

Highlands and Islands Regional Economic Partnership

REGIONAL ECONOMIC STRATEGY

DRAFT
June 2024



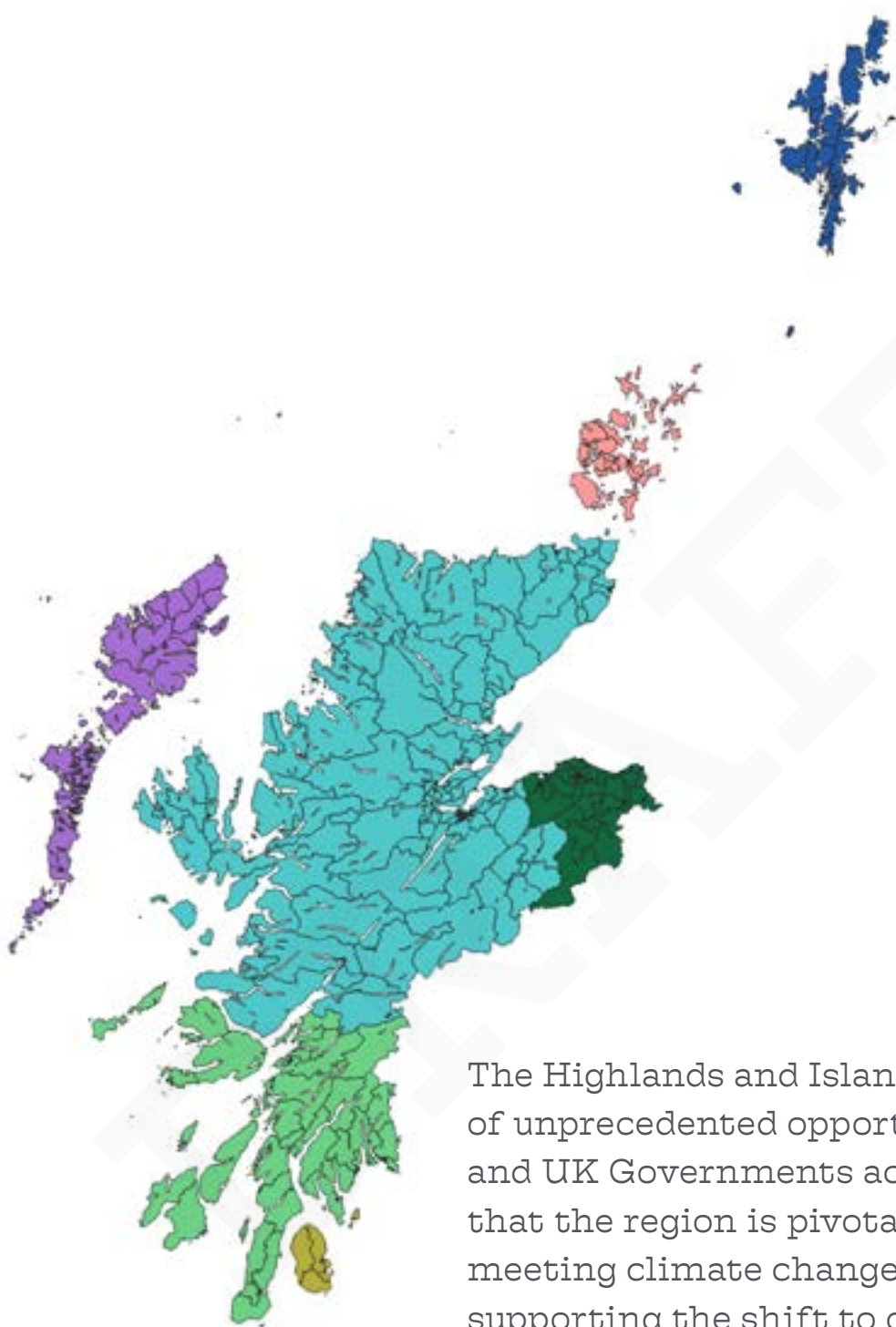
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1. Introduction





The Highlands and Islands is on the cusp of unprecedented opportunity. Scottish and UK Governments acknowledge that the region is pivotal in terms of meeting climate change targets and supporting the shift to clean, green sources of energy. This will require transformational change, and action to ensure that economic and social benefits are captured for all parts of the region.



The Highlands and Islands Regional Economic Strategy sets out where regional scale collaborative actions by HIREP partners will be crucial for realising the once-in-a-generation opportunities present across the Highlands and Islands and address the significant development challenges facing the region.

