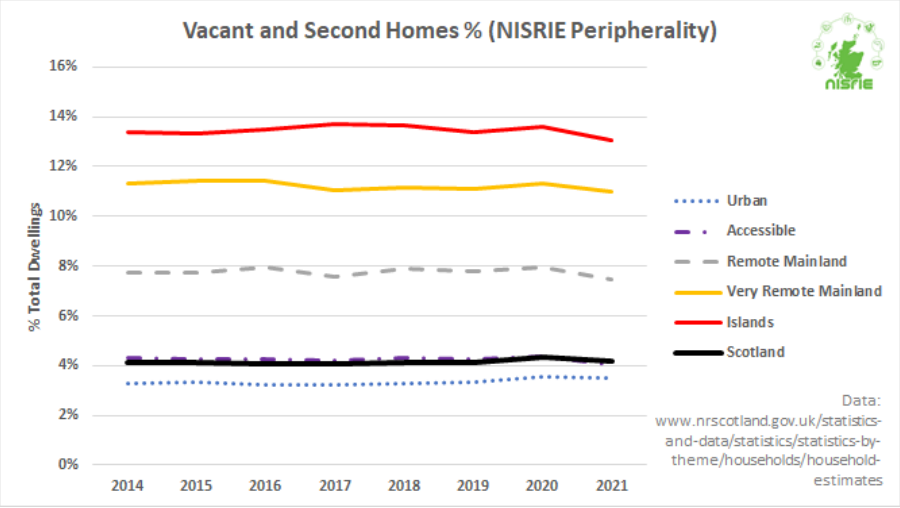
6.3 Second and Vacant Homes

For decades, one of the persistent housing challenges for many rural and island communities has been the proportion of the housing stock that is taken up by second

or vacant homes[64]. SRUC's Rural Scotland in Focus 2012 report, for example, reported that in some rural communities, almost 50% of the housing stock fell into this category[65].

This reduces the supply of housing for local people and also means that many houses are empty during the winter with associated implications for local services. Figure 21 shows the proportion of total dwellings that were vacant or second homes using the NISRIE peripherality classification from 2014-21. It demonstrates the significance, and persistence, of this issue in islands (c.13%), very remote mainland (c.11%) and remote mainland (c.8%) locations. The small decline in the proportion of second and vacant homes in these areas during 2020-21 likely reflects relocation of some urban residents during the COVID-19 pandemic.

Figure 21 Proportion of total dwellings that are vacant or second homes, by NISRIE peripherality classification of data zones, 2014-2021



Analysis at data zone level for 2021 is shown in Map 9 for: vacant homes; long term empty homes; second homes; and vacant plus second homes. Vacant homes include houses unoccupied in the long term (over 6 months) either because they are new homes yet to be occupied, dwellings undergoing repair or awaiting demolition.

Map 9, the vacant homes map, shows over 8% of housing stock (yellow and orange areas) was vacant in much of the Western Isles, Shetland, Orkney, and across parts of Caithness and Sutherland, the East Cairngorms and Angus Glens, south Speyside and Cabrach, for example. The outlying islands of Shetland and Orkney (Unst and Fetlar in Shetland and the islands of Rousay, Shapinsay, Stronsay,

[64] Vacant dwellings included those classified as long-term (more than six months) empty and those with unoccupied exemptions (e.g. new homes yet to be occupied, dwellings undergoing repair or awaiting demolition). Second homes may be eligible Council Tax discount of between 10 and 50% & includes self-catering holiday accommodation available to let for a total of less than 140 days per year. See: https://www.nrscotland.gov.uk/files/statistics/household-estimates/2021/house-est-21-methodology.pdf

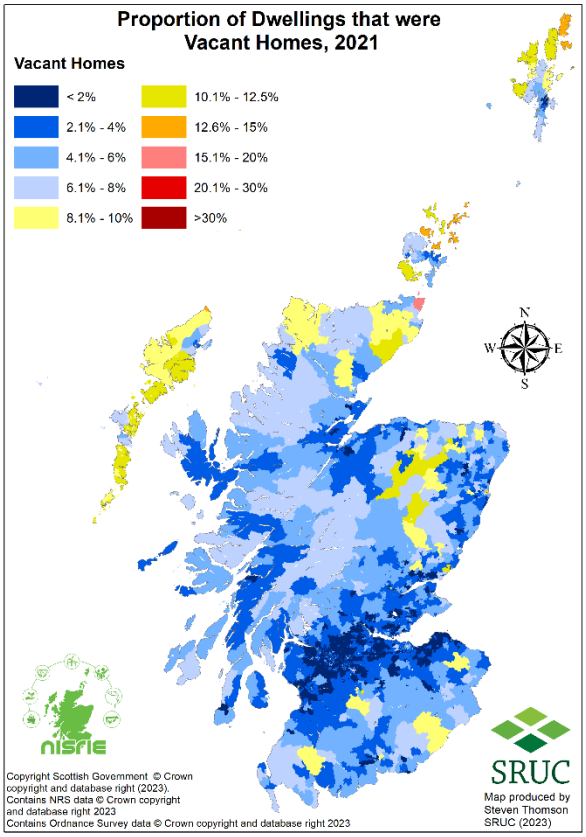
[65] See also Rhoda Meek's presentation on this issue at a meeting of the Cross Party Group in the Scottish Parliament on Rural Policy on 'Doing more with less' in June 2022.

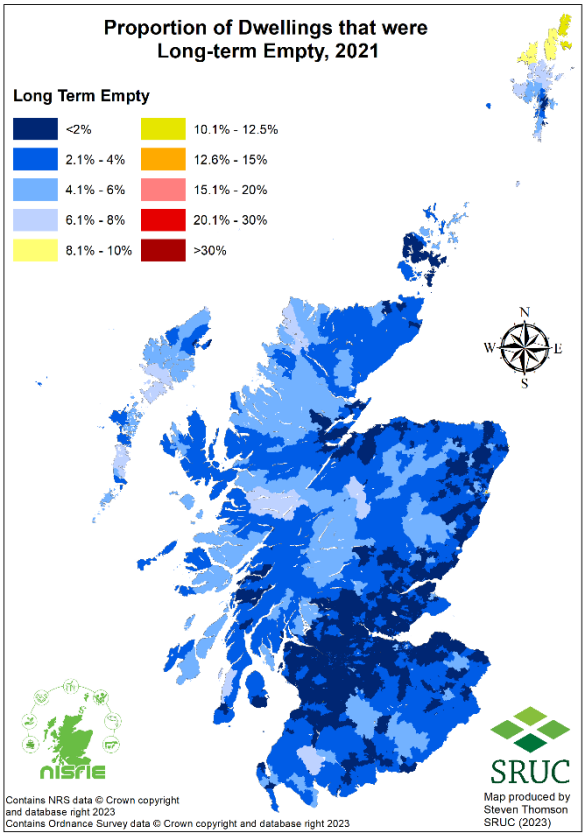
Sanday and North Ronaldsay in Orkney) had high vacant property rates in 2021, and John o'Groats had over 15% of homes vacant. The northern islands within Shetland had the highest proportion of long-term empty homes (8%), and many areas of the Highlands and Islands and the Southern Uplands had 2-8% of their housing stock long term vacant.

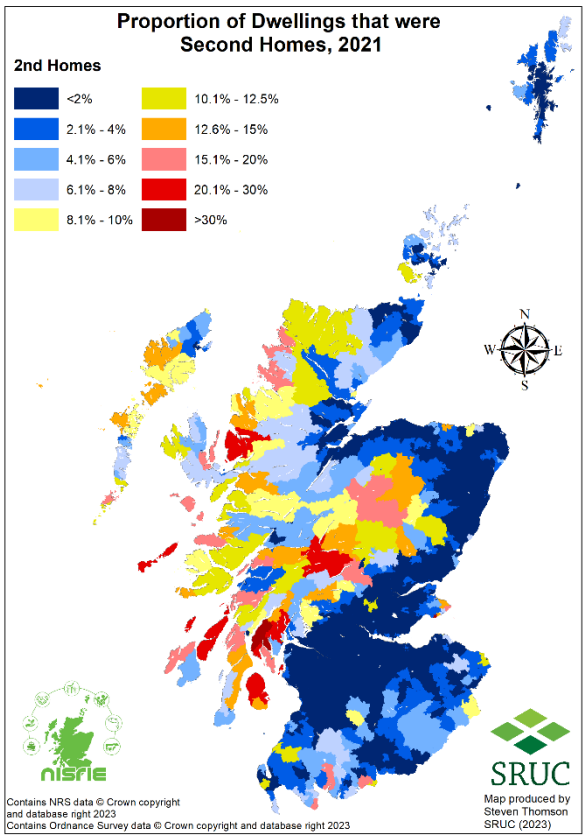
The second home map is particularly revealing for 2021, showing some localities with over 20% of the dwellings used as second homes (e.g. in the Cowal Peninsula, Arran, Jura, Coll and Tiree, Applecross, Rannoch and Aberfeldy, etc.), with many parts of the Highlands and Islands experiencing more than 10% of their housing stock as second homes in 2021. Some more accessible areas, such as Earlsferry in Fife, had more than 50% of the dwellings classed as second homes in 2021.

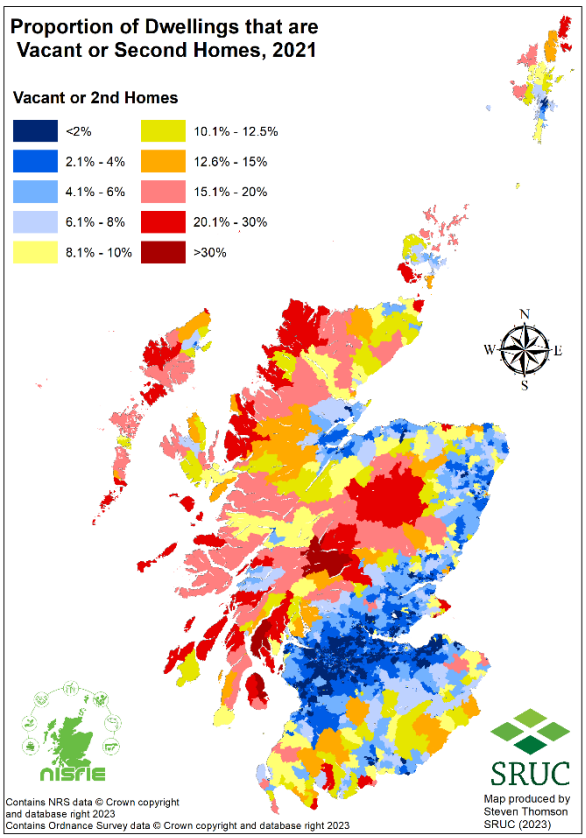
When vacant and second homes are combined, the broad coverage of pink (15-20%) red (20-30%) and maroon (>30%) areas demonstrates how much of the Highlands and Islands are faced with significant housing pressures from vacant and second homes. These pressures are particularly felt by younger people looking for their own homes (families and workers) as these pressures lead to local house price inflation and/or limited access to empty / vacant housing stock.

Map 9 Data zone proportions of dwellings that are vacant homes, second homes, vacant or second homes, or long-term vacant home, 2021









6.4 House Price Affordability

There is very limited data on the rents being charged for housing in the private or social rental market across Scotland[66]. However, analysing house price data alongside published income data from the ONS Annual Survey of Hours and Earnings[67] enables indicators to be calculated of the general affordability of houses for sale in a locality. This is only indicative as it utilises local authority full time earnings to assess housing affordability for data zones within local authorities where earnings will vary substantially.

Whilst mortgage lenders do offer products for higher income multipliers (loan to income) for mortgages[68], they carry higher risks to the lenders that come with higher interest rates that are also dependent on capital deposit provided and the type of mortgage. Higher interest rates make house buying more challenging, particularly for first-time buyers during a period of rising UK interest rates[69]. The higher the income multiplier that house prices are, the less affordable housing is for the homebuyer. It should be noted that many families will have more than one income to draw on to make mortgage repayments but this section simply considers affordability in terms of a single person earning the median full time earnings in a local authority.

Figure 22 shows the ratio of both lower quartile[70] and median[71] house price (excluding house sales under £20k and over £1 million) to median resident earnings at local authority level. The data reveals that East Lothian had the least affordable housing for median earning residents with lower quartile house prices nearly 6-times median earnings (the red bars). Conversely, East Ayrshire and Inverclyde had the most affordable housing for median earning residents with lower quartile house prices only around 2-times median earnings – although the median house prices in these areas was closer to 4-times median earnings (black bars). Amongst the Islands and Remote local authorities, Na h-Eileanan Siar had the most affordable lower quartile house prices in comparison to median earnings (2.5-times earnings) although median house prices were nearly 5-times median earnings.

Whilst median earners within many local authorities appear to be able to afford lower quartile house prices, Figure 23 demonstrates just how unaffordable housing is for lower quartile (25th percentile) earners within local authorities. For example, in Orkney, the lower quartile house price was nearly 6-times lower quartile earnings in 2021, with the median house price nearly 8-times lower quartile earnings. In East

[66] This was an issue discussed with the NISRIE/ReRIC Research Advisory Group in the first meeting in February 2023. It is an issue on which the research teams plan to do further work, including gathering information from rural and island residents in the rented sector through ruralexchange.scot.

[67] https://www.ons.gov.uk/surveys/informationforbusinesses/businesssurveys/annualsurveyofhoursandearningsashe

[68] See Lenders tighten mortgage lending rules - Which? News for a discussion on this

[69] Interest rates and Bank Rate | Bank of England

[70] 25% of house sales are lower than this value

[71] The mid point – 50% of the house sales are below and 50% above this value

Lothian, the lower quartile house price was nearly 8-times lower quartile resident earnings, whilst the median house price was nearly 11-times earnings.

Figure 22 Lower quartile and median house price to median resident earnings ratio, 2021

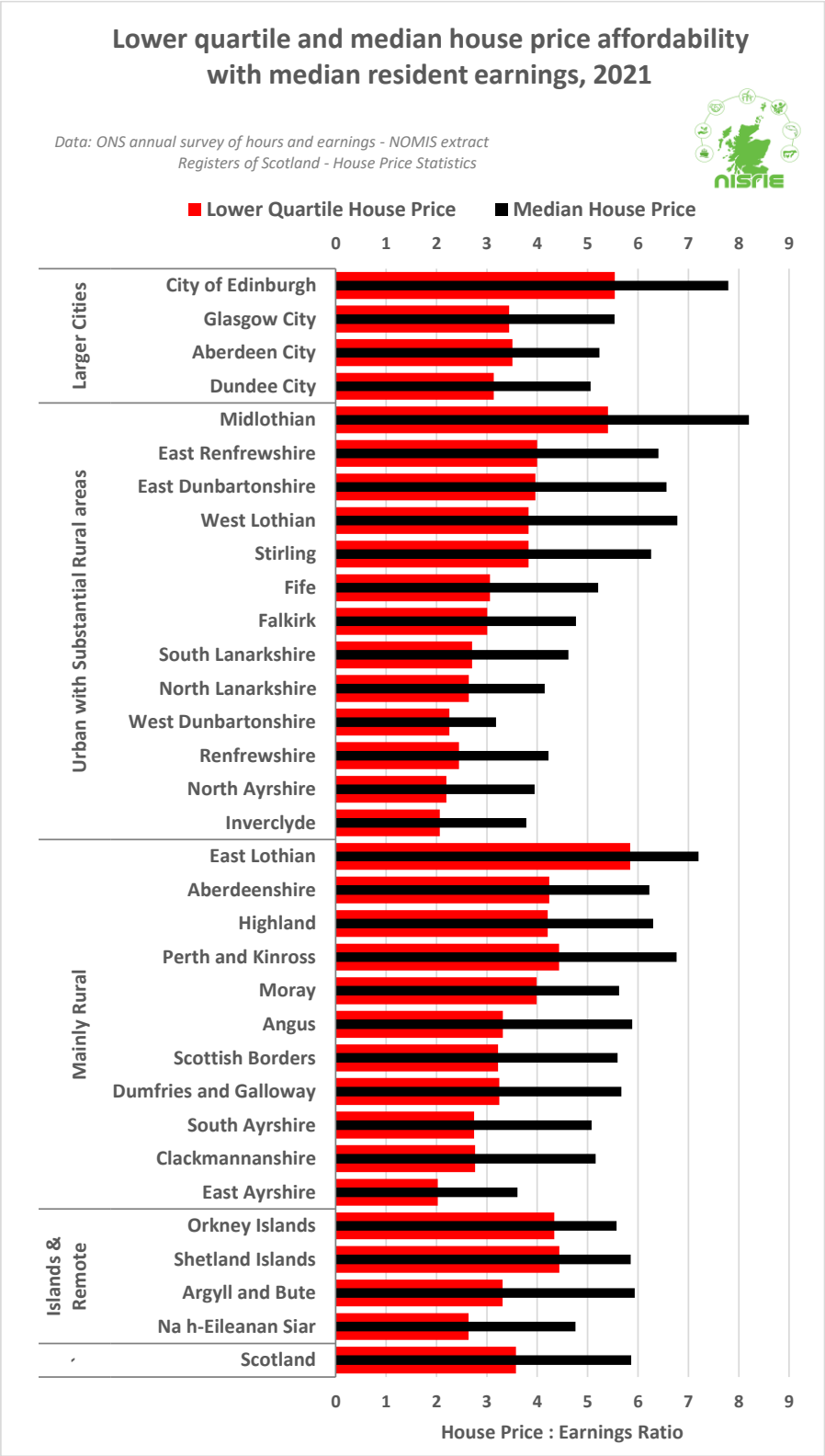
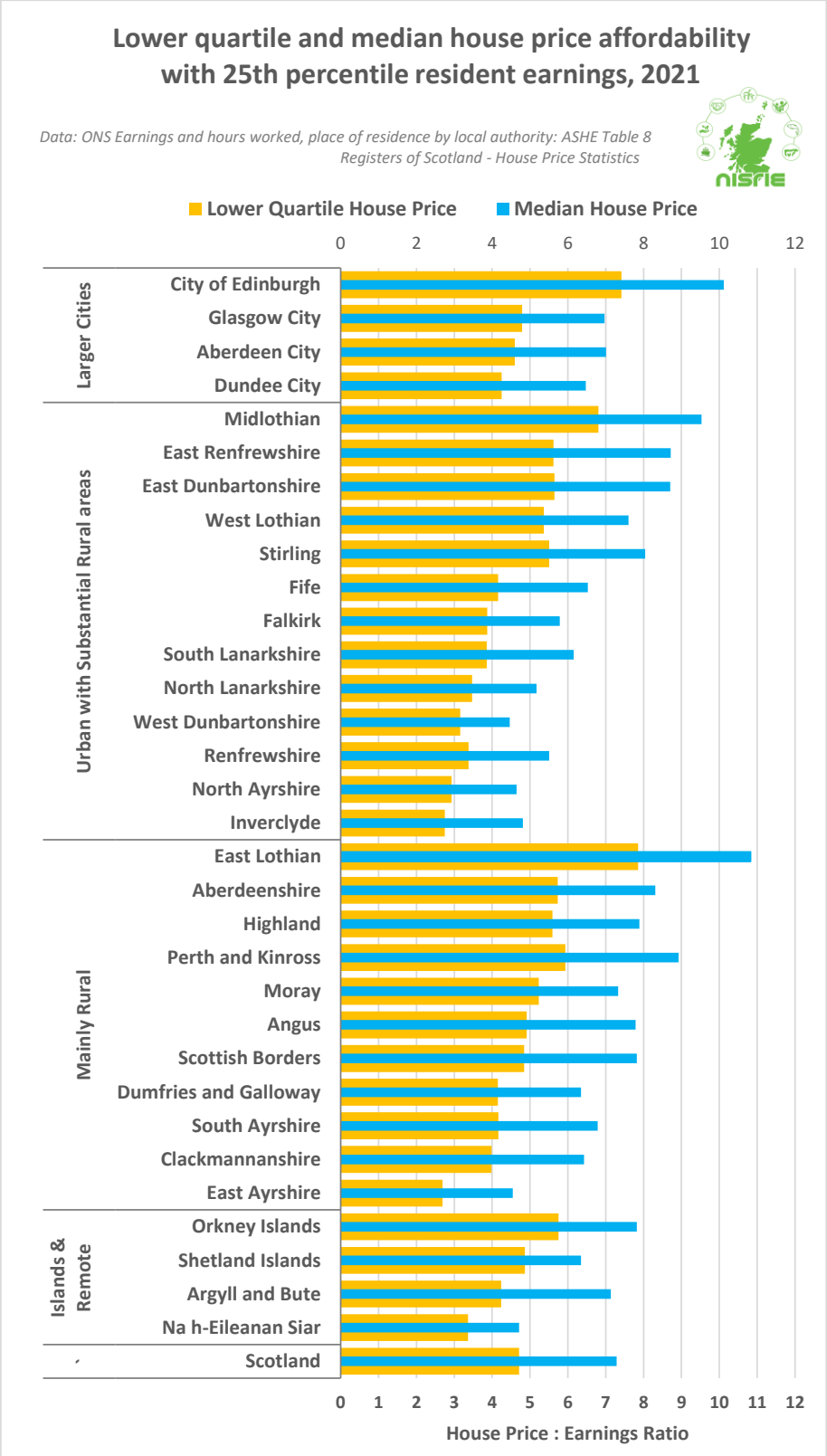