The strategy recognises that HIREP partners will continue to work to their own plans and strategies, delivering at regional or sub regional level. This document recognises the value of that work and enhances and builds on, rather than articulates the entirety of partners' actions and responsibilities. It is not an aggregation of the vital actions delivering local economic development across the region.

In articulating the need for collaborative regional action, the Strategy focuses on areas where working together is the most effective and efficient means to generate maximum impact and benefit.

1.1 AN OVERVIEW OF THE HIGHLANDS AND ISLANDS REGION

The section is under development and will set out an analysis of the defining characteristics of the region and notable trends, highlighting its diversity and key assets. Analysis will be presented for six key themes: Geography and demography; People and communities; Labour market and skills; Business and Enterprise; Net zero and climate adaptation and Infrastructure. Data will be presented visually, with supporting narrative, including map(s) and/or charts and graphics.

An overview of the type of analysis to be included under each theme is outlined below. This is subject to addition and refinement. Most will be presented in this section, but some figures may be included elsewhere in the strategy. As far as possible, analysis is based on the HIREP geography. Where data is not available at this level, the regional figure is based on local authority data (so excludes Arran and Cumbrae), or the Highlands and Islands International Territorial Level (ITL) geographic classification (excludes Helensburgh and Lomond). In such cases, analysis has been flagged with an asterisk (*).

Geography and Demography – the Highlands and Islands is unique within Scotland and the UK in being a large, sparsely populated region with dispersed settlements, including all of Scotland's inhabited offshore islands. This, along with complex mountain and coastal geography, provides challenge for connectivity and access to services, markets and employment. Conversely, our extensive land and marine assets have, over decades, been powerful drivers of our primary sectors, food and drink and tourism successes and are now shaping the region's leading role in renewable energy generation and climate change response.

The region is 40,793 square km, 52% of Scotland's land mass.

Almost two-fifths of residents live in a remote rural area (38%).

A fifth of the region's population (21%) live on one of more than 90 islands.

The region covers 61% of the UK coastline, 86% of Scotland's coastline.

Data on the extent of the region's agricultural land/holdings.

***The region has over 700,000 hectares of woodland and forestry, around half of Scotland's total**

Population of 491,600 in 2022, 9% of the Scottish total.

The population has remained relatively stable since 2011, although this masks considerable sub-regional variation.

The region has an ageing population - almost a quarter (24%) are aged 65+, up from 19% in 2011 and a higher share than nationally (20%).



People and Communities - community, culture and a sense of belonging are powerful assets in the Highlands and Islands. They are evident in extensive community asset ownership and management, and high levels of social capital.

The region is home to 99% of all community-owned land in Scotland.

*** Life expectancy is higher than the national average in all local authority areas in the region.**

Half of adults (50%) feel a very strong sense of belonging to their community, ranging from 36% in Moray to 67% in Na h-Eileanan Siar (38% nationally).

A higher proportion of adults than nationally have undertaken formal volunteering in the last 12 months (28% vs 22% nationally).

Gaelic language and dialect data from the 2022 census.

*** Median gross annual pay is £27,079, 91% of the Scottish level.**

*** 19% of children (aged under 16) are living in relative low-income families (21% nationally).**

*** The gender pay gap was 4.5% in 2023 compared to 1.7% nationally.**

Labour market and skills - an overview of the region's labour market and skills including:

Total employment of 256,000 in 2022, 9.8% of the Scottish total.

Levels of employment and economic inactivity are similar to the national average (employment rate 74.8% in 2023 vs 74.7%; economic inactivity rate 23.4% vs 22.5%).

Lower rate of unemployment than nationally (2.3% in 2023 vs 3.6% nationally).

Higher rates of self-employment than nationally – in 2022, 14% of those in employment were self-employed vs 10% nationally.

*** 0.91 jobs per resident aged 16-64 (0.81 nationally). This ranges from 0.78 in Moray to 1.08 in Shetland.**

48% of those aged 16-64 have at least a higher national certificate qualification (RQF4+) (55% nationally).

*** 95% of school leavers entered positive destinations in 2022-23 (96% nationally), with a higher proportion than nationally going directly into employment or training (39% vs 28%).**

Future skills – expansion and replacement demand.

Overview of employment by sector.