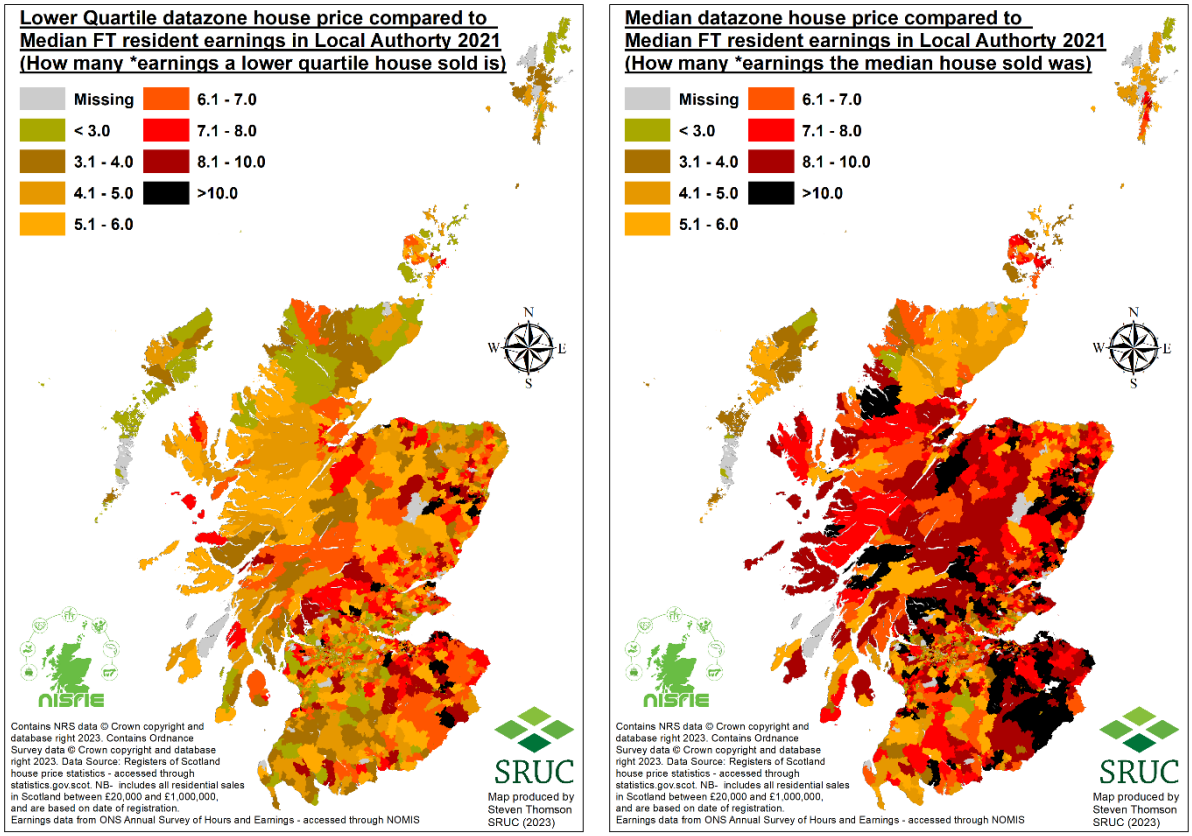
Figure 23 Lower quartile & median house price to lower quartile (25th percentile) resident earnings ratio, 2021



Whilst local authority earnings and house prices reveal some real house price affordability issues – the lower geography nuances of the housing market (as shown in Map 7) are not revealed. Map 10, however, shows the affordability of both lower

quartile and median house prices at a data zone level when compared to median full-time resident earnings within local authorities. The darkest colours (black) indicate where lower quartile and median house prices were more than 10-times median full-time local authority resident earnings. Lower quartile houses were most affordable for median earning residents in Na h-Eileanan Siar, Caithness and Sutherland, and parts of South Ayrshire and Dumfries and Galloway. Broadly-speaking, houses were least affordable for median earning residents in the south-east of the country in addition to parts of Aberdeenshire and areas surrounding Ullapool, Glencoe, Aberfeldy and Rannoch, Loch Lomond, south of Inverness, etc. Many of these areas are faced with declining resident populations (Map 6) and high levels of vacant or second homes (Map 9).

Map 10 Indicators of lower quartile, and median data zone house price affordability compared to median Local Authority full-time resident earnings, 2021



7 Workforce and Earnings

7.1 Economic Activity

Economic activity rates reflect the proportion of a population that is engaged in employment, self-employed or are unemployed but seeking work. The rate quoted depends upon the denominator – and often it is quoted as the proportion of 16 to 64 year-olds that reflects the traditional retirement age of 65. However, with more people aged 65 and older actively engaged in the workforce there is rationale for including all people aged 16 and over as the denominator. The economic activity data used in this section utilises ONS estimates based on the annual population survey – meaning they are indicative, rather than accurate.

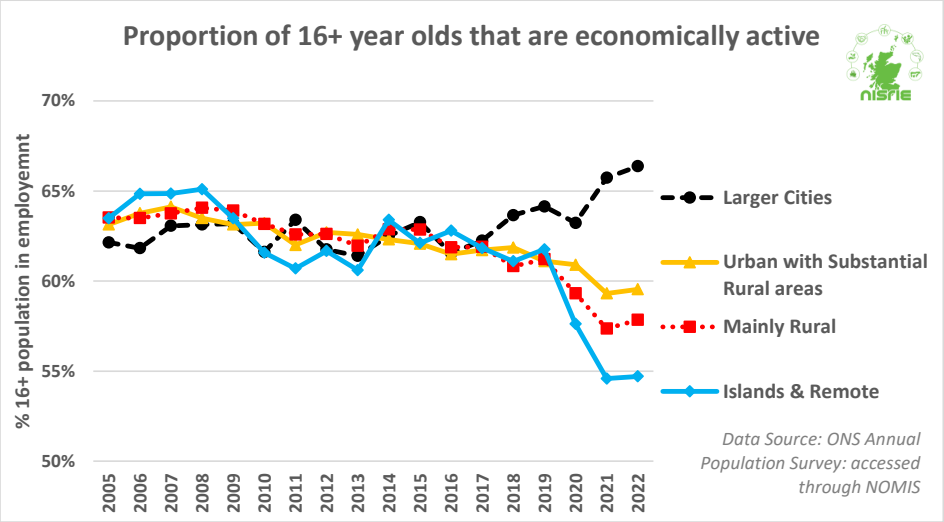
Figure 24 highlights a general long-term decline in economic activity rates across each of the local authority Urban Rural clusters as defined by RESAS (inactivity by NISRIE peripherality is also shown for 2012-22 in Annex 3). Whilst the absolute population of economically active people increased by c.148k (5.7%) between 2005 and 2022, the decline to 2019 largely reflects an increase in economically inactive people by c.242k or 16% (2005-22). These Scotland-wide increases in economic inactivity include:

- a c.200k or 23% increase in retirees from 2005-2022
- a c.67k or 48% increase in students from 2005-2020 – followed by c.28k or 14% decline from 2020-2022 as a result of COVID-19
- c.26k or 16% decline in people looking after family/home from 2005-2022.

Between 2018 and 2022 the economic activity rate in larger cities increased – reflecting a decline in the student population (perhaps moving into employment). In sharp contrast, the impacts of COVID-19 are apparent from the noticeable decline in economic activity rates in more rural and island local authorities from 2019 through to 2022 – largely prompted by increased inactivity as a result of retirement.

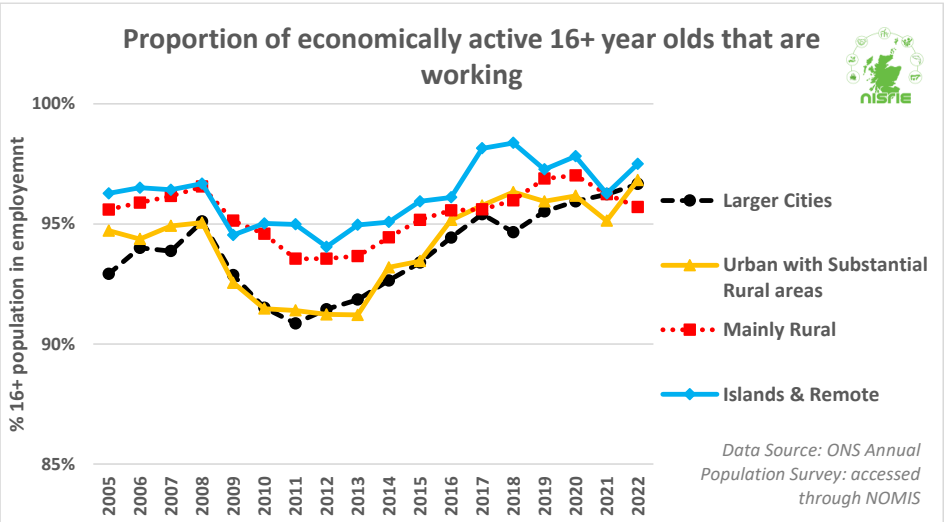
It is notable that, at local authority level, the highest level of economic activity in the population aged 16 and over was in the City of Edinburgh in 2022 at 70%, with the lowest levels in Orkney (51%) and Highland (51%) and Dumfries and Galloway (52%) – a reflection of relative population age profiles – and high levels of retirees.

Figure 24 Proportion of people aged 16 and over that are economically active by RESAS Urban Rural classification, 2005-2022



Of those that are economically active, there are generally very high levels of work (i.e. low levels of unemployment). Notably, the island and remote local authorities consistently have the highest level of work (96% on average from 2005-22 and 97.5% in 2022). From Figure 25 it is noticeable that work rates fell in the four or five years following the 2008 economic crisis, as austerity cuts took hold and public sector jobs were reduced – those declines were most notable in 'large cities' and 'urban with substantial rural area' local authorities. For all RESAS local authority Urban Rural categories, it took nearly a decade to fully recover to 2008 work levels.

Figure 25 Proportion of economically active people aged 16 and over in work by RESAS Urban Rural classification, 2005-2022

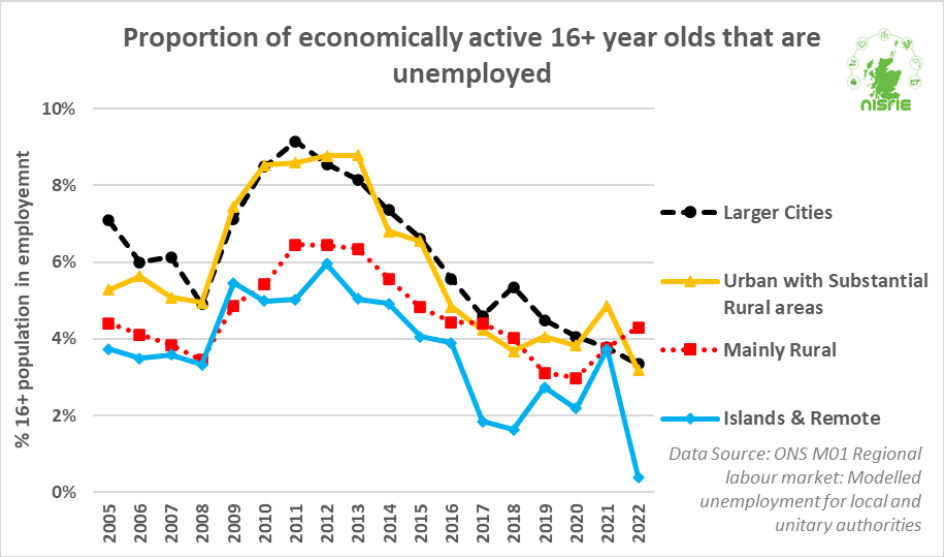


7.1.1 Unemployment

The inverse of being economically active and in work is unemployment. Reflecting the patterns of economic activity and in work shown in Figure 25, the unemployment rates shown in Figure 26 show increased unemployment following the 2008 financial

crisis, including the subsequent (deferred) changes in public sector employment as budgets were squeezed. Declining, and very low unemployment rates, were observable from 2013 and, whilst there was some increase in unemployment in Islands and Remote areas in 2019, the main change observed was a small upturn (1-2%) during the COVID-19 pandemic across all RESAS local authority classifications other than large cities, where unemployment continued to fall. It is worth noting that those on Government backed COVID-19 furlough schemes were not classed as unemployed.

Figure 26 Proportion of economically active aged 16 and over that are unemployed by RESAS Urban Rural classification, 2005-2022[72]



7.1.2 Self-employment

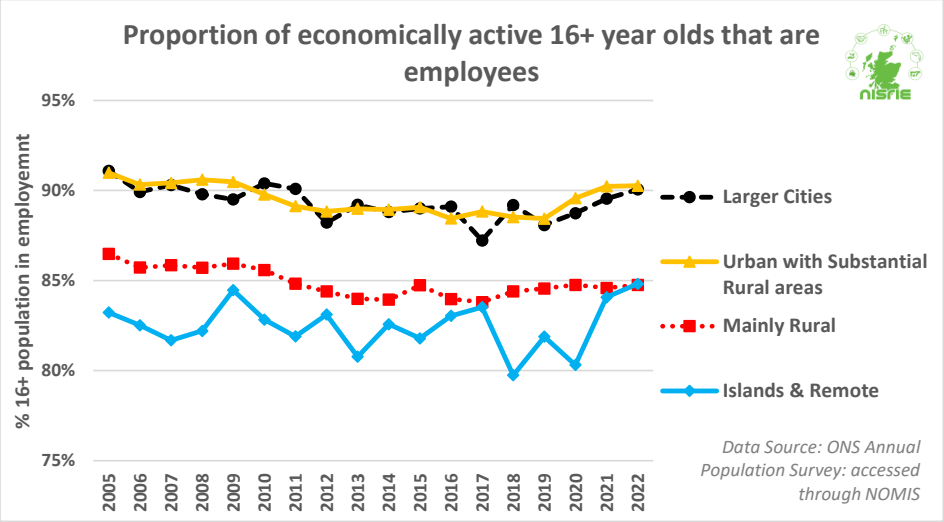
Self-employment rates have historically been higher in rural areas of Scotland, reflecting in part higher numbers of farmers and crofters running their own businesses. However, this is also an indicator of fewer employee jobs, or less choice in the job market. In short, many people wanting to live and work in some rural communities have no option other than to work for themselves - at least part of their time.

Using the RESAS Urban Rural classification, Figure 27 confirms that higher proportions of economically active people aged 16 and over in 'Large cities' and 'Urban with substantial rural area' local authorities were reliant on paid employment (average of 90% from 2005-2022). In 2022, less than 85% of population aged 16 and over that were economically active population were reliant on jobs in Mainly rural

[72] Due to missing unemployment data from some local authorities due to disclosure issue / small sample size these figures are estimated using economic activity, self employment and workers in employment data. Rounding errors in ONS published data can affect the presented data.

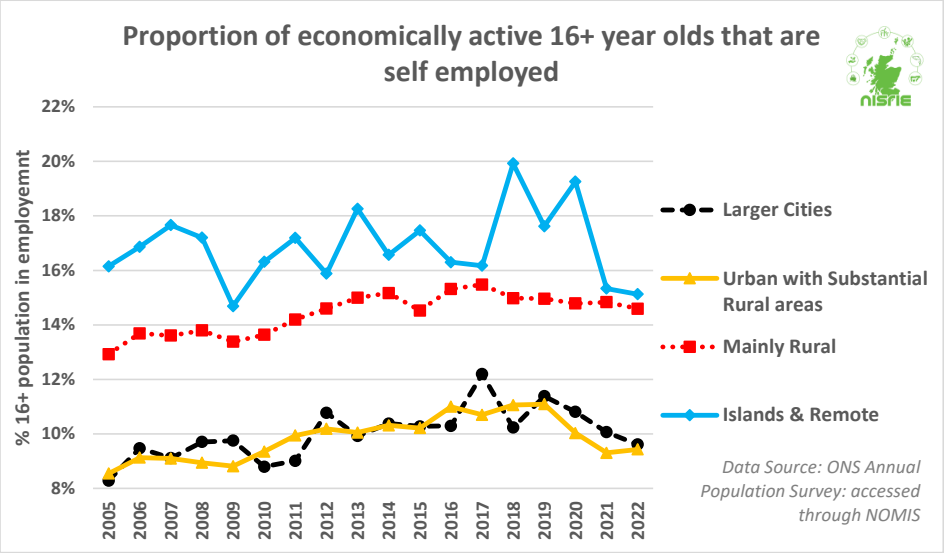
local authorities (85% on average between 2005 and 2022) and Island and remote local authorities (82% average from 2005 to 2022).

Figure 27 Proportion of economically active aged 16 and over that are employees by RESAS Urban Rural classification, 2005-2022



Reflecting higher reliance on paid employment, Figure 28 demonstrates that, on average, a lower proportion of economically active people living in local authorities classed as 'Large cities' or 'Urban with substantial rural areas' were self-employed (10% on average between 2005 and 2022) compared to 'Mainly rural' local authorities (14% on average, 2005-22) and 'Islands & remote' local authorities (17% on average, 2005-22). After the 2008 financial crisis there was a general increase in self-employment rates in all areas (other than 'Islands and remote' – where it was already high) – reflecting a reduction in public sector jobs, and perhaps more necessity for self-employment. The COVID-19 pandemic also appears to have impacted self-employment rates – that may be reflected in increased economic inactivity rates, specifically economic inactivity through retirement. These declines during the COVID-19 pandemic were most notable in 'Island and remote' local authorities.

Figure 28 Proportion of economically active 16+ year olds that are self-employed by RESAS Urban Rural classification, 2005-2022



7.2 Economic Inactivity

The UK is the only G7 country where the percentage of working-aged people who are not in the labour market continued to rise following the early stage of the COVID-19 pandemic in late 2019 (Burn-Murdoch, 2022[73]). In Scotland, the inactivity rate for all people aged 16 and over (noting the point made earlier around a greater number of over 65-year-olds being active workers) increased by 1.4 percentage points from 38.2% in 2019 (pre-pandemic) to 39.6% in 2021. This represented an actual increase of 68,000 people that were inactive. During 2022, the inactivity rate across the whole of Scotland fell to back to 39.2%.

Within Scotland there are differences in the economic activity rates based on the RESAS broad Urban Rural classification of local authorities (reflecting the discussion on economic activity earlier), and indeed using the NISRIE classification at data zone level. For example, whilst looking at the economic inactivity of all people aged 16 and over (Figure 29), it is clear that pre-2008 financial crisis, Island and remote local authorities had the lowest economic inactivity rates. However, following public sector employment reductions (38% in 2009 falling to 32% in 2019) and some early retirement and an influx of retirees during the COVID-19 pandemic, the economic inactivity rate in these areas increased from 38% in 2019 to 45% in 2022. A similar COVID-19 increase in economic inactivity was witnessed in Mainly rural local authorities from 39% to 42% - whilst the opposite occurred in Large cities – where the inactivity rate fell – potentially driven by a move (retirement or homework relocation) to more rural locations.

[73] Burn-Murdoch, J. (2022) Chronic illness makes UK workforce the sickest in developed world. Available at: https://www.ft.com/content/c333a6d8-0a56-488c-aeb8-eeb1c05a34d2

Figure 29 Proportion of population aged 16 and over that are economically inactive, by RESAS Urban Rural classification of local authorities, 2005 to 2022

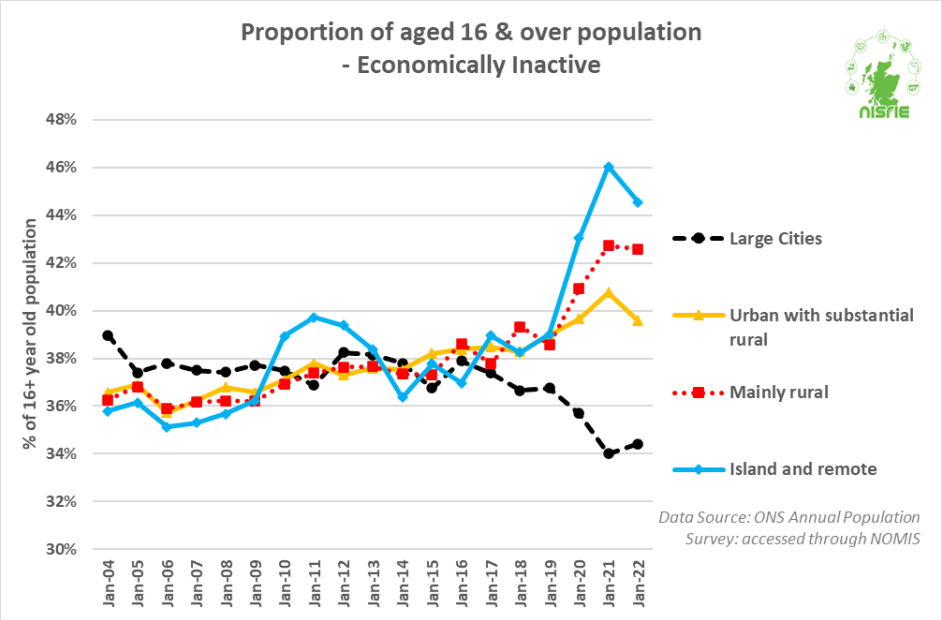


Figure 30 shows the same picture – but instead uses the NISRIE peripherality classification for data zones. Here, the picture is starker than using local authority clusters in that the islands, very remote mainland and remote mainland areas follow very similar patterns, with a 9-10% rise in inactivity rates in the population aged 16 and over between 2017 and 2021. Whilst the inactivity rate fell back slightly in 2022 in the islands and very remote rural areas, it continued to rise in the remote mainland areas where 49.3% of the population aged 16 and over was inactive in December 2022. This rapid upward trend largely reflects an increase in the number of retirees, and anecdotal evidence suggests that much of that increase is from people relocating from other (more accessible) regions[74]. It is worth noting that NISRIE peripherality inactivity rates have remained stable in large urban areas, but also increased during the COVID-19 pandemic (by 3%).