Business and Enterprise - the region's economy is dominated by small and medium sized enterprises (SMEs) across a diversity of sectors from primary, food and drink and tourism to creative industries, life sciences and energy. Social enterprises are more prevalent than elsewhere in Scotland and play an important role in providing opportunity, employment and service delivery.

23,175 registered public and private sector businesses in the region (13% of the Scottish total).

550 registered private sector businesses per 10,000 residents (380 nationally). This ranges from 426 in Moray to 884 in Shetland.

Small businesses (0-49 employees) account for 95% of all registered private sector businesses in the region and more than half (53%) of employment (96% and 37% nationally).

Overview of businesses by sector.

*** 1,273 social enterprises in the region, 26 per 10,000 people vs 11 nationally. This ranges from 15 in Moray to 47 in Shetland and Na h-Eileanan Siar.**

*** GVA of £13,302m, 8% of the Scottish total.**

*** Overview of GVA by sector.**

*** Business expenditure on R&D of £42m in 2022, 2% of the Scottish total.**

*** Similar share of high growth businesses as nationally (both 1.1%). This ranges from 0.9% in Shetland to 1.6% in Moray.**

*** Business start-up rate of 8.3% in 2022 (10.8% nationally).**

The three-year survival rate for businesses born in 2019 is 63.7% compared to 57.4% nationally.

Innovation stats - OECD

Net zero and climate adaptation - baselining of the region's greenhouse gas (GHG) emissions identifies the major sources of emissions, which differ in relative scale from Scotland as a whole, and suggests areas of focus for reducing regional emissions. It also informs potential mitigation actions based on the region's extensive natural capital. The region's renewable energy capacity, already extensive, has potential for significant expansion.

***The region's territorial GHG emissions were 6,237 kt CO₂e in 2019, 15% of the Scottish total.**

***The decline in the region's GHG emissions between 2005 and 2019 lagged that for Scotland overall (down 20% vs 33% nationally).**

***The region has higher emissions per capita, with sub-regional variation evident.**

***The top five sources of GHG emissions in the region are agriculture, land use, land use change and forestry, transport, domestic and industry.**

The region accounts for more than half (52%) of Scotland's current renewable energy capacity, with potential for this to increase four-fold if all pipeline activity is realised.

More than half of the region's land mass is covered by peat and peaty soils (56%).

Only 27% of the region's domestic properties have an environmental impact rating of C or above, 41% nationally.

Around a third of domestic dwellings are reliant on fossil fuels for heating (8% nationally).

82% of households have at least one car (75% nationally), and 37% have two or more cars (30% nationally).

Infrastructure - realisation of the region's opportunities is predicated on investment in enabling infrastructure to remove barriers to development. Infrastructure gaps are evident and will require sustained investment to address issues of digital connectivity, transport, housing, and service provision.

Around half of the region's population live in the 20% most deprived areas of Scotland in terms of access to services. This ranges from 35% of the population in Moray to 82% in Na h-Eileanan Siar.

There are 274,586 dwellings in the region, 10% of all dwellings in Scotland.

The region has a lower share of social housing than nationally (18% vs 23%).

There are over 10,000 second homes in the region, 43% of the Scottish total. The proportion of second homes varies substantially across the region, ranging from 1.5% in Shetland to 22.8% in Arran and Cumbrae.

*** Average property price between 2021-2023 was 7.7 times the mean annual gross income (7.1 nationally).**

The region has over 27% of the Scottish road network *, 60 ferry routes; 10 regional airports and 10 local authority airports.

85% of residential and business premises have access to superfast broadband (≥ 30 Mbps) (96% nationally).

Only 35% of residential and business premises have full fibre to the premises (60% nationally).

*** 81% of the region's landmass is estimated to have good outdoor 4G coverage from at least one operator (85% nationally). Just over half (53%) of premises are able to get a 5G signal outdoors from at least one mobile network (87% nationally).**





1.2 THE ROLE OF HIGHLANDS AND ISLANDS REGIONAL ECONOMIC PARTNERSHIP

The Highlands and Islands Regional Economic Partnership (HIREP) was established in 2021 to enable inclusive and sustainable economic growth and build resilience throughout the region, by identifying and focussing on areas of joint strategic purpose to provide co-ordinated action in pursuit of regional growth opportunities and to address shared challenges. HIREP is a partnership of public, private, third sector and academic organisations, working together to realise the region's economic potential in a sustainable and inclusive way.