[74] It is also worth noting the data presented in Rural Scotland Key Facts 2021 which shows that 22% of the population of remote rural Scotland (using the Scottish Government's three-fold urban-rural classification) came from the rest of the UK outside Scotland in 2019.

Figure 30 Proportion of population aged 16 and over that are economically inactive, by NISRIE peripherality data zone classification, 2005 to 2022

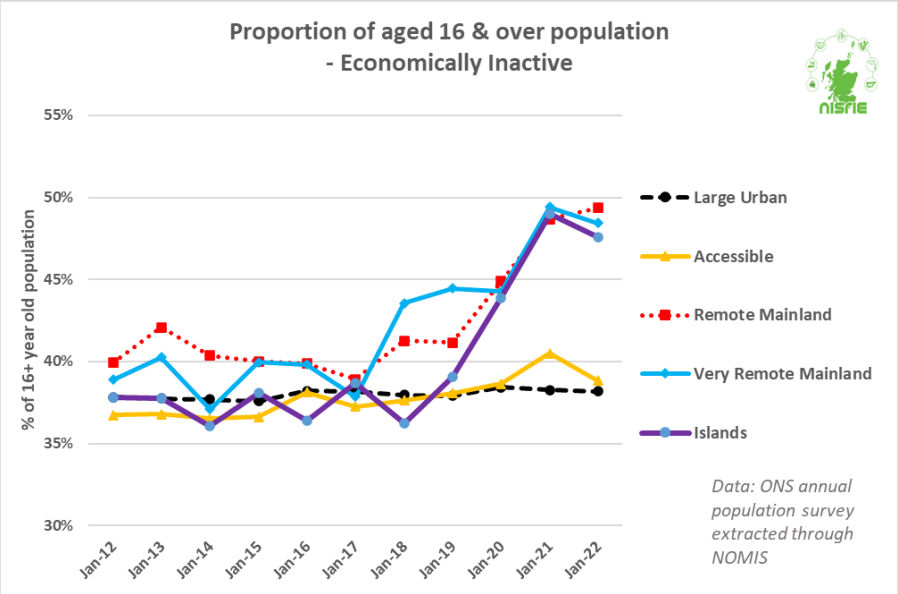


Figure 31 shows the principal reasons for economic inactivity based on the NISRIE peripherality classification of data zones from 2012-22 (the longer trend data for RESAS rural-urban classification of local authorities can be found in Annex 4). As the data reflects the total population aged 16 and over (rather than the more traditional 16-64 year old population), it is unsurprising that retirement is the major cause of inactivity across Scotland (particularly with an ageing population). Whilst the retirement rate remained relatively stable at 20-21% in large urban data zones over the 2012-22 period, there was long term gradual growth in the retirement rate in accessible data zones (23% to 26% of the population aged 16 and over across the decade) but a significant increase in the proportion of the population aged 16 and over that were inactive due to retirement in the remote and island regions.

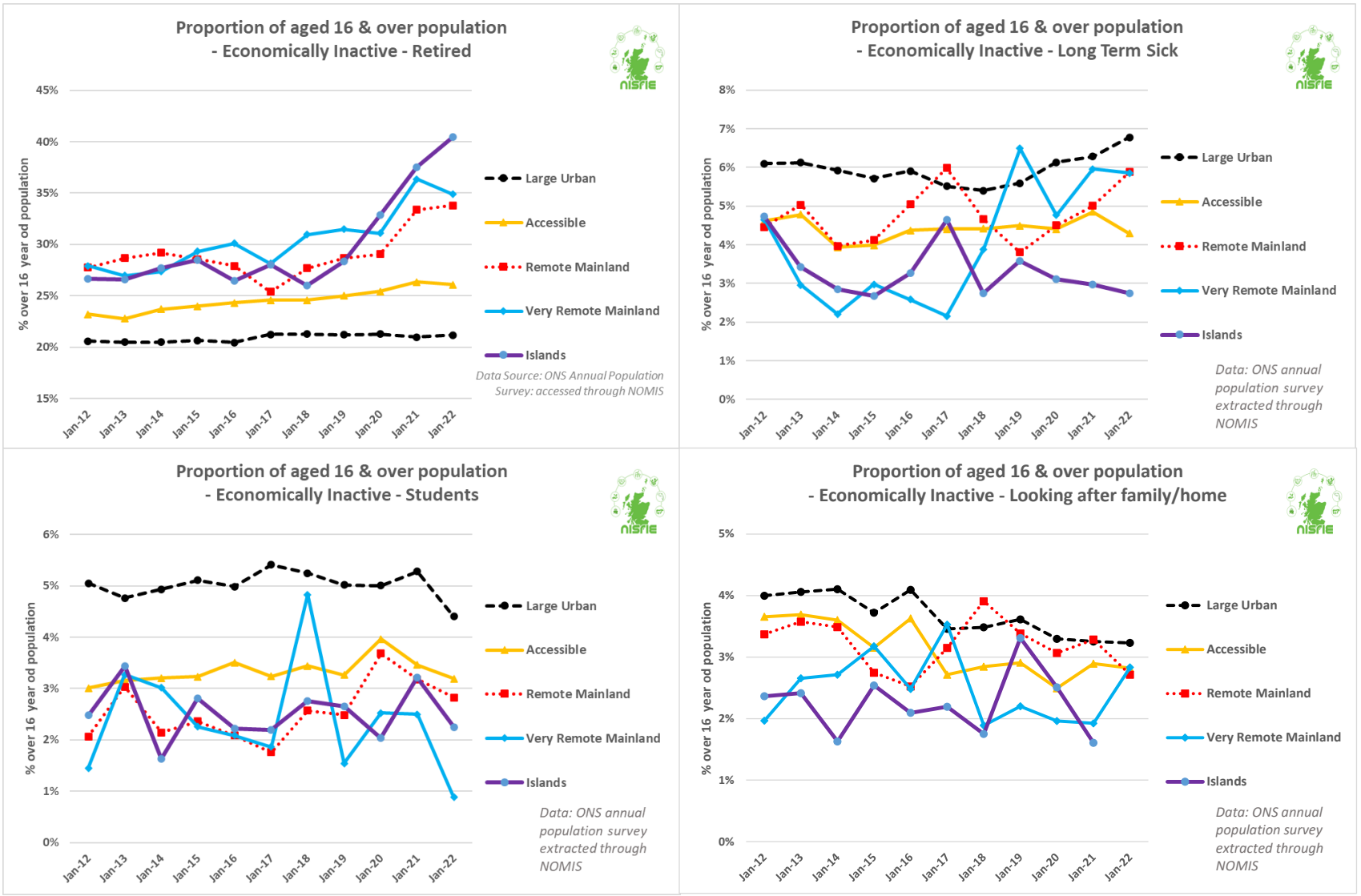
That rapid acceleration of the retirement rate coincided with the COVID-19 pandemic and resulted in island retirement surging from 28% in December 2019 to 40% in 2022, with remote mainland areas increasing from 29% in December 2020 to 34% in 2022, and very remote mainland areas increasing from 31% in 2020 to 36% in 2021. Whilst some of these changes are undoubtedly from early retirement, some are from migrant retirees that can place inflationary increases on local house prices and put pressure on local services.

Economic inactivity due to long term sick was lowest in the island regions (less than 3% of over 16-year-olds in 2022) and, whilst very remote mainland areas did have lower rates of long term sickness, they increased from around 2% in 2017 to about 6% in 2022. Similarly remote mainland areas have seen increased rates of long-term sickness since the start of the COVID-19 pandemic.

Students accounted for around 5% of the population aged 16 and over in urban data zones, compared to 2-4% in other NISRIE peripherality classifications. It is worth noting that some of the 2020-21 spikes were undoubtedly a result of COVID-19 enforced remote teaching that was introduced across further and higher educational establishments – meaning students who would normally relocate to urban areas to undertake studies were more inclined to remain at home. The decline in the proportion of the population aged 16 and over classed as students in 2021-22 merits some further investigation (32,700 or 15.5% decline in numbers across Scotland) – and may reflect more school leavers opting to enter the workforce rather than entering further and higher education, or higher level of student drop-outs.

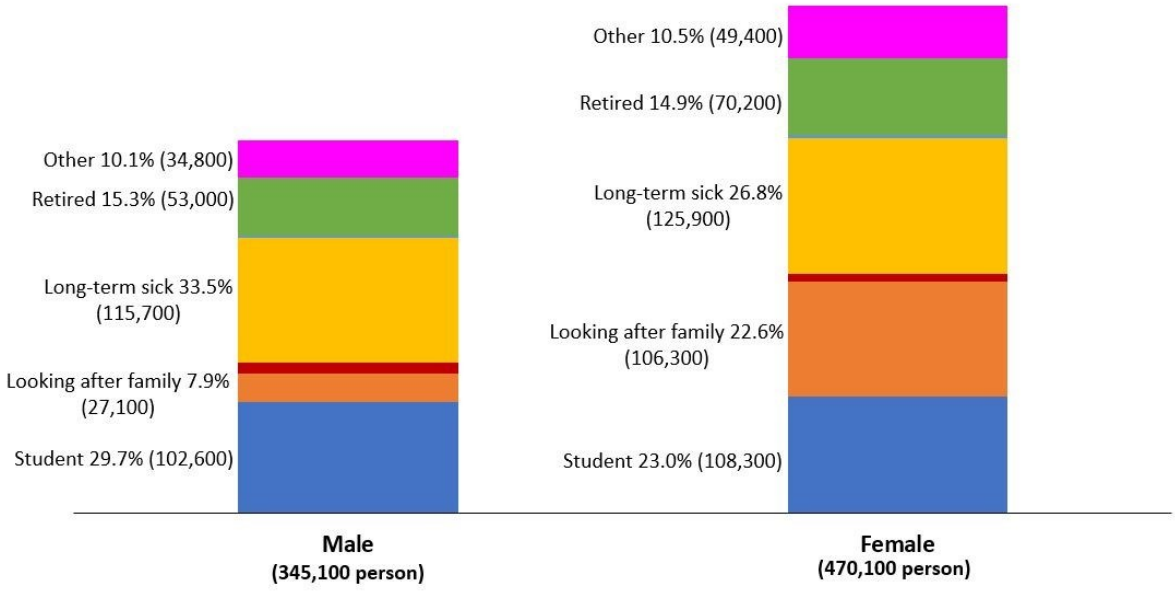
Levels of inactivity due to looking after a family or homes was generally lowest in very remote mainland and island regions over the 2012-22 period.

Figure 31 Main economic inactivity rate by reason for 16+ year olds, 2004 to 2021, by NISRIE peripherality classification



Looking at Scotland as a whole, there are some differences in the reasons for economic inactivity in the 16 to 64 year old population. In 2021, long-term sickness was reported as the most important reason for economic inactivity for those aged 16–64 years old by both males (33.5%) and females (26.8%), followed by students (29.7% for male and 23.0% for female). The proportion of women who reported looking after family as the reason for economic inactivity was much higher than men (22.6% compared to 7.9%), while a slightly higher proportion of men reported retirement as the reason compared to women (15.3% and 14.9% respectively). It is not clear from the data who the family members are that women are looking after, but they could be young children, older relatives and/or those on long-term sick. These females with caring responsibilities may require different support from the government, such as flexible working conditions (e.g., working from home, flexible working hours, etc.) and training for establishing and running home-based businesses (e.g., blogging, e-commerce, virtual assistants, etc.), to help them get back to the labour market.

Figure 32 Economic inactivity rate by reason between male and female aged 16 to 64, Scotland, 2021



Source: ONS - Annual Population Survey access through Nomis (2022)

7.3 Sectoral workforce

There are varying degrees of reliance on the public sector and private businesses for jobs across Scotland. Figure 33 and Figure 34 demonstrate how the island and remote local authorities stand apart, being consistently more reliant (by c.5-10%) on public sector jobs than other local authorities. Indeed, the public sector accounted for 43% of employees in Shetland and 41% of employees in Na h-Eileanan Siar in 2022, compared to only 22% in South Lanarkshire and 24% in Dumfries and Galloway. Broadly, the private sector became increasingly important following the 2008

financial crisis and there was a decade of erosion of the public sector workforce that only saw upturn in 2019 – as the country prepared for Brexit, and then had to deal with the COVID-19 pandemic.

Figure 33 Proportion of population aged 16 and over in employment that work in the private sector - by RESAS Urban Rural classification, 2005-2022

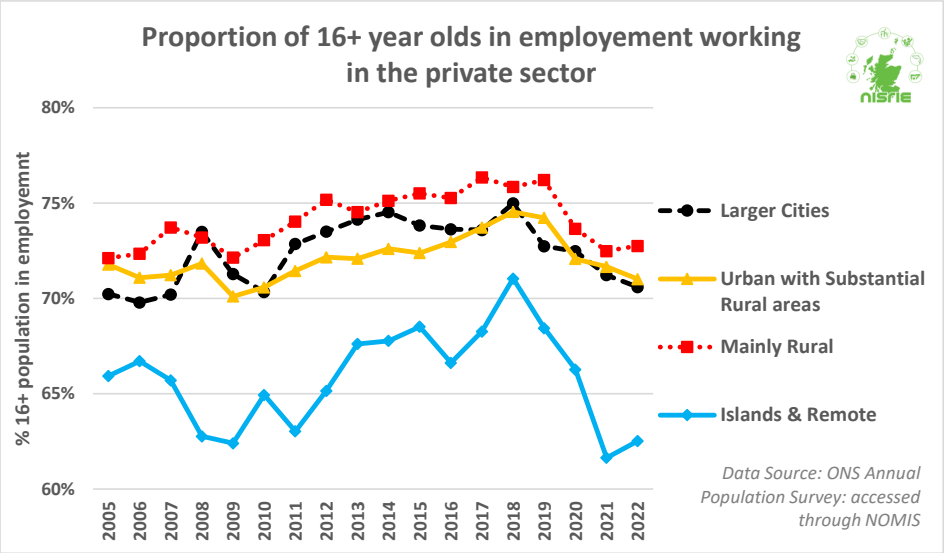
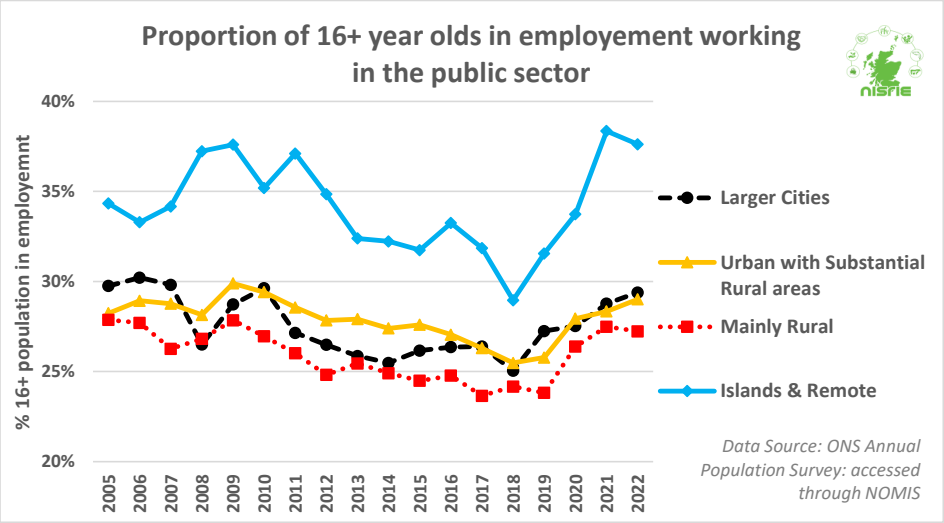


Figure 34 Proportion of population aged 16 and over in employment that work in the public sector - by RESAS Urban Rural classification, 2005-2022



Across rural Scotland there is wide variation in local and regional reliance on different sectors of employment. Using the Scottish Government's 6-fold rural-urban classification the ONS Inter-Departmental Business Register data[75] (see Figure 35Figure 35) reveals that in 2022, the most important industrial sector in terms of private sector employment (including self-employed, business owners, etc.) in remote rural areas was Agriculture, Forestry and Fishing - at 18% of the total c.100k

[75] Scottish Government (2022) Businesses in Scotland 2022
https://www.gov.scot/publications/businesses-in-scotland-2022/

workforce. The second most important sector was Accommodation and Food Services Activities (17%), followed by Wholesale and retail trade - repair of motor vehicles and motorcycles (12%), Manufacturing (11%) and Construction (9%).

In accessible rural areas, the Agriculture, Forestry and Fishing sector (15% of c.183k jobs) was also the most important employer (compared to 0.7% in urban and small towns). This was followed by Wholesale and retail trade - repair of motor vehicles and motor cycle (14% - compared to 19% for urban), Manufacturing (12% - compared to 9% for urban), Accommodation and food services activities (10% - similar to urban areas) and construction (10% - compared to 6% in urban areas).

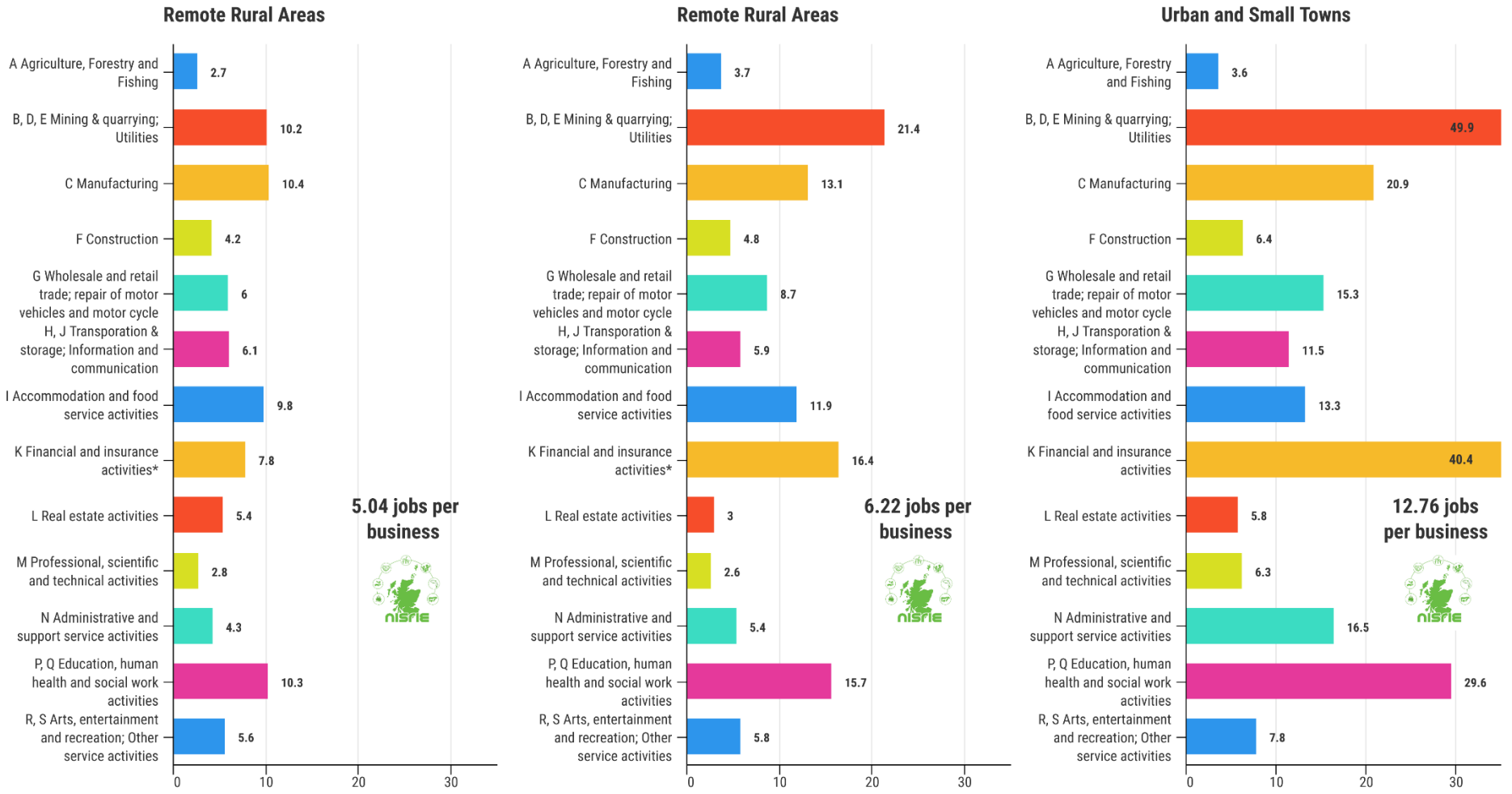
There was also wide variance in the level of private employment (including owners, partners, etc) created by each business across Scotland. Figure 36 highlights that in 2022 there were, on average, low levels of jobs created per business in the Agriculture, Forestry and Fishing sector (2.7 in remote and 3.7 in accessible areas) compared to other sectors. This reflects the small and often part time nature of many of these businesses – with perhaps a greater prevalence of family orientated businesses.