HIREP fulfils its purpose through:

- Identifying opportunities for collaborative and co-ordinated action in pursuit of agreed regional priorities, ensuring, where appropriate, that stakeholders plans are aligned, and resources are deployed efficiently and effectively.
- Advocating on agreed regional economic opportunities and challenges and, where appropriate, leading in discussions with Scottish Government, UK Government and other organisations.
- Being future focused in looking ahead to identify emerging regional opportunities and challenges where collaborative action can maximise outcomes and impact.
- Working to understand evolving approaches to external funding and reacting to maximise impact across all parts of the region.
- Understanding sub-regional economic dynamics and, where appropriate, formulating solidarity actions to ensure that no part of the Highlands and Islands is left behind.

Membership of the HIREP includes local authorities, Highlands and Islands Enterprise, Skills Development Scotland, Scottish Funding Council, University of the Highlands and Islands, Naturescot, Visit Scotland, Bord na Gaidhlig, HITRANS, Cairngorm National Park Authority, business representatives and third sector organisations.

1.3 OVERVIEW OF THE REGIONAL ECONOMIC STRATEGY AND ITS DEVELOPMENT PROCESS

The Regional Economic Strategy galvanises collaborative partner action in pursuit of shared ambitions, goals and actions to deliver on the region's potential. It builds on the Scottish Government's Regional Economic Policy review and is informed by the National Strategy for Economic Transformation (NSET), bringing a regional focus and coherence to a strategic landscape informed by a range of national strategies and plans. These include strategies and plans relating to energy, climate change and just transition, population, housing, digital, innovation, community wealth building, rural and island development, agriculture, land use and biodiversity.

This regional strategy also aligns with the strategies of member organisations, focusing where collaborative action will yield the best outcomes.

It charts how the region can capitalise on key opportunities and assets to sustainably and inclusively grow the region to reach its economic potential. It has been informed by diverse research, analysis and discussion that has included:

- a review of the existing research and strategies produced by Highlands and Islands REP members, as well as other relevant external research;
- workshops involving HIREP members;
- HIREP sub-groups on population, skills, housing, tourism, childcare and community wealth building; and
- an online survey of stakeholders across the region in November & December 2023 ensuring good level of representation of business owners and private industry leads, public agencies (at both regional and sub-regional level) and community representatives.