The rural construction sector created on average 4.2 to 4.8 jobs per business, again likely reflecting the many small-scale family businesses such a bricklayers, joiners, plumbers, painters and decorators, etc. that are dispersed widely across small towns and villages. The accommodation and food services sector (10-12 jobs per business) and the Manufacturing sector (11-13 jobs per business) likely reflect greater reliance on workforce teams to undertake manufacturing processes, or the different aspects of the hospitality sector (cleaning, catering, front of house, management, etc.). Businesses based in urban and small towns across many industrial sectors generated significantly more jobs per business site (e.g. Manufacturing – 21; Mining, Quarries and Utilities – 50; Education, human health and social work activities – 30).

Figure 35 Private sectoral employment distribution by sector in remote rural, accessible rural and urban & small towns, using the Scottish Government 6-fold rural-urban classification, 2022

Data: Scottish Government (2023) Businesses in Scotland 2022

Figure 36 Private sector jobs per business in in remote rural, accessible rural and urban & small towns, using the Scottish Government 6-fold rural-urban classification, 2022



Data: Scottish Government (2023) Businesses in Scotland 2022

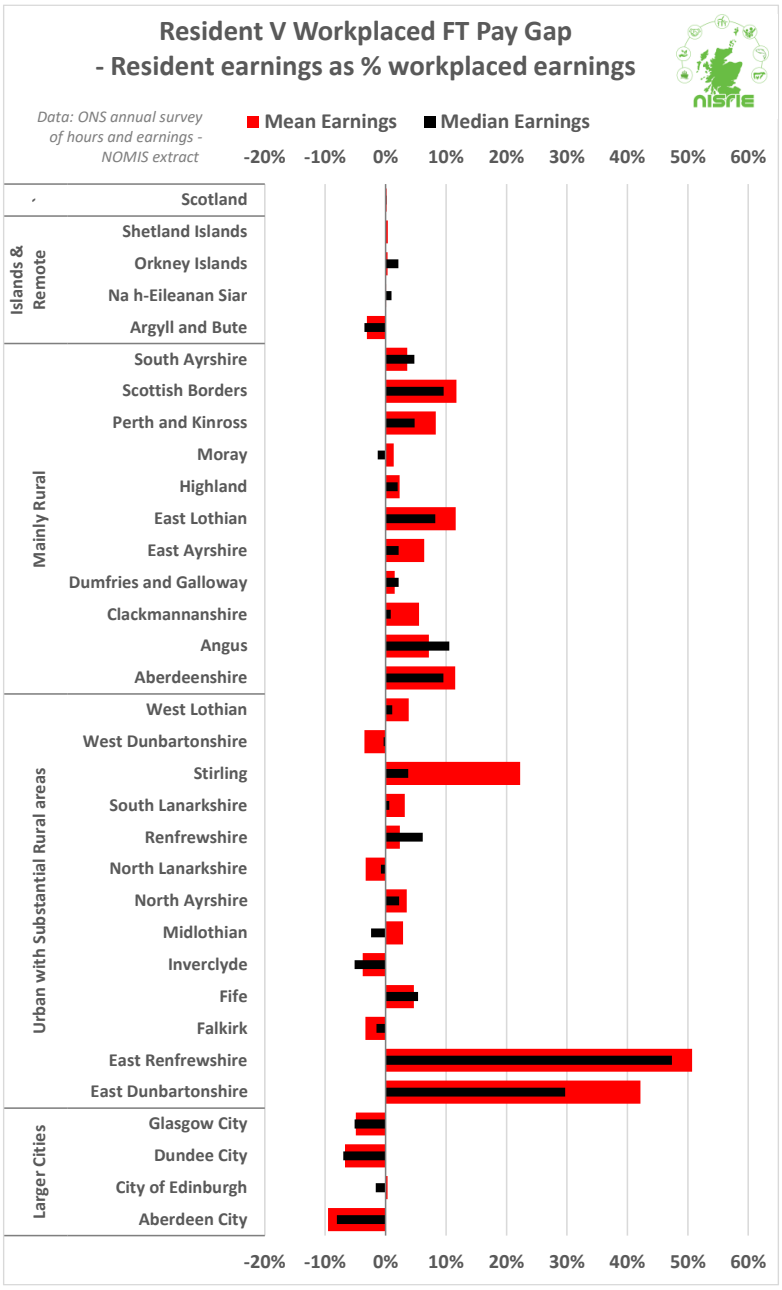
7.4 Earnings

Earnings made through employment reflect the industries in which people are engaged, the type of job (managerial, etc) and the frequency of work (full-time, part-time and seasonal). Whilst there are significant challenges in comparing part time earnings data, due to variance in the hours worked etc., comparisons of full-time workers can be made. To further add to data challenges, workplace-based earnings often vary compared to residence-based earnings – reflecting that commuters do not live and work in the same locations. Assessing the ONS Annual Survey of Hours and Earnings (ASHE) by local authority (grouped by RESAS rural-urban classification) can provide some insight into these differences. Indeed, where there is significant variation between workplace- and residence-based earnings, it normally indicates that: (i) local workers may be poorly paid in comparison to average pay in businesses within that locality, or (ii) local residents are earning more than those working in local businesses – i.e. commuters.

In Figure 37 the red bars indicate where there is difference between mean earnings of residents and those working in the local authority area, whilst the black bars reflect differences in median incomes. If the bars are positive, it means that residents (on average) earn more than those that work in the local authority and can be a good indicator of where commuters reside – and the larger the positive gap the greater the earnings differential between the commuter residents and the locally paid workforce. If the bars fall to the left and are negative it means that on average residents earn less than those earning from local jobs – an indicator of where residents may be in lower paid jobs and commuters residing elsewhere have higher earnings.

Figure 37 reveals that in the Island local authorities there was very little difference between resident and workplace earnings in 2021 – meaning residents were, on average, earning similar rates of pay as all workers in the region. Local authorities such as East Renfrewshire, East Dunbartonshire and Stirling all had higher average resident earnings in 2021 compared to the earnings from local employers – thus highlighting high levels of commuting and/ or working from home or distance working. This may be reflected in Figure 22, with house prices impacted by those who work out with the local authority purchasing homes from which to commute. In the case of East Renfrewshire, mean resident earnings were 50% higher than earnings from jobs located in the local authority. Resident based earnings in Aberdeenshire were, on average 12% higher than earnings from within the region, whilst in the City of Aberdeen the opposite was true – local residents (on average) earned 10% less than average earnings made from jobs within the city.

Figure 37 Comparison of mean and median full time resident earning compared to workplace earnings (2022)



Data: Based on Weekly Gross Earnings from ONS annual survey of hours and earnings – extracted from NOMIS

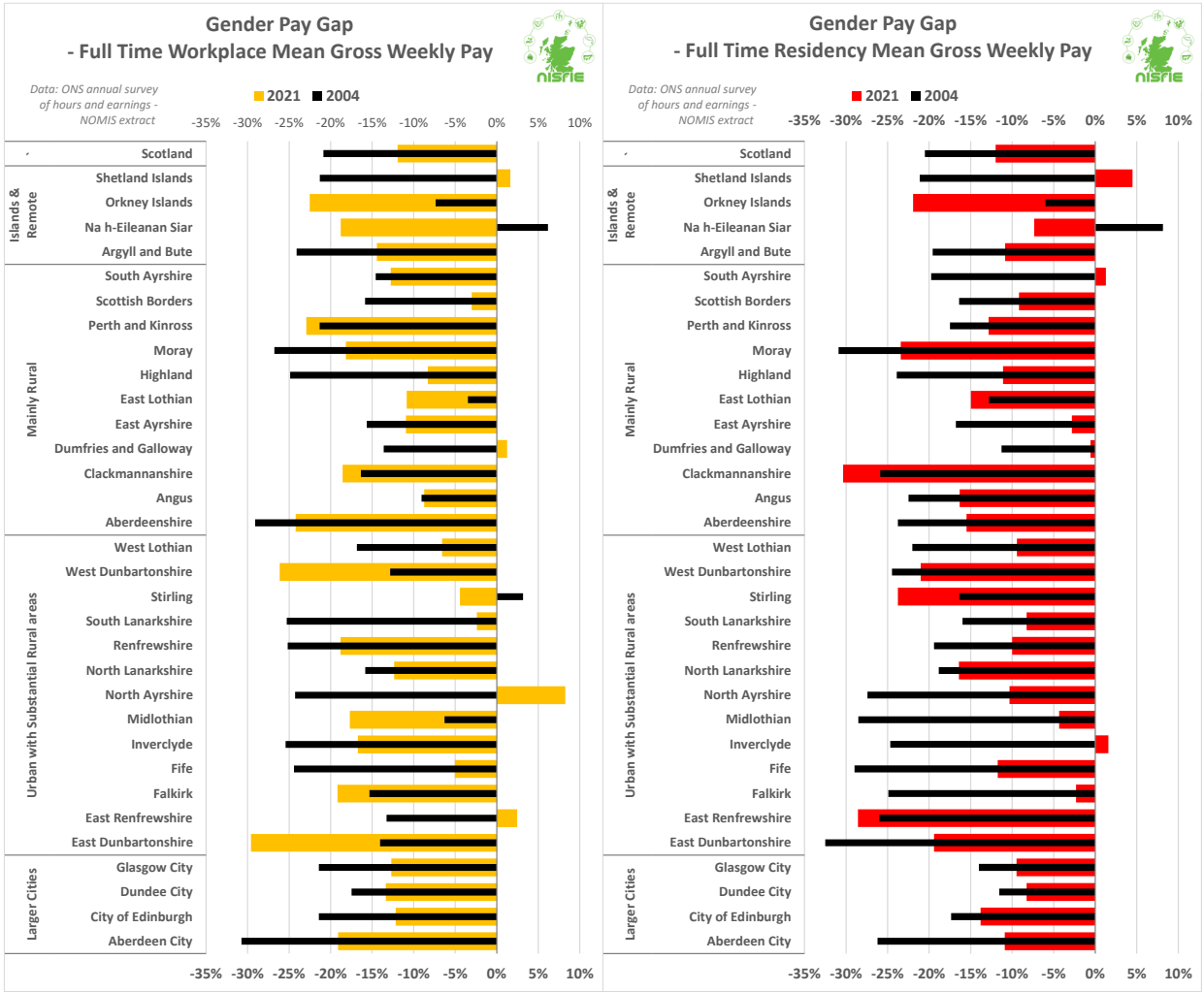
The ASHE data also permits the gender pay gap to be assessed for full time male and female workers (both in terms of resident earnings and workplace earnings)[76]. In Figure 38 the gender pay gaps are shown for 2004 (black bars) and for 2021 (yellow and red bars), where the difference between average male and female earnings across a local authority is shown as either positive (females earn more than males on average) or negative (males earn more than females). Any variance can

[76] See also work by SRUC researchers on the gender pay gap in rural Scotland in 2018.

reflect a number of differences, including types of position and sectors of employment, but none-the-less offer insight into regional pay differentials.

For example, in 2004, full time workplace earnings of females were 21% lower than males compared to 12% lower in 2021. Whilst the gender pay gap has generally narrowed during the comparison period there was some widening of average full time workplace gender pay gaps between 2004 and 2021, including in Orkney (from 7% lower in 2004 to 23% lower in 2021) and Na h-Eileanan Siar (from 6% higher in 2004 to 19% lower in 2021). Similar widening of the average resident earnings pay gap were witnessed in these two island areas – and these may reflect changing work patterns, or indeed sectoral performance (for example, the agriculture sector was in a period of depressed output prices that affected returns from farming and crofting in 2004). In contrast, Shetland saw the average gender pay gap disappear over the timeframe – moving from the average full-time female earning 21% less than a male counterpart in 2004 to earning 2-4% more than male counterpart in 2021.

Figure 38 Full time workers residency and workplace gender pay gap (females as % of males) by Local Authority, and by RESAS Urban Rural grouping: 2004 and 2021



Data: Based on Weekly Gross Earnings from ONS annual survey of hours and earnings – extracted from NOMIS

More generally there was narrowing of the gender pay gap but differences in the extent based on local authority resident earnings or workplace earnings are apparent. For example, in Angus the workplace gender pay-gap remined relatively static between 2004 and 2021 at 9% lower earnings for average full time female earnings – whilst the Angus resident earnings gender pay gap fell from 22% lower earnings on average for females in 2004 to 16% lower earnings in 2021. Aside from workplace earnings, previous research has also highlighted the likelihood of lower turnovers for businesses under female control in rural Scotland.[77]

[77] https://sefari.scot/document/rural-report-20172018

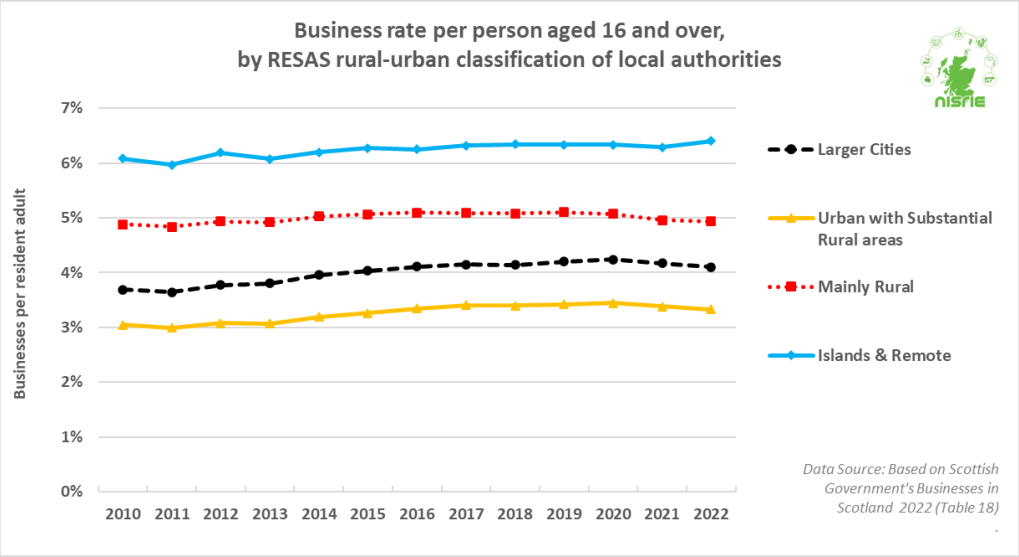
8 Economy – the business base

Many of the factors discussed in earlier chapters are inextricably linked to the performance of local businesses across rural and island areas of Scotland. Across rural Scotland the Scottish Government[78] estimate that there were c.50k business registered in 2022. This is known to underestimate the population of micro businesses and start-ups as ONS Inter Departmental Business Register (IDBR) data only reports businesses registered for Value Added Tax (VAT) or paying Pay as You Earn (PAYE) tax on employees – and does not report, for example new start-ups, or small part-time / single person businesses. The data does, however, provide some useful insights into the structure of our rural economies.

Between 2010 and 2022 Figure 39 reveals there was a consistently higher proportion of businesses per resident adult in the Islands and Remote rural authorities (6.5% in 2022), and Mainly Rural local authorities (4.9% in 2022). This follows similar patterns to self-employment rates shown in Figure 28 (noting the higher self-employment rates reported reflect a different denominator – the proportion of economically active adults compared to resident adults here).

There was, however, considerable variation between local authority areas. For example, in 2022 the rate was highest in Shetland (8.8%), Orkney (8.1%) and Aberdeenshire (6.3%) and lowest in Inverclyde (2.7%), Clackmannanshire (2.8%) and West Dunbartonshire (2.8%). These differences reflect different densities of specific business sectors, levels of commuters, and reliance on institutional employment – amongst other things.

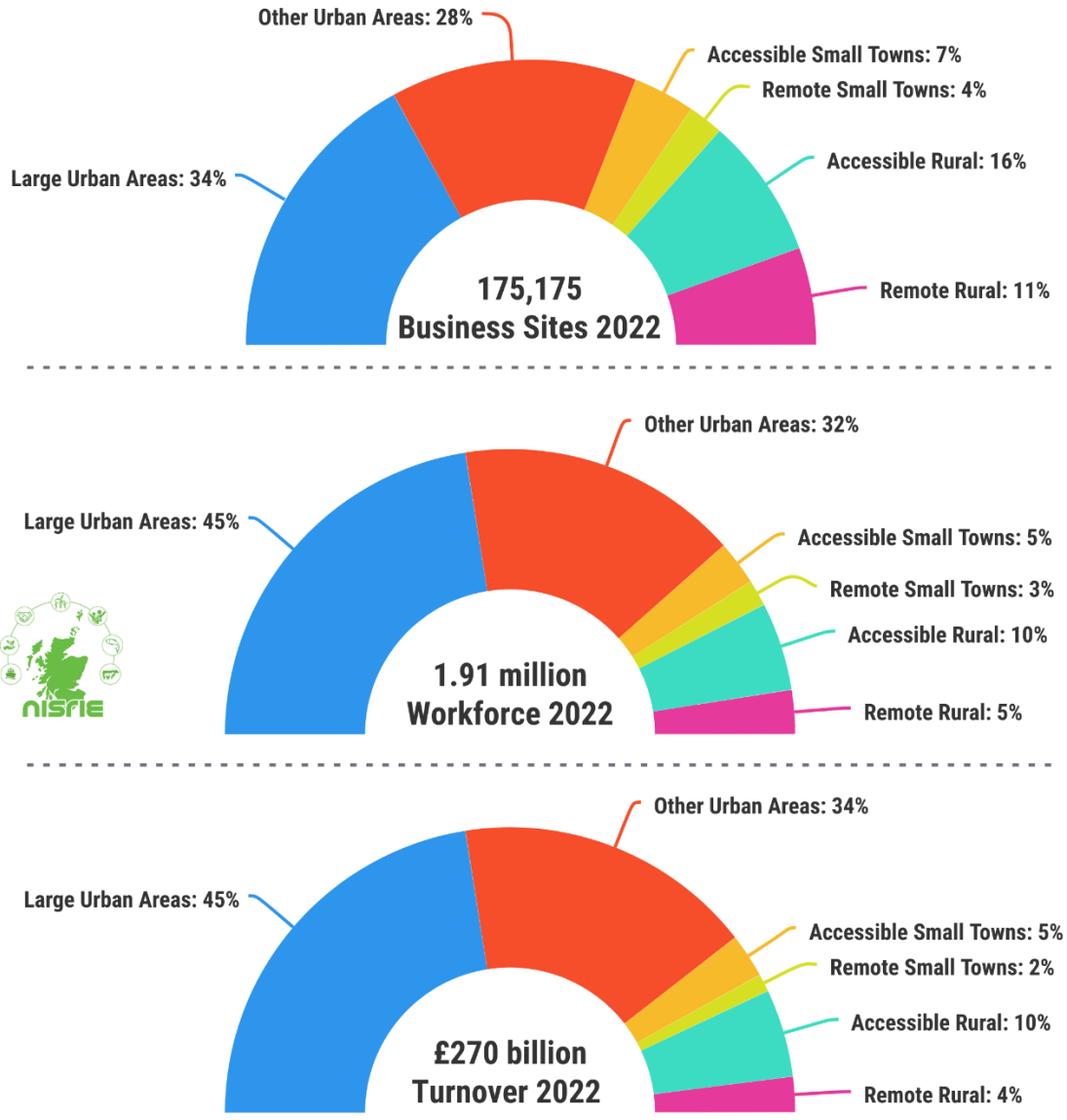
Figure 39 Private sector business rate per resident aged 16 and over, by RESAS rural-urban classification, 2010-2022



[78] Scottish Government (2022) Table 9 Businesses in Scotland Businesses in Scotland: 2022 - gov.scot (www.gov.scot)

Using the Scottish Government's 6-fold rural-urban definition Figure 40 reveals that 11% (or c20k) of Scotland's businesses were located in Remote Rural areas in 2022, and these regions accounted for 5% (c.100k) of Scottish employment (including owners, etc. of businesses) and 4% (c.£11bn) of Scottish business turnover. Remote small towns accounted for 4% of the businesses, 3% of the employment and 2% of turnover. The accessible rural areas had 16% (c.29k) of the businesses, 10% (c.183k) of employment and 10% (c.£26bn) of turnover. Accessible small towns accounted for 8% businesses, 5% of employment and 5% turnover in 2022. Whilst there is some change in absolute values, these proportions remained relatively stable from 2015-2021.