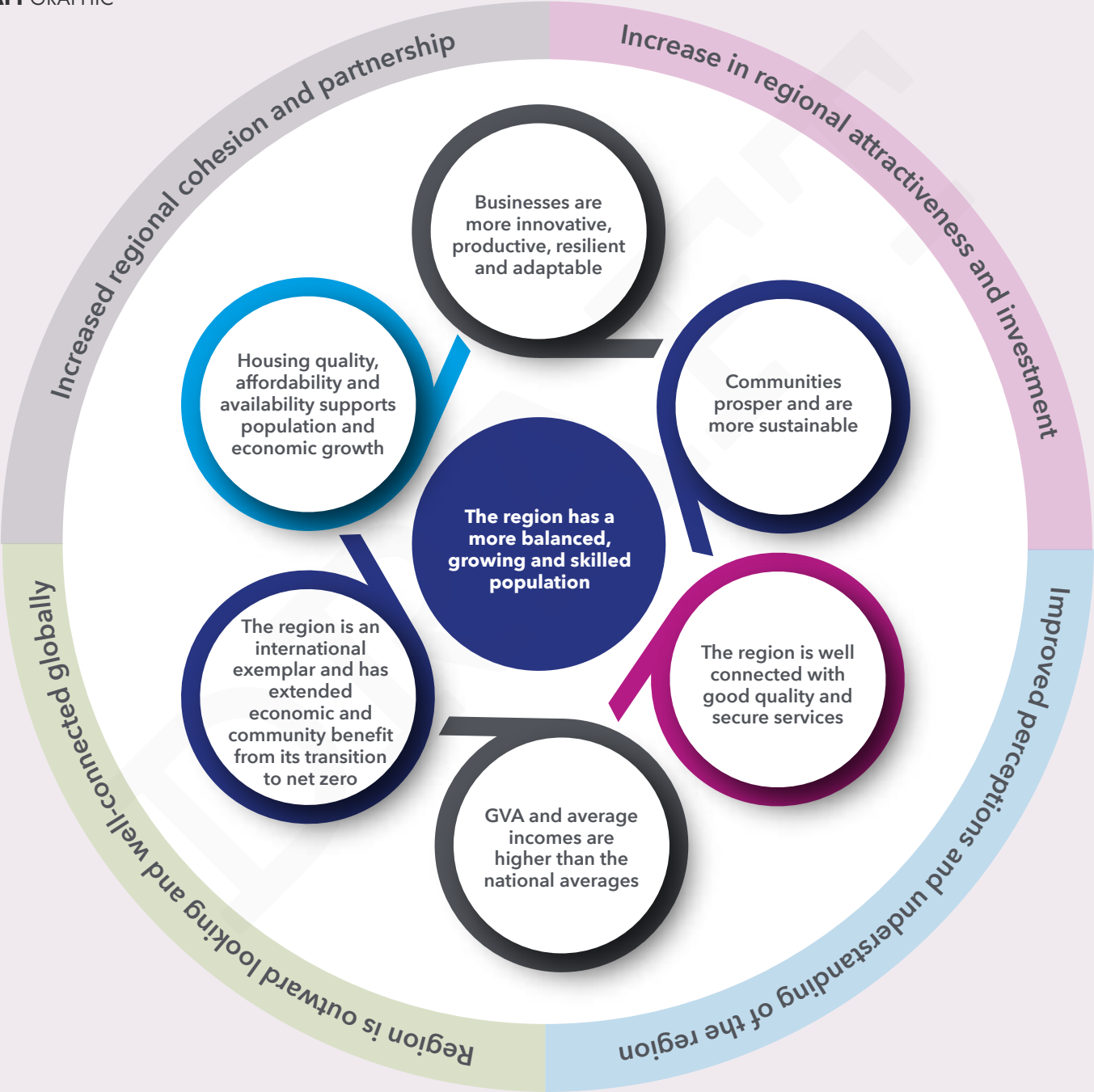
2. Our vision for the region in 2034

2.1 VISION STATEMENT

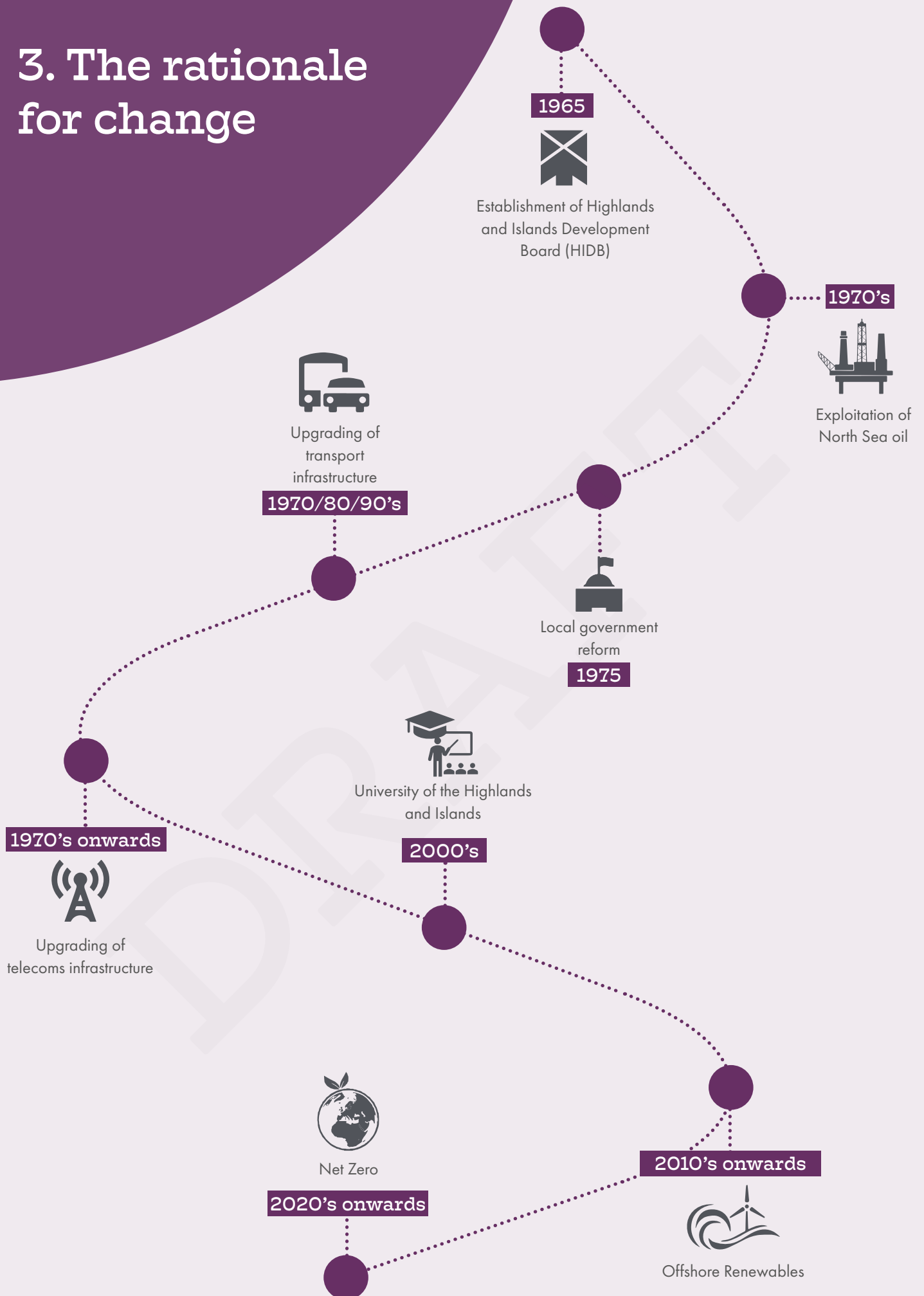
The Highlands and Islands is a dynamic, connected, resilient and prosperous region with a balanced and growing population and a vibrant economy, embedding community wealth building, leading Scotland's transition to net zero, and enhancing our natural environment.