Figure 40 Summary of Private sector business, workforce and business turnover by Scottish Government 6-fold rural-urban definition, 2022



Data: Scottish Government (2023) Businesses in Scotland 2022

8.1 Business sites – Sectors

Table 6 shows the proportion of businesses in selected sectors that are classed as micro enterprises (less than 10 employees) by NISRIE peripherality classification. This demonstrates, for example in the Islands that 93% of the agriculture, forestry and fishing businesses had less than five employees and 98% had less than ten employees in 2022. Half of the Island Accommodation and food service sector had less than five employees in 2022 with a further 23% having between 5 and 9 employees in 2022. In the remote and very remote mainland areas only 46% of business had less than five employees in the Accommodation and food service sector, with 26% and 27% additional businesses with 5-9 employees respectively. In the construction sector 80% of Remote mainland businesses had less than five employees, compared to 74% in the islands. These figures demonstrate the dominance of micro enterprises across Scotland in these sectors, including in Urban areas.

Table 6 Proportion of businesses in selected sectors that are micro businesses, by NISRIE peripherality classification 2022

	Urban		Accessible Mainland		Remote Mainland		Very Remote Mainland		Islands	
Number of Employees	**0 -4**	**5-9**	**0 -4**	**5-9**	**0 -4**	**5-9**	**0 -4**	**5-9**	**0 -4**	**5-9**
A : Agriculture, forestry and fishing	84%	11%	83%	12%	85%	11%	87%	9%	93%	5%
C : Manufacturing	60%	14%	66%	13%	63%	14%	66%	14%	61%	17%
F : Construction	76%	12%	78%	13%	80%	13%	79%	13%	74%	15%
G : Wholesale and retail trade; repair of motor vehicles and motorcycles	54%	23%	61%	21%	58%	25%	59%	25%	54%	26%
H : Transportation and storage	70%	10%	68%	12%	68%	14%	64%	14%	57%	19%
I : Accommodation and food service activities	43%	25%	48%	24%	46%	26%	46%	27%	50%	23%
J : Information and communication	80%	8%	91%	4%	87%	7%	87%	7%	77%	10%
L : Real estate activities	77%	12%	85%	10%	81%	12%	81%	11%	72%	12%
M : Professional, scientific and technical activities	79%	10%	90%	5%	85%	9%	85%	9%	80%	12%
N : Administrative and support service activities	70%	14%	79%	12%	82%	10%	82%	10%	75%	12%

Data: based on ONS local business counts extracted from the Inter Departmental Business Register – Accessed through NOMIS

The higher business density per resident adult shown in Figure 39 for remote and accessible rural areas somewhat reflect the types of private sector businesses operating in these areas. This includes high numbers of primary sector businesses (and smaller scale farms and crofts), and diversified farm businesses that may have multiple business registrations for legal and tax purposes. Using the Scottish Government 6-fold Urban Rural classification Figure 41, shows that the agriculture, forestry and fishing sector dominated the proportion of business units in remote rural

areas (34%) and accessible rural areas (26%) – compared to 2.3% in Urban and small towns.

8.2 Turnover – Sectors

Excluding the Financial and Insurance activity sector (where data is unpublished) Figure 42 illustrates the proportion of private sector turnover generated by each sector across rural and urban areas using the 6-fold rural-urban classification. In remote rural areas the Manufacturing sector was the most important in terms of private sector turnover (20% or c. £2.3bn), followed by Agriculture Forestry and Fishing sector (18% or c. £2bn), Mining, quarrying and utilities (15%) and Wholesale, retail and repair (15% or c.£1.8bn).

In accessible rural areas, the Wholesale, retail and repair sector was the most important in terms of private sector turnover generated, at 21% (c. £5.3bn), followed by Manufacturing (21% or c.£5.3bn), Mining, quarrying and utilities (15%) and Agriculture, Forestry and Fishing sector (12% or c.£3bn).

In Urban and small-town areas the pattern is different – most notably that Wholesale, retail and repair accounted for over a quarter of private sector turnover (26% or c. £60.4bn), followed by Mining, quarrying and utilities (15% or £36bn) and then Manufacturing (14% or c.£33.6bn) and Transportation and storage; Information & communication sector (12% or c. £28.5bn).

8.3 Productivity - Sectors

Figure 43 illustrates the average private sector turnover generated per business by Scottish Government rural-urban classifications. This gives an indication of average business scale in terms of turnover. It is clear across all rural-urban classifications that the Mining, quarrying and utilities sector has the largest private sector businesses on average (£575k per business in remote rural areas rising to £750k per business in Urban and small town areas). On average, Manufacturing businesses generated £210k (remote rural) to £247k (accessible rural) turnover, and Wholesale retail and repair (£136k in remote and £200k per business in accessible areas). Average turnover in the construction sector ranges from £95k per business in remote rural areas to £154k in Urban and small towns. The Agriculture, forestry and fishing sector businesses generated c.£100k turnover each in 2022. It is noteworthy that, on average, Accommodation and food service activities generated the lowest average turnover per business (c.£30k to £33k) reflecting lower turnover per employee from which to cover labour costs and running costs of the business.

Figure 41 Proportion of private sector businesses by broad industrial sector in remote rural, accessible rural and urban & small towns, using the Scottish Government 6-fold rural-urban classification, 2022

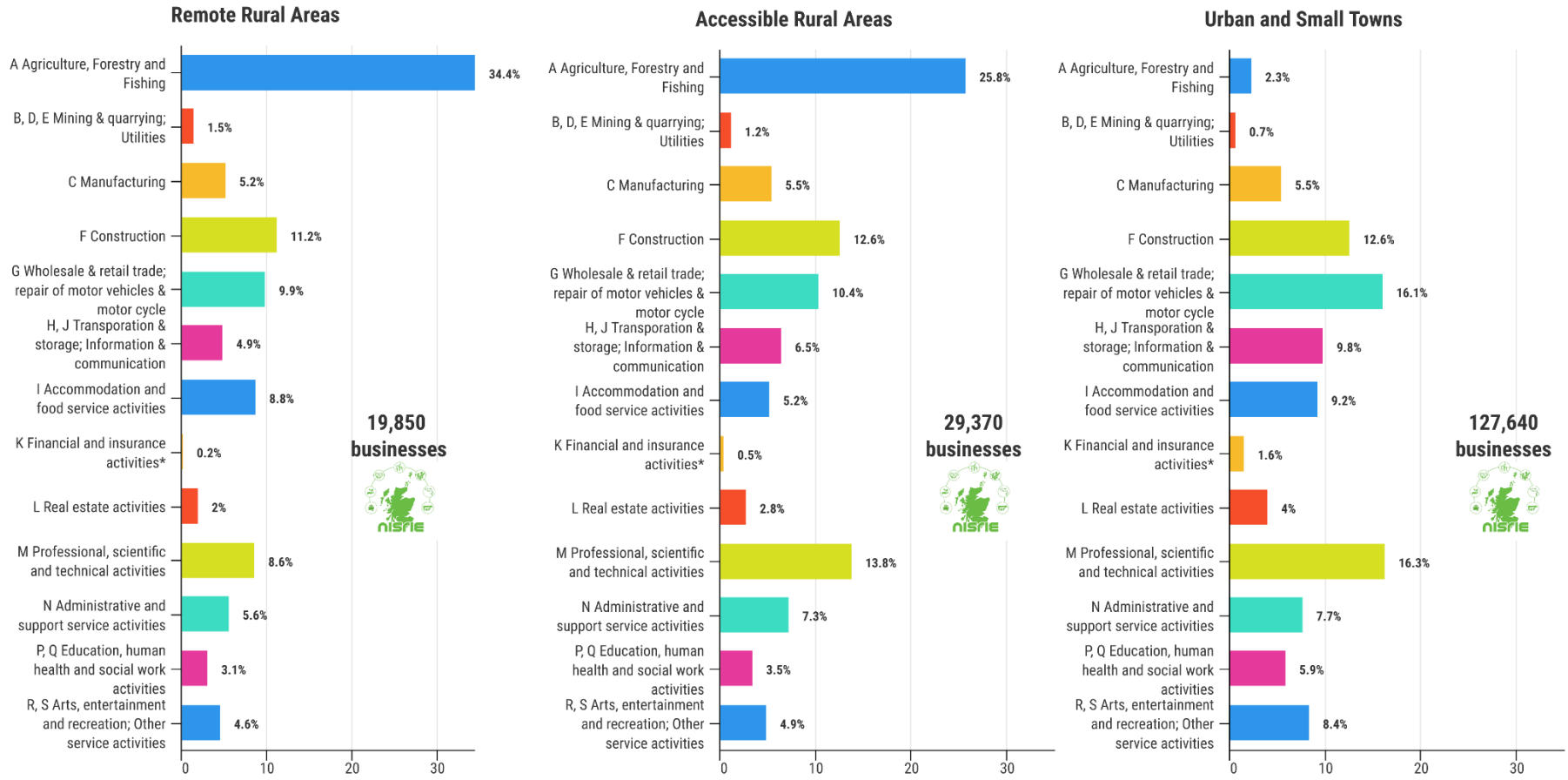


Figure 42 Proportion of private sector turnover by broad industrial sector in remote rural, accessible rural and urban & small towns, using the Scottish Government 6-fold rural-urban classification, 2022

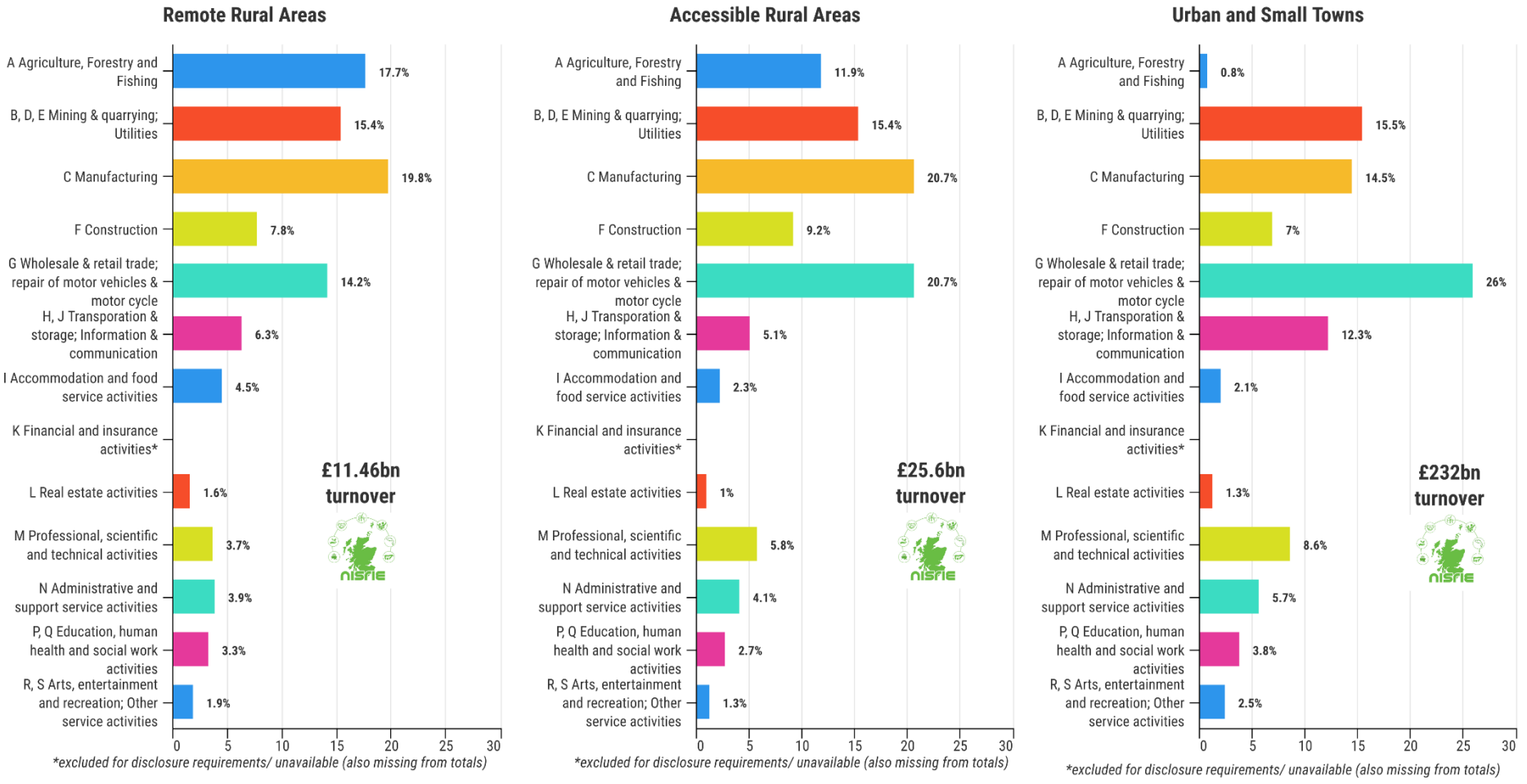
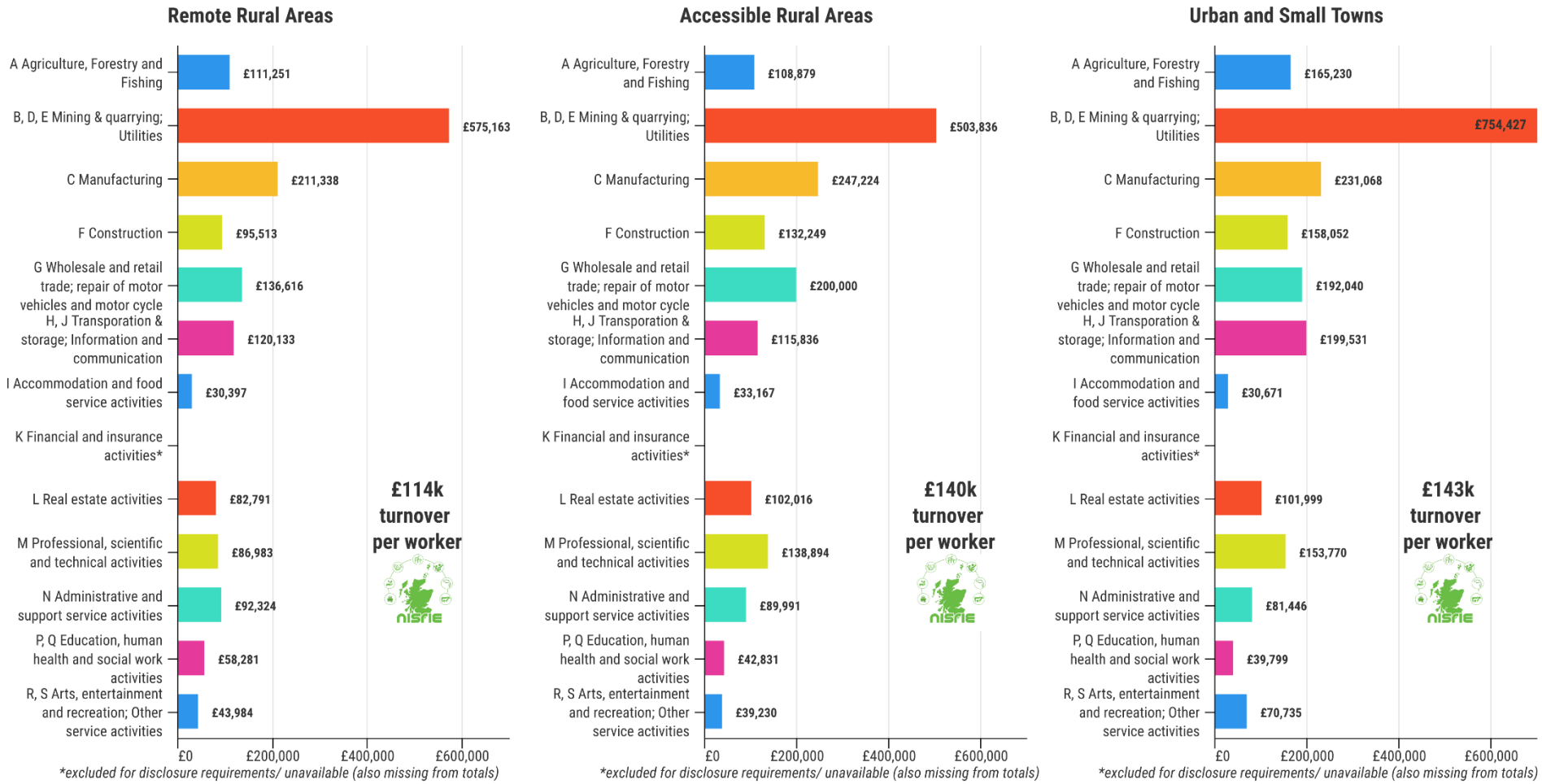


Figure 43 Average private sector turnover per business by broad industrial sector in remote rural, accessible rural and urban & small towns, using the Scottish Government 6-fold rural-urban classification, 2022

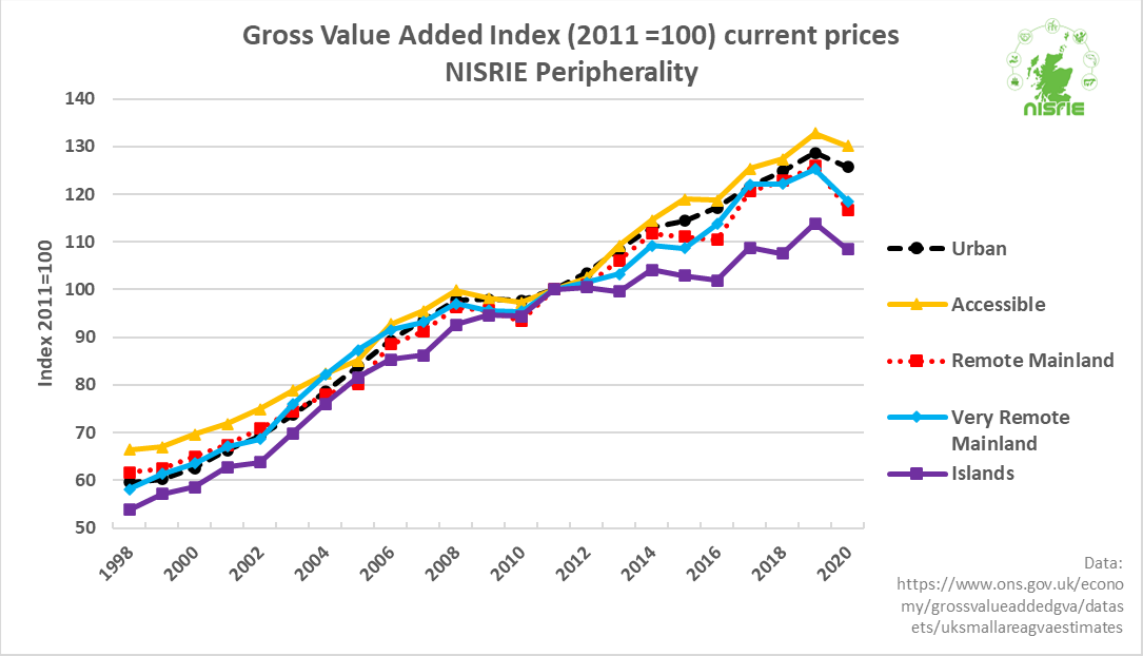


Data: Scottish Government (2023) Businesses in Scotland 2022[79]

8.4 Gross Value Added

ONS have been experimenting with the provision of Gross Value Added (GVA) data at data zone level. The data shows that the GVA of Island data zones lagged mainland geographies between 2011 and 2020. In 1998 Island GVA was 54% (c.£1.2bn) lower compared to 2011 (c.£2.3bn) and whilst its growth rate continued to lag the other regions up to 2008, it did not experience the same downturn that other NISRIE peripherality classes did between 2008 and 2010 as the 2008 economic crisis impacted. Accessible mainland areas saw the greatest growth in GVA – 33% higher between 2011 and 2019 (c.£17.9bn in 2011 to c.£23.3bn in 2019). From 2011 to 2019 the Islands experienced the lowest GVA growth rate (14%) (c.£2.3bn in 2011 to c.£2.5bn in 2019). All peripherality classes saw a decline in GVA during 2020 due to the COVID-9 pandemic – with the worst affected areas being Remote mainland (7.3% decline in 2020), followed by very remote mainland (5.4% decline) then Islands (4.8% decline).

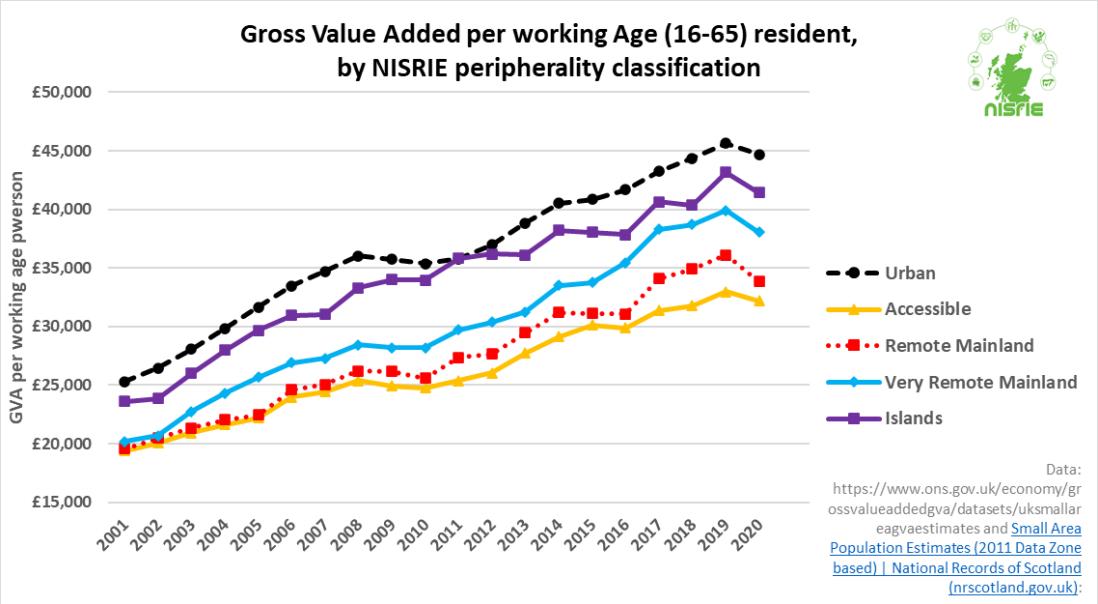
Figure 44 Index (2011=100) of Gross Value Added by NISRIE peripherality classification, 1998 - 2020



Whilst these absolute changes in GVA show how the economies of these areas have performed in the long run, they do not reflect economic performance per capita that better reflects what has happened to productivity as the population of these areas have changed (see Section 4: People). Whilst the absolute GVA on Islands showed the slowest growth from 2011 – 2020 when the GVA is expressed in terms of per working age resident the Island data zones collectively outperform other peripherality classifications other than Urban areas. For example, per capita GVA increased from £23k to £41k in Island areas between 2001 and 2020, compared to £20k to £38k in Very Remote areas, £19k to £34k in remote areas and £19k to £32k in Accessible areas. The poorer performance of Accessible areas and better performance of

Urban areas reflect the denominator used (resident working age population, where accessible areas have a high degree of resident commuters and urban areas a high proportion of working commuters).

Figure 45 Change in GVA per work age resident (age 16-65) by NISRIE peripherality classification.



The data for 2011 to 2020 are summarised in Table 7 where the impact of changing populations become more apparent. For example, in very remote mainland data zones, between 2011 and 2020 the GVA increased by 19%, but as the working age population fell by 7.4% the GVA per working age resident increased by 28% over the decade. Similar effects are shown in Islands and Remote mainland areas – where working age populations also declined – in contrast to Accessible mainland areas where the 2.6% increase in the working age population diluted the absolute increase in GVA.

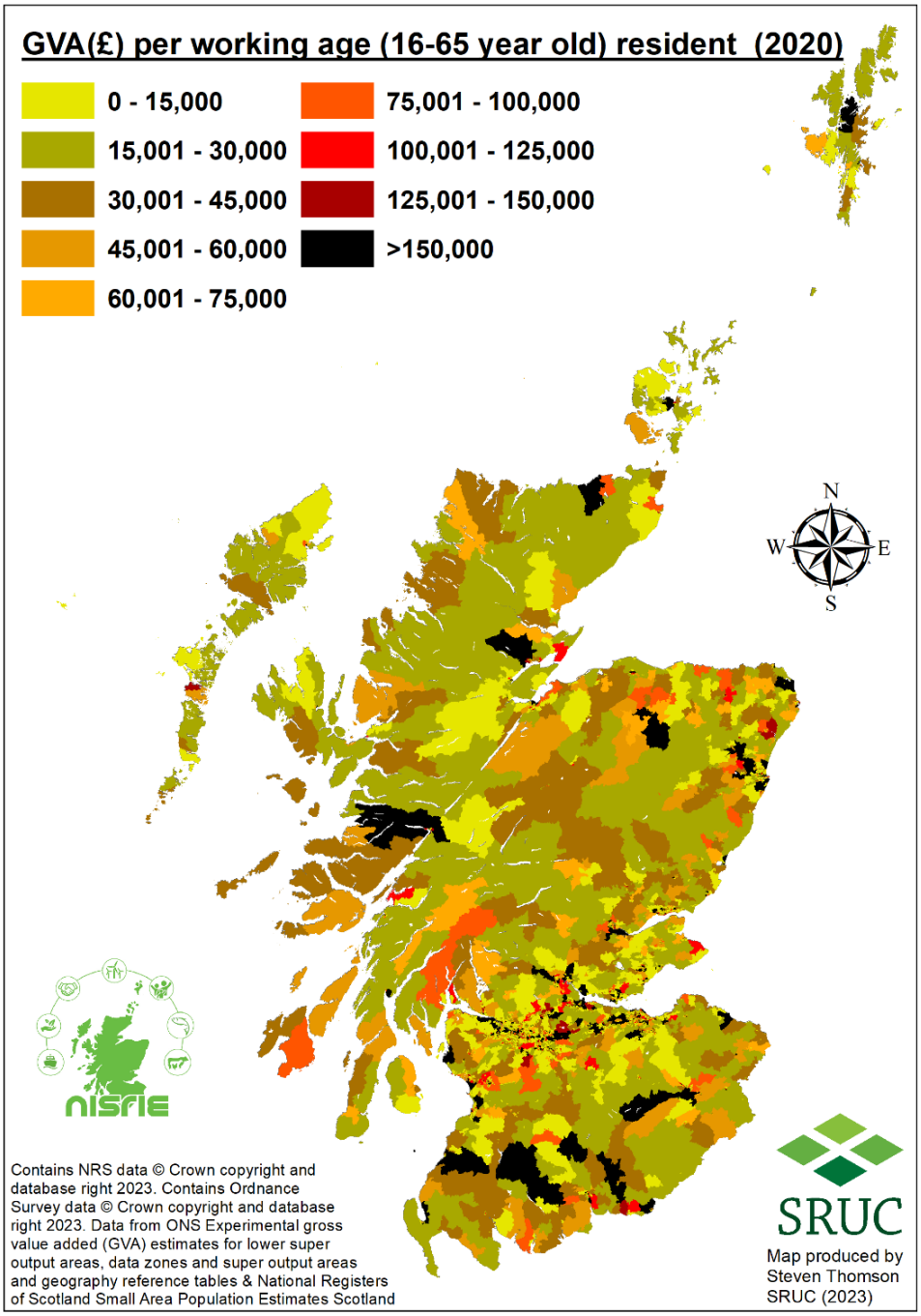
Table 7 Change in GVA per working age resident (16-65) for NISRIE peripherality classifications

		Urban	Accessible	Remote Mainland	Very Remote Mainland	Islands	Scotland
2011	GVA	£89.3bn	£17.9bn	£3.9bn	£2.2bn	£2.3bn	£115.7bn
	GVA per working age resident	£35,803	£25,391	£27,354	£29,738	£35,826	£33,219
2020	GVA2020	£112.3bn	£23.3bn	£4.5bn	£2.6bn	£2.5bn	£145.2bn
	GVA per working age resident 2011	£44,680	£32,195	£33,838	£38,056	£41,418	£41,496
2011-2020	GVA	**26%**	**30%**	**17%**	**19%**	**8%**	**26%**
	Working Age Population	**0.7%**	**2.6%**	**-5.6%**	**-7.4%**	**-6.2%**	**0.5%**
	GVA per working age resident	**25%**	**27%**	**24%**	**28%**	**16%**	**25%**

Data: Based on ONS Experimental gross value added (GVA) estimates for lower super output areas, data zones and super output areas and geography reference tables and National Records of Scotland (NRS) Small Area Population Estimates

Map 11 shows GVA per working age resident in 2020 by data zone. This demonstrates very wide variance in resident worker GVA, that reflect economic 'hotspots' where there may be low local resident population (i.e. local level commuting). For example, the black areas in the map around locations like Sullom Voe oil and gas terminal in Shetland, Dounreay nuclear site in Caithness, aluminium and salmon processing in Fort William, fish landing and processing in Peterhead, whisky distillation in Speyside, clothes mills in the Scottish Borders, etc. all generate significant economic activity (and hence GVA), draw in workers from other data zones meaning the GVA per resident worker appears very high.

Map 11 Gross value added per working age resident (16-64 year olds) by data zone, 2020

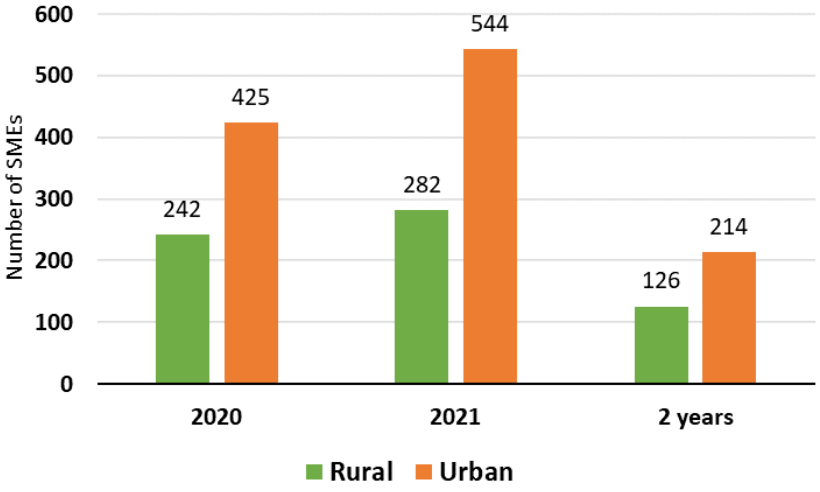


9 Businesses and COVID-19: survey insights

Small and medium-sized enterprises (SMEs) constitute a substantial portion of Scotland's economy, accounting for 99.4% of all private sector businesses and employing around 1.2 million people (The Scottish Government, 2022). However, the COVID-19 pandemic significantly disrupted SMEs' operations and created unprecedented challenges for these businesses across Scotland. Recent studies have highlighted disparities in economic development, business growth, and business support between SMEs in rural and urban areas during this period (Phillipson et al., 2020; Wishart and Roper, 2021). In this section, we explore and compare the impacts of COVID-19 on SMEs in rural and urban areas of Scotland using Longitudinal Small Business Survey (LSBS) data between 2020 and 2021 commissioned by UK's Department for Business, Energy and Industrial Strategy (BEIS).

Figure 46 shows the total number of Scottish SMEs included in the analysis. In 2020, the LSBS survey included 667 SMEs from Scotland, and based on their postcodes, 36.2% were classified as rural. The total number of Scottish SMEs in the survey slightly increased in 2021 (826), with 34.1% classified as rural. Only 340 Scottish SMEs participated in both 2020 and 2021 surveys and 126 SMEs (37%) were rural businesses.

Figure 46 the number of rural and urban SMEs in Scotland in LSBS 2020 and 2021



Source: LSBS (2021)

In Table 8 rural SMEs were found to be less likely to report that the COVID-19 pandemic was a major obstacle to business success in 2020 and 2021 compared to urban counterparts. This pattern also happened for those rural SMEs that participated in both survey years. However, rural SMEs were more likely to report that regulations/red tape were their major obstacle in 2020 compared to urban businesses. Interestingly, a higher proportion of rural SMEs than urban SME were

more likely report EU Exit as a major obstacle, even though this result is not statistically significant – a likely reflection of higher density of food and drink sector, and accommodation and food service businesses (particularly in remote rural areas).

Table 8 Major obstacles to business success among Scottish SMEs in 2020 and 2021

Major obstacles to the success of business in general	Proportion of SMEs (2020)		Proportion of SMEs (2021)		Proportion of SMEs (2-year data)	
	Urban	Rural	Urban	Rural	Urban	Rural
Obtaining finance	12.3%	17.1%	16.2%	20.7%	8.1%	19.0%
Taxation, VAT, PAYE, National Insurance, business rates	29.7%	25.7%	32.4%	36.8%	27.4%	19.0%
Staff recruitment and skills	21.0%	28.6%	51.4%	47.1%	46.8%	38.1%
Regulations/red tape	23.2%	48.6%	38.2%	39.1%	38.7%	26.2%
Availability/cost of suitable premises	10.9%	7.1%	16.2%	10.3%	14.5%	7.1%
Competition in the market	34.1%	34.3%	34.7%	31.0%	29.0%	28.6%
Workplace pensions	10.9%	7.1%	12.1%	10.3%	4.8%	4.8%
Late payment	18.1%	21.4%	26.6%	18.4%	22.6%	14.3%
UK exit from the EU	26.1%	32.9%	35.3%	44.8%	35.5%	42.9%
National Living Wage	13.0%	10.0%	22.0%	24.1%	12.9%	21.4%
Coronavirus COVID-19 pandemic	73.9%	54.3%	78.0%	62.1%	80.6%	45.2%
Any other major issues or obstacles	5.1%	4.3%	9.8%	23.0%	11.3%	21.4%
None of these	11.6%	12.9%	6.9%	4.6%	4.8%	7.1%
Total businesses	**138**	**70**	**173**	**87**	**62**	**42**

***Note**: Orange denotes statistically significant response using Chi-square test ($\chi 2$: $p<0.05$)*

The survey also asked SMEs whether the COVID-19 pandemic had affected their business plans, and the results showed that urban SMEs were more likely than rural SMEs to report impacts (see Table 9). Specifically, a larger proportion of urban SMEs reported that increasing workforce skills, introducing new working practices, and recruitment of new staff in the UK had been affected by the COVID-19 crisis in 2021, and for the 2-year sample. However, the analysis also revealed that rural SMEs were more likely than urban SMEs to report that none of their plans had been affected by the pandemic in those years – perhaps indicating greater economic resilience (again potentially related to density of primary sector industries). These findings suggest that the impact of COVID-19 on SMEs may vary depending on their location and the types of plans they have in place.

Table 9 Business plans affected by the COVID-19 pandemic among Scottish SMEs in 2020 and 2021

Business plans affected by the Coronavirus COVID-19 pandemic	Proportion of SMEs (2020)		Proportion of SMEs (2021)		Proportion of SMEs (2-year data)	
	Urban	Rural	Urban	Rural	Urban	Rural
Increase the skills of the workforce	33.0%	24.5%	36.4%	21.8%	35.5%	9.5%
Increase the leadership capability of managers	23.6%	18.9%	19.7%	14.9%	19.4%	7.1%
Capital investment (in premises, machinery etc.) in the UK	27.4%	22.6%	17.9%	19.5%	19.4%	16.7%
Develop and launch new products/services	23.6%	24.5%	17.3%	14.9%	11.3%	11.9%
Introduce new working practices	28.3%	24.5%	25.4%	12.6%	21.0%	7.1%
Invest in R&D	1.5%	3.2%	13.3%	13.8%	12.9%	9.5%
Increase export sales or begin selling to new overseas markets	6.6%	3.8%	9.8%	4.6%	6.5%	4.8%
Recruitment of new staff in the UK	34.9%	22.6%	35.8%	20.7%	25.8%	16.7%
None of these have been affected	35.8%	54.7%	28.3%	41.4%	33.9%	47.6%
Total Businesses	**106**	**53**	**173**	**87**	**62**	**42**

***Note**: Orange denotes statistically significant response using Chi-square test ($\chi 2$: $p<0.05$)*

The survey also asked about key measures related to workforce management that they had taken in 2020 (see Table 10). This revealed that urban SMEs were more likely than rural SMEs to furlough staff or lay staff off in the short-term without furlough in response to the COVID-19 impact. Additionally, urban SMEs tended to provide more facilities for remote working compared to rural SMEs. The results also uncovered a higher proportion of rural SMEs undertaking certain actions - such as recruiting staff for both the short term and long term and moving staff to new or different roles, even though they were not statistically significant. These findings suggest that urban SMEs may have made more significant changes to their workforce management strategies in response to this crisis, and that rural SMEs may face greater challenges in adapting to new ways of working.

Table 10 COVID-19 workforce measures for businesses among Scottish SMEs in 2020

COVID-19 workforce measures for businesses	Proportion of SMEs (2020)	
	Urban	Rural
Increased staff working hours	8.3%	12.9%
Reduced staff working hours	54.0%	50.0%
Furloughed staff	78.5%	69.4%
Laid off staff in the short-term without furlough	8.8%	4.1%
Laid off staff permanently/made staff redundant	19.2%	14.1%

Recruited staff for the short term	9.1%	11.2%
Recruited staff for the longer term	16.5%	21.8%
Provided facilities for remote working	46.0%	36.5%
Moved staff to new or different roles	14.7%	17.6%
Asked staff to take on additional tasks	30.7%	27.1%
Other	3.8%	5.9%
No measures taken	3.2%	13.5%
Total Businesses	**339**	**170**

***Note**: Orange denotes statistically significant response using Chi-square test (χ2: p<0.05)*

More urban than rural SMEs survey respondents applied for the furlough scheme during the COVID-19 pandemic (Table 11). In contrast, a higher proportion of rural SMEs did not apply to either the furlough or self-employment income support schemes. Although the difference in the results of the self-employment income support scheme between rural and urban SMEs is not significant, rural SMEs tended to report higher use of this than urban counterparts – a reflection that self-employment is more common in rural areas of Scotland.

Table 11 Scottish SMEs applied for Coronavirus COVID-19 schemes to support businesses in 2020

Appling for Coronavirus COVID-19 schemes to support businesses through the pandemic crisis	Proportion of SMEs (2020)	
	Urban	Rural
Coronavirus Job Retention (otherwise known as Furlough) Scheme	62.6%	47.5%
Self-employment Income Support Scheme	14.4%	17.8%
None of these	28.5%	40.1%
Total Businesses	**425**	**242**

***Note**: Orange denotes statistically significant response using Chi-square test (χ2: p<0.05)*

Table 12 shows the proportion of rural and urban SME survey respondents that applied for Government-backed accredited loans / finance agreements or any COVID-19 business grants funded by government/local authority. There were no statistically significant differences in applying for funding between rural and urban SMEs. However, rural SMEs in Scotland tended to report lower application rates than their urban counterparts. Lower uptake levels may reflect the industrial sectors businesses operate in, or that rural SMEs face greater barriers in accessing these funding schemes – barriers that may be attributed to factors such as geographical isolation or lack of information.

Table 12 Scottish SMEs applied for COVID-19 Government-backed accredited loans or finance agreements in 2020

	Proportion of SMEs (2020)	
	Urban	Rural
Applied for COVID-19 Government-backed accredited loans or finance agreements	36.6%	31.8%

Applied for **any** COVID-19 business grants funded by government or local authority	42.1%	35.4%
Total	**407**	**233**

***Note**: No statistically significant differences using Chi-square test (χ2: p<0.05)*

Finally, Table 13 presents the results of an analysis that examined the impacts of the COVID-19 pandemic on innovation among SMEs in rural and urban Scotland. Specifically, SMEs were asked whether the pandemic had significantly influenced their introduction of new or significantly improved goods, services, or processes. The results suggest that there was no statistically significant difference between rural and urban SMEs in terms of the COVID impacts on business innovation. In fact, rural SMEs reported a higher proportion of no impacts than urban SMEs suggesting that rural SMEs surveyed were less affected by the pandemic in terms of their innovation activities than urban SMEs. However, it is important to note that this finding should be interpreted with caution, as it is based on self-reported data and may be influenced by a number of factors, such as business age, size, sectors, etc.

Table 13 The impacts of COVID-19 pandemic on innovation activities among Scottish SMEs in 2020

Has the Coronavirus COVID-19 pandemic played a role in your business introducing these new or significantly improved goods/services/processes? (2020)	**Proportion of SMEs (2020)**	
	Urban	**Rural**
NO	50.3%	61.7%
Yes, a significant role	33.6%	25.0%
Yes, a small role	14.8%	11.7%
Don't know	1.3%	1.7%
Total Businesses	**149**	**60**

***Note**: No statistically significant differences using Chi-square test (χ2: p<0.05)*

10 Conclusion

This is the first of a set of annual reports presenting analysis from two projects – Novel insights on Scotland's rural and island economies (NISRIE) and Reimagined Policy Futures: Shaping sustainable, inclusive and just rural and island communities in Scotland (ReRIC) – as part of the Scottish Government's 2022-27 Strategic Research Programme.

This 2023 report has presented a range of data, where appropriate using a new analytical framework, to provide novel insights on key demographic and socio-economic trends across rural and island Scotland. The new analytical framework has 10 unique categories (described in Section 3 of this report), which enables trends to be more easily identified and analysed in Scotland's islands and its mainland remote rural communities. In addition to this new framework, the Scottish Government's RESAS classification of local authorities is also used. While the use of the local authority-level classification is important, not least due to the decision-making and resource allocation role of local government, the use of the new 10-fold classification allows for a much more nuanced picture to be generated of the socio-economic trends across accessible, remote and very remote rural mainland and island communities, to inform policy formation. The report has also demonstrated how using different geographical classifications can generate quite different pictures of these trends. Thus, in order to accurately inform policy formation, it is important that as holistic a picture as possible is obtained of these trends, through use of different classifications (where data availability means this is possible).

The analysis is set in the context of the current and future policy framework for rural and island Scotland. There is an interesting difference in policy approach to Scotland's rural areas and to its islands, with mainstreaming being the explicit policy approach for rural areas for more than a decade. In contrast, Scotland's islands have dedicated legislation in the form of the 2018 Islands (Scotland) Act and its associated provisions, including the National Islands Plan and the requirement to undertake Islands Community Impact Assessments. However, the recent introduction of the rural lens for projects being undertaken as part of the National Strategy for Economic Transformation (NSET) is an interesting development and one which should be evaluated in terms of the extent to which it brings rural issues - both challenges and opportunities - more to the fore.

Perhaps even more significantly, in his recent vision for Scotland, published in April 2023, First Minister Humza Yousaf included commitments to write a Rural Delivery Plan and a Remote, Rural and Islands Housing Action Plan by 2026. The evidence and analysis presented here, and in subsequent annual insights reports to be published over the next four years, is critical to informing both plans by demonstrating how Scotland's mainland accessible, remote and very remote rural areas are: (i) incredibly diverse; and (ii) dynamic and changing over time. Moreover, the insights in this report offer important evidence to inform a number of other

legislative and policy domains, including Scotland's Population Strategy, the Addressing Depopulation Action Plan, future National Island Plans and associated work such as a potential new Islands Connectivity Plan, and debates relating to Community Wealth Building and 20 minute neighbourhoods.

In addition to the analysis and interpretation of secondary data, it is also critical that the voices and lived experiences of all people living across Scotland's rural and island communities are heard in policy development. Current work to create a rural movement in Scotland is key to strengthening these voices, and SRUC's new Rural Exchange which will be further developed in 2023 will support this process by providing a digital engagement platform for rural and island residents.

Through the two Scottish Government funded projects, the research team will be undertaking ongoing analysis of, and providing new insights into, rural and island businesses and communities and how they are changing. This will include in-depth, mixed method investigations into the persistent challenges of demographic change and ageing, affordable housing and exclusion and marginalisation, as well as ongoing quantitative and qualitative analysis of economic issues, including changes in sectors of importance to these economies. All of these issues will be explored through a set of new lenses which relate to changing policy priorities (including the new Rural Delivery Plan, just transition, 20 minute neighbourhoods, community wealth building, tackling child poverty, etc.) and recovery from EU Exit, the COVID-19 pandemic and the cost of living crisis.

ENDS

Annex 1 - Population

Figure 47 Population structure by individual age groups – NISRIE Peripherality

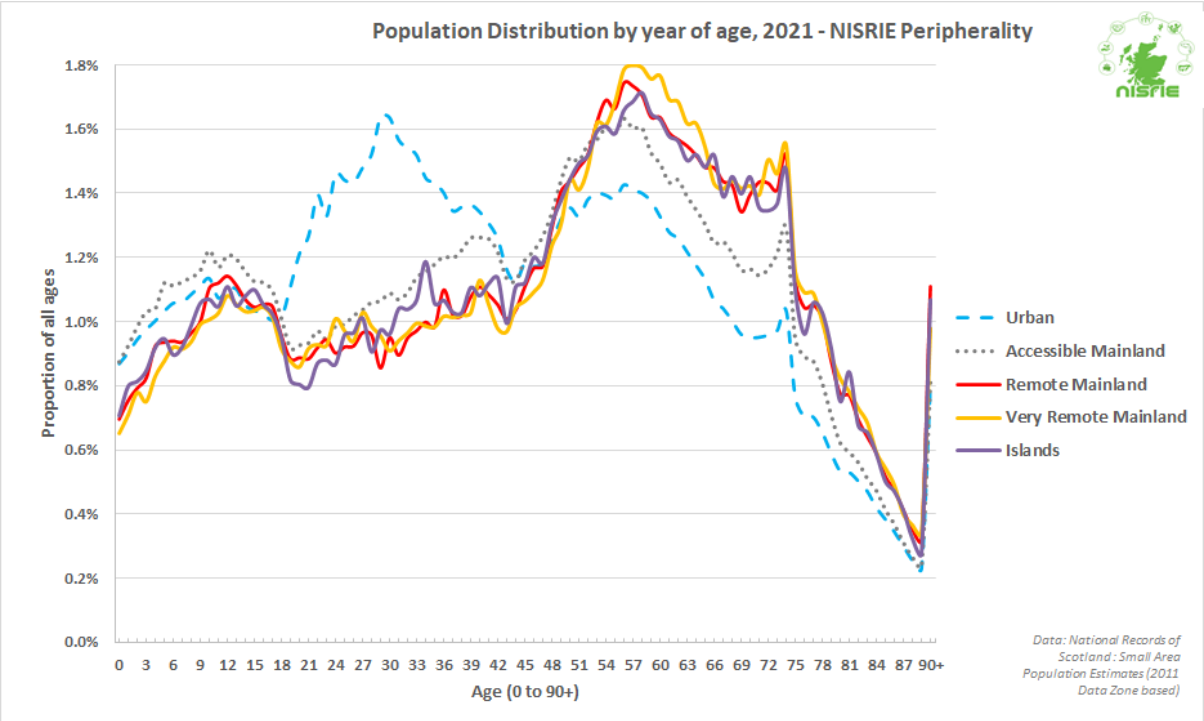
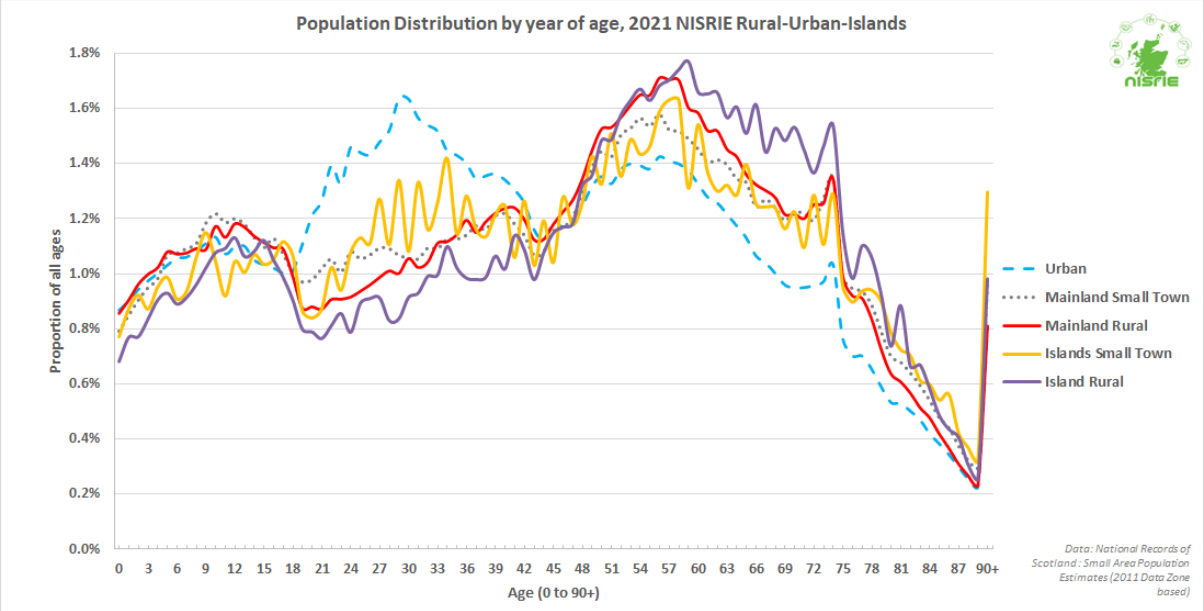
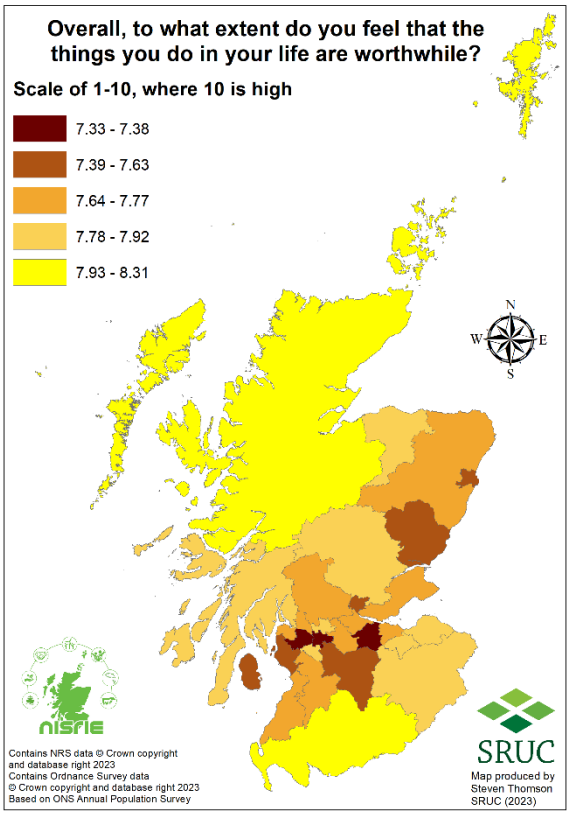
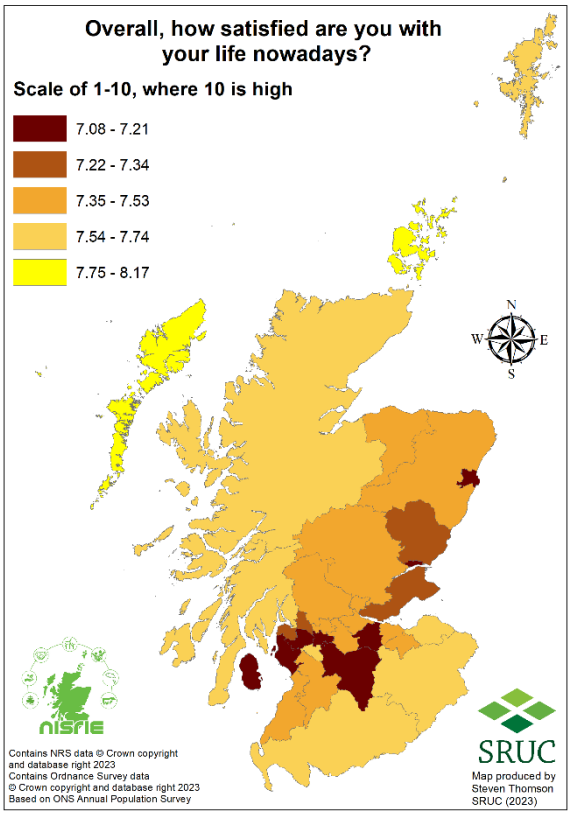


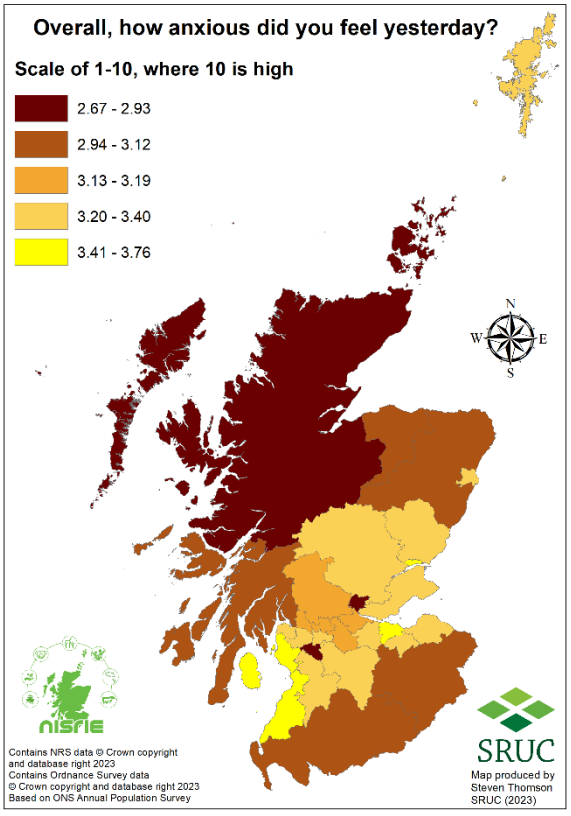
Figure 48 Population structure by individual age groups – NISRIE Rural-Urban-Island

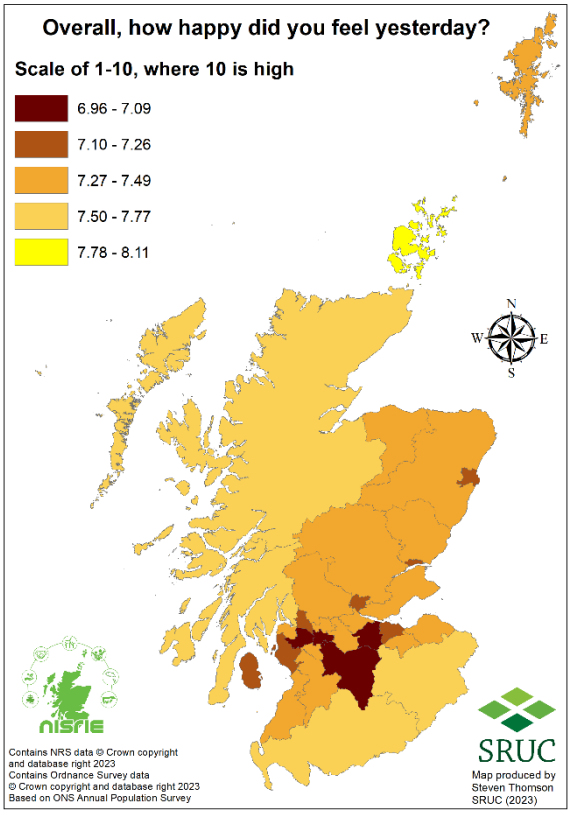


Map 12 Measures of wellbeing (2021) – n.b. scales differ on each map

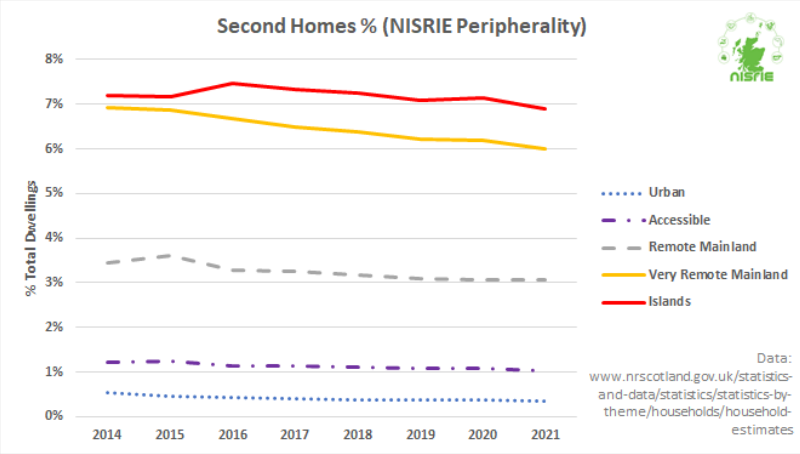


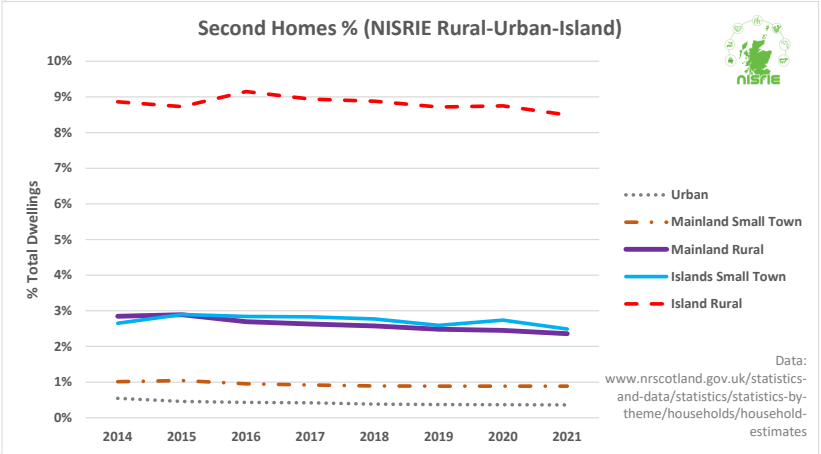


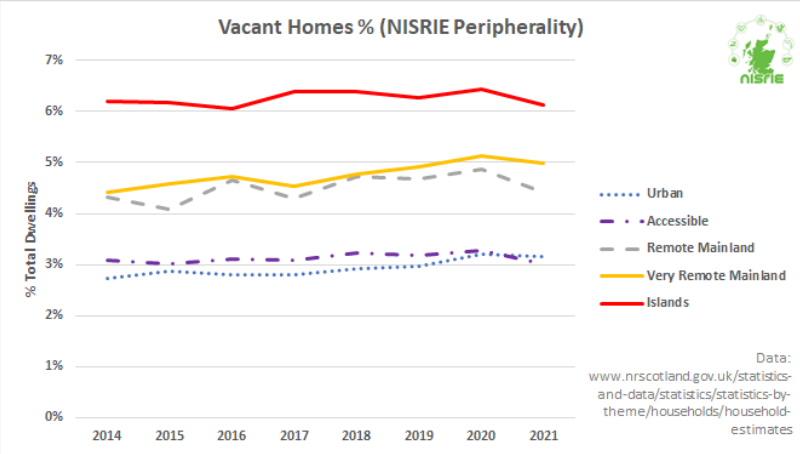




Annex 2 - Housing







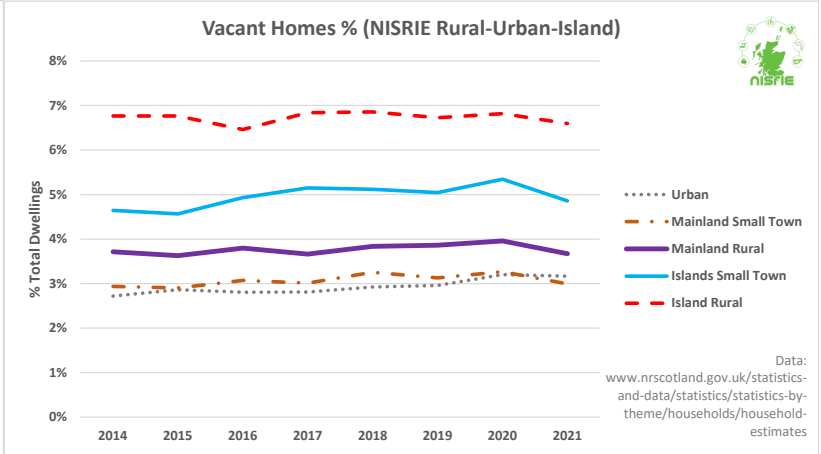


Figure 49 House price inflation by NISRIE peripherality class

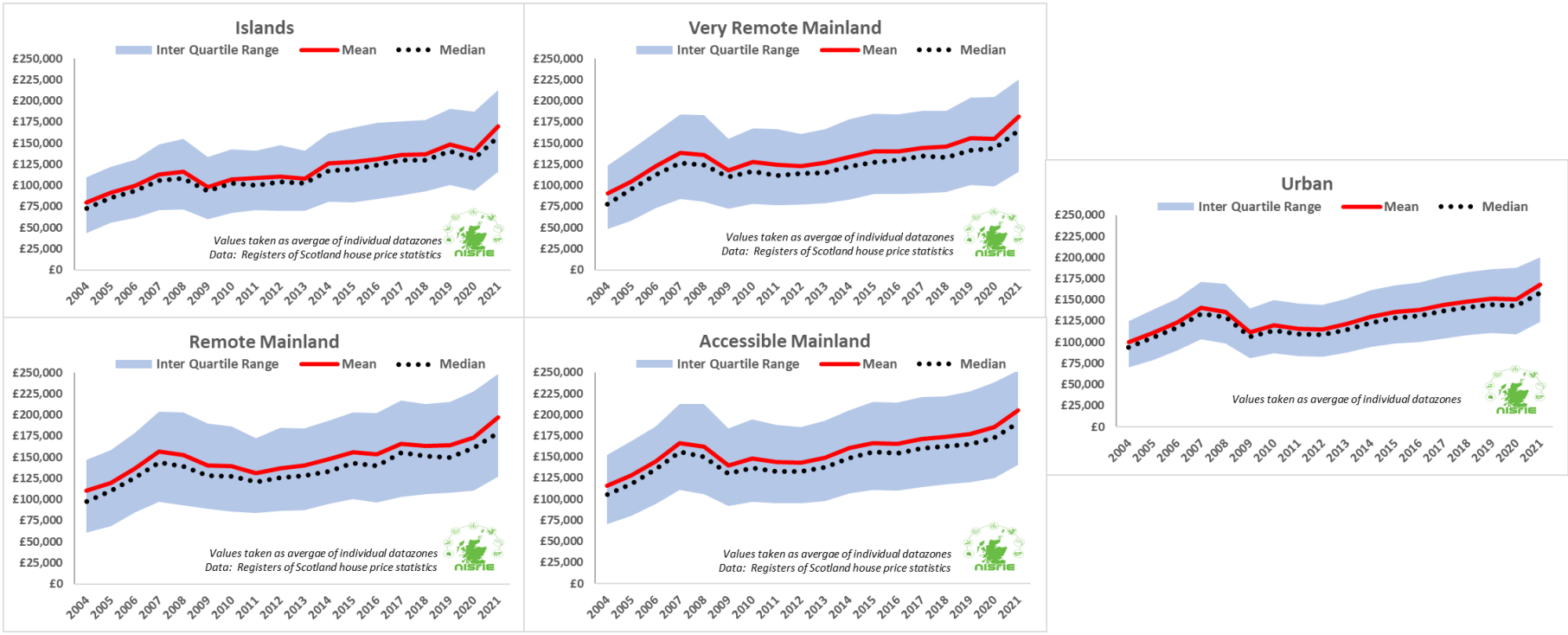
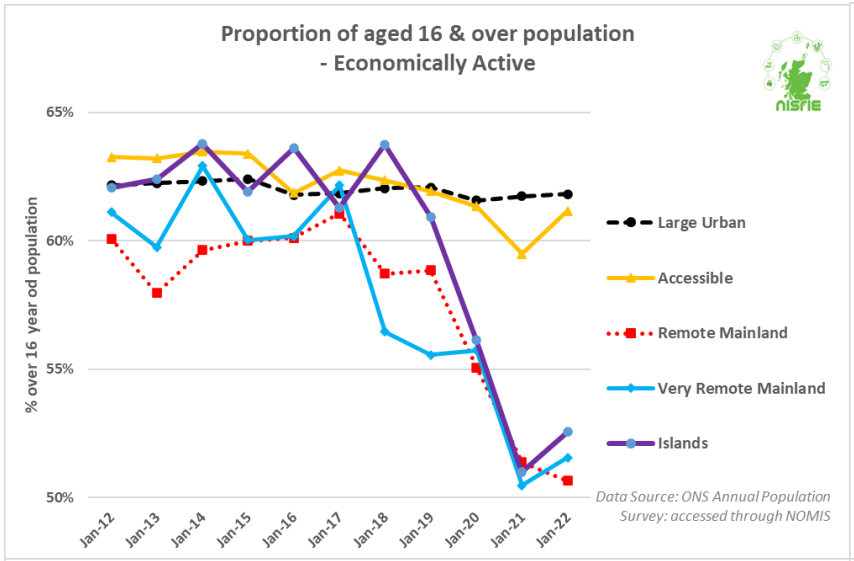


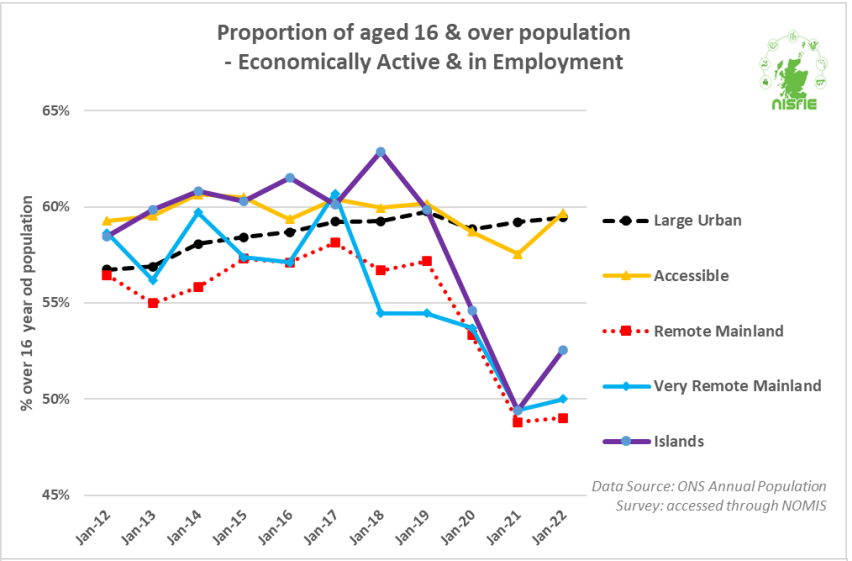
Table 14 Weighted average house prices and number of transactions 2004-2021 using NISRIE peripherality classification of data zones

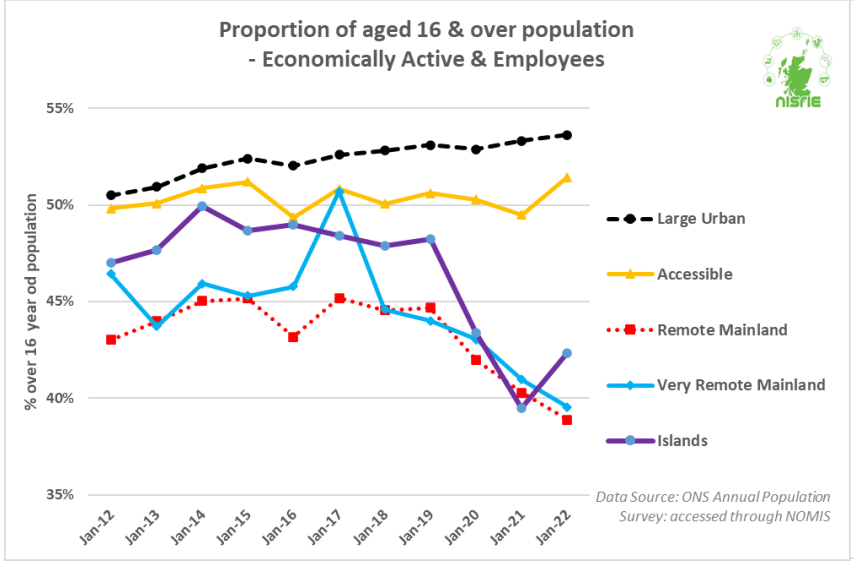
	Urban	Accessible	Remote Mainland	Very Remote Mainland	Islands	Scotland
Average Price						
2004	£112,582	£123,222	£118,943	£97,655	£89,362	£114,166
2005	£120,687	£133,270	£127,490	£111,116	£99,841	£122,806
2006	£133,385	£151,229	£145,655	£125,474	£108,122	£136,623
2007	£148,235	£170,782	£165,462	£144,403	£127,031	£152,719
2008	£150,636	£174,976	£168,377	£142,187	£125,516	£155,372
2009	£146,432	£173,086	£166,833	£144,545	£122,293	£152,203
2010	£153,090	£178,009	£166,485	£148,798	£122,540	£158,169
2011	£153,486	£178,344	£172,234	£145,470	£126,806	£158,625
2012	£151,116	£177,675	£162,955	£146,687	£128,010	£156,616
2013	£152,786	£179,675	£167,832	£143,753	£128,052	£158,359
2014	£158,511	£186,936	£171,589	£148,211	£137,772	£164,644
2015	£163,242	£193,990	£177,346	£154,413	£137,391	£169,903
2016	£160,565	£189,162	£171,802	£152,115	£143,242	£166,747
2017	£167,738	£194,048	£179,260	£155,548	£147,013	£173,385
2018	£173,547	£201,552	£183,604	£159,304	£155,107	£179,644
2019	£174,590	£206,454	£186,318	£170,192	£156,544	£181,884
2020	£181,823	£216,985	£195,964	£174,377	£163,416	£190,410
2021	£192,014	£230,770	£210,612	£187,244	£180,201	£201,728
Number of Private House Sales						
2004	99,940	24,527	4,711	2,619	1,736	133,533
2005	107,353	26,035	4,782	2,500	1,660	142,330
2006	115,410	28,304	5,191	2,872	1,918	153,695
2007	118,271	29,687	5,400	2,843	1,987	158,188
2008	76,472	19,911	3,828	2,215	1,633	104,059
2009	48,498	13,628	2,924	1,491	1,207	67,748
2010	52,164	15,167	3,069	1,665	1,288	73,353
2011	48,921	14,035	2,689	1,577	1,295	68,517
2012	51,120	14,928	2,832	1,575	1,242	71,697
2013	60,928	17,533	3,282	1,722	1,325	84,790
2014	67,290	20,577	3,836	1,941	1,517	95,161
2015	70,644	21,688	3,750	1,938	1,529	99,549
2016	72,662	22,454	3,808	2,179	1,764	102,867
2017	74,822	23,713	4,096	2,286	1,924	106,841
2018	72,386	23,469	4,001	2,312	1,697	103,865
2019	73,595	24,118	3,853	2,299	1,815	105,680
2020	58,026	20,613	3,521	1,945	1,404	85,509
2021	78,621	27,588	4,962	2,715	1,964	115,850

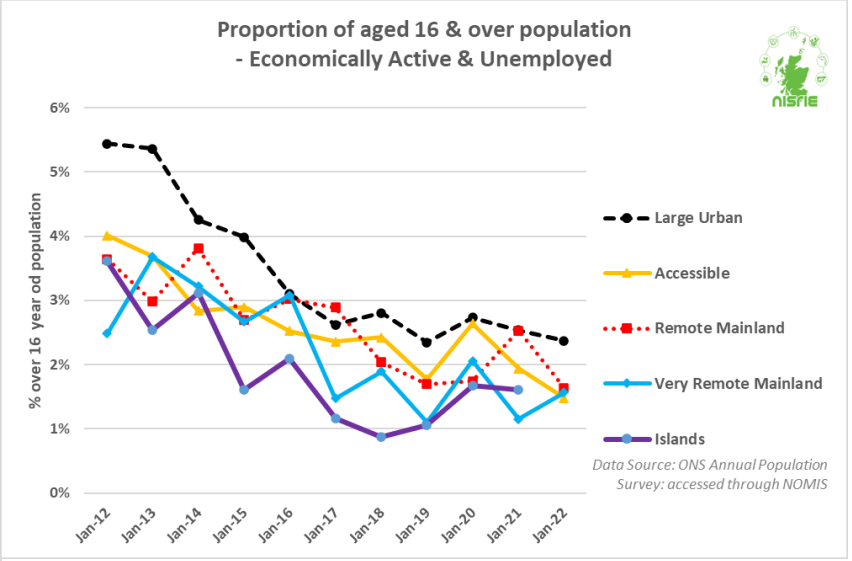
Data: Based on Registers of Scotland house price statistics - accessed through http://statistics.gov.scot/data/residential-properties-sales-and-price

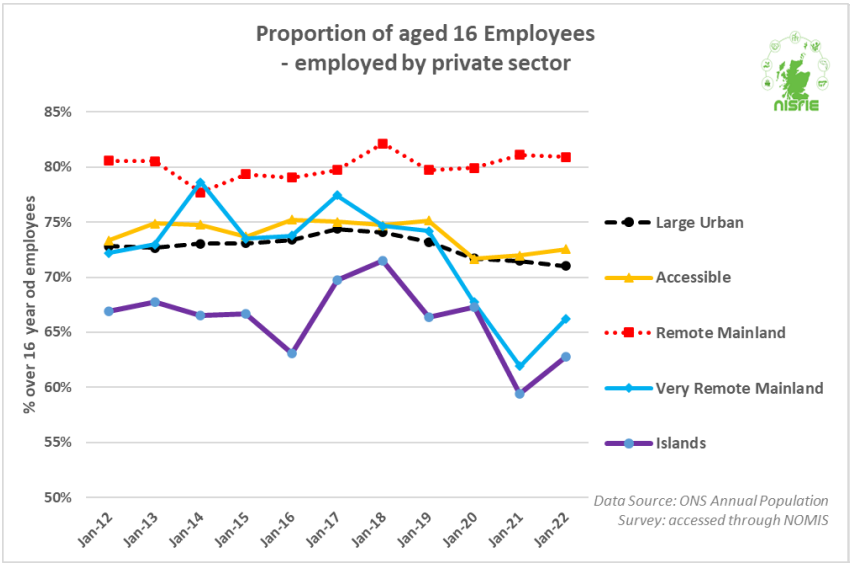
Annex 3 – Economic Activity using NISRIE Peripherality classification of data zones

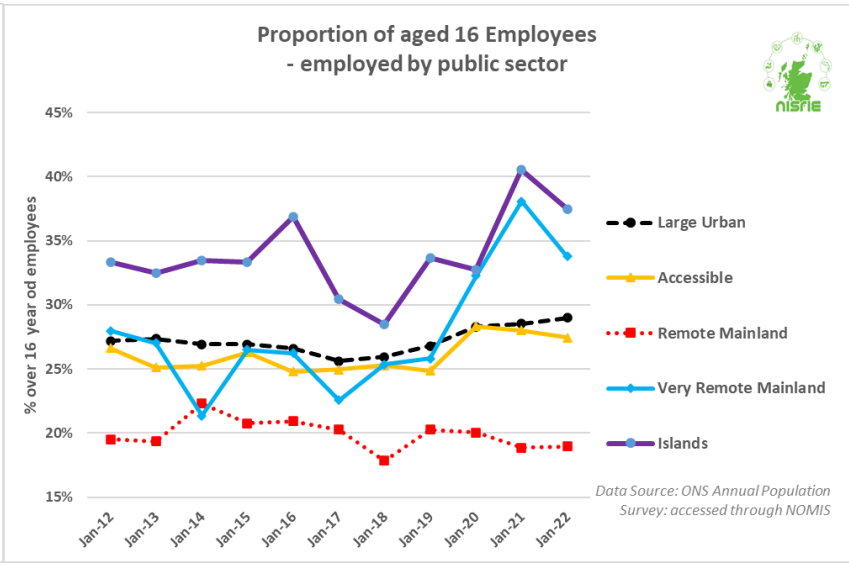




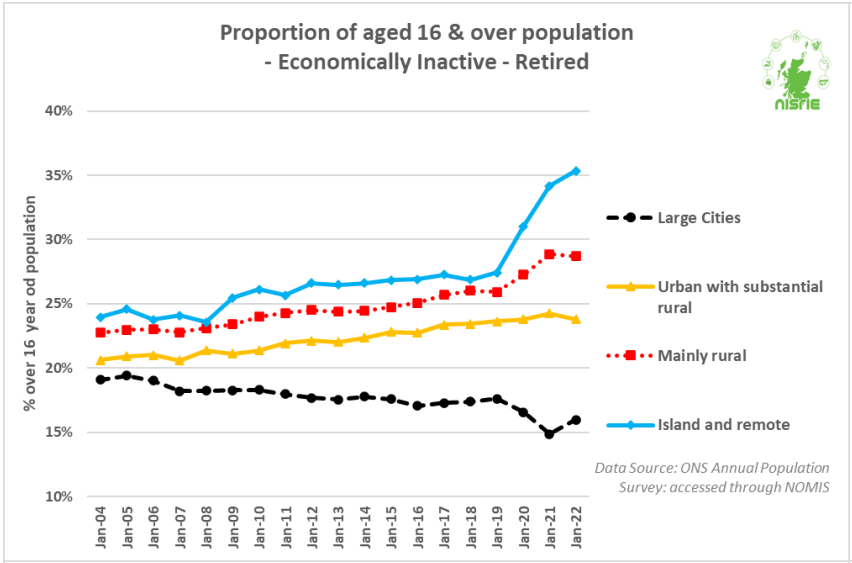


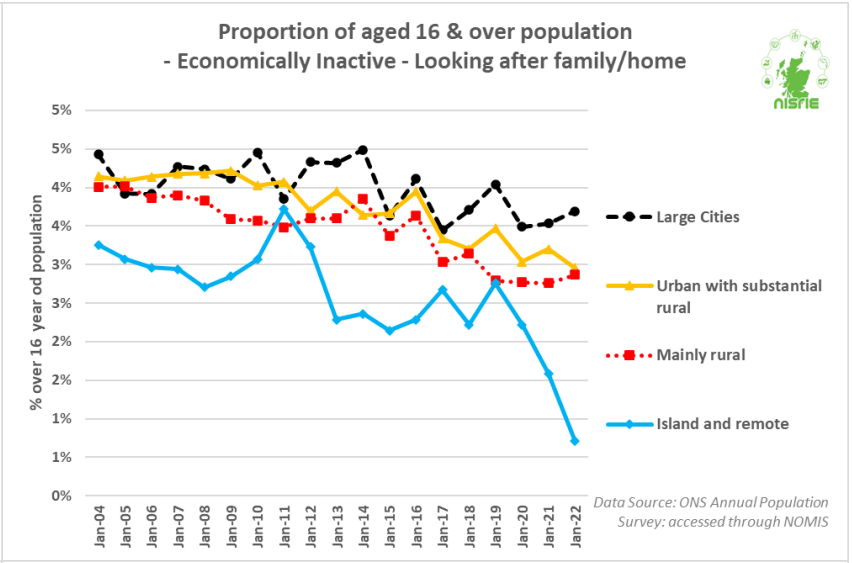


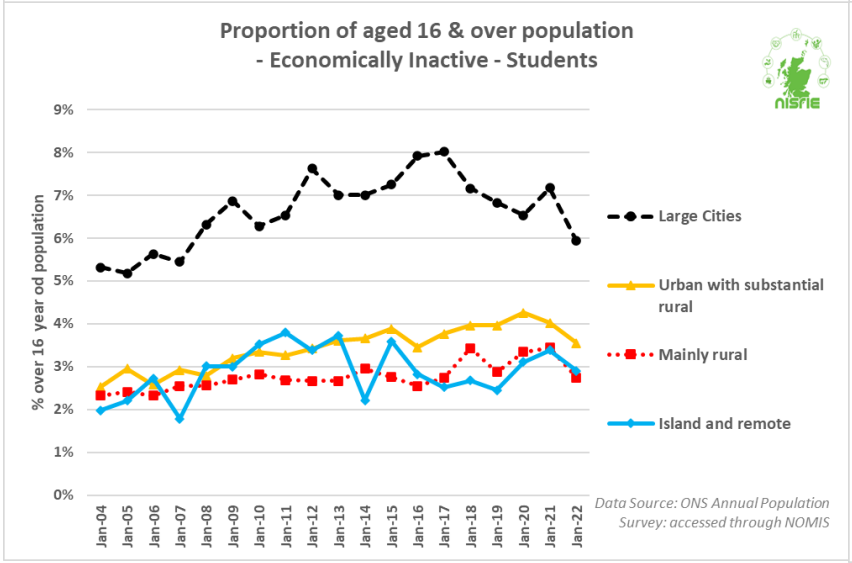

Proportion of aged 16 Employees
- employed by private sector
% over 16 year od employees
85%
80%
75%
70%
65%
60%
55%
50%
Jan-12
Jan-13
Jan-14
Jan-15
Jan-16
Jan-17
Jan-18
Jan-19
Jan-20
Jan-21
Jan-22
Large Urban
Accessible
Remote Mainland
Very Remote Mainland
Islands
Data Source: ONS Annual Population Survey: accessed through NOMIS

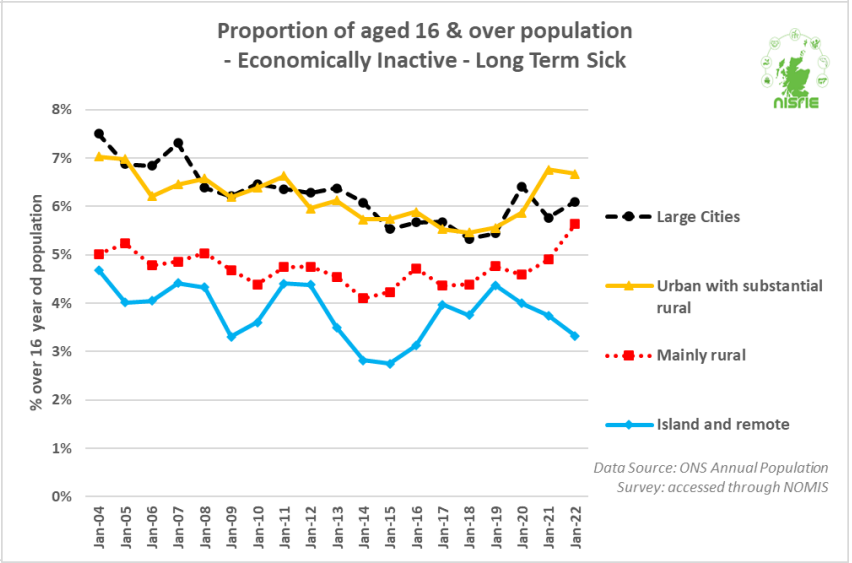

Proportion of aged 16 Employees
- employed by public sector
% over 16 year od employees
45%
40%
35%
30%
25%
20%
15%
Jan-12
Jan-13
Jan-14
Jan-15
Jan-16
Jan-17
Jan-18
Jan-19
Jan-20
Jan-21
Jan-22
Large Urban
Accessible
Remote Mainland
Very Remote Mainland
Islands
Data Source: ONS Annual Population Survey: accessed through NOMIS

Annex 4 – Economic Inactivity using RESAS Urban Rural classification of local authorities









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https://www.nisrie.scot/

Our data, charts, maps and reports are available through our Rural Exchange website: https://www.ruralexchange.scot/

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