2.2 FULFILLING OUR VISION – A SNAPSHOT OF THE REGION IN 2034

DRAFT GRAPHIC



3. The rationale for change



3.1 KEY DRIVERS OF CHANGE

The Highlands and Islands is an adaptable and resilient region. It has a long history of leading and responding to change, characterised by partnership working to grasp regional opportunities and secure investment in much needed regional infrastructure and services. The next decade and beyond will be no different, with change being a constant. The HIREP strategy and its delivery will be informed and guided by an understanding of the drivers of change and their specific, and sometimes unique, impact on the region.

Climate change

- › Climate adaptation and resilience
- › Energy transition
- › Biodiversity
- › Decarbonisation
- › Regulation
- › Community engagement and awareness

Political and societal change

- › Constitutional reform
- › Regulation
- › Community wealth building
- › Consumer behaviour
- › Cost of living
- › Increasing demand for fair work and remote and flexible working
- › Equalities

Land Ownership and Land Use

- › Housing supply and demand
- › Land use change and natural capital markets
- › Community ownership and wealth building
- › Land and agricultural reform
- › Agriculture and food production
- › Sustainable tourism

Technology and innovation

- › Data innovation and artificial intelligence
- › Automation and robotics
- › Digital transformation
- › Cyber resilience
- › Circular economy

Demographics

- › Migration
- › Working age population
- › Increase in older population
- › Low birth rates
- › Geographic disparities



3.2 ANALYSIS OF THE REGION'S STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

An honest and timely assessment of **the region** provides the basis for a clear rationale for change. This is framed by our understanding of the Strengths, Weaknesses, Opportunities and Threats (SWOT) that **shapes the goals and actions of the Strategy**. HIREP members have drawn on their collective experience to understand the forthcoming decade of change across the whole region and sought to identify the most significant economic opportunities together with enabling infrastructure and services that will realise the region's potential. This has been tested in consultation with wider stakeholders to ensure that HIREP's collaborative action is focused where it is most required and will make the most benefit.

Note that the graphics are under review and redevelopment.

3.2.1 Opportunities



“Much of Scotland’s renewable energy resource is in this region or its coastal waters. Collective action is required to secure, through influence, a favourable policy and regulatory regime; a strategic approach to infrastructure investments; regional level skills development and region wide community benefits.”

“Renewable energy and infrastructure provides a fantastic opportunity for jobs and sustainability, but there is a risk that the local benefit is not maximised and the socio economic potential is not maximised”

The Highlands and Islands is at the forefront of Scotland’s economic transformation and transition to a net zero nation. The mix of natural resources, established and emerging sectors, culture, heritage, social capital and business know how combine, to make a lasting impact on the region’s economic performance, the lives of its people and communities and the natural environment.

Working together, the combined expertise, resources and ambition within public, private, academic and third sector partners, can be a catalyst for regional transformation. Through collaboration, our leverage in securing external public and private investment can support development throughout the whole region.

Sense of place is strong in the Highlands and Islands, with the region’s unique culture, environment and people shaping future opportunities. These manifest themselves in exciting prospects for our key sectors and for community wealth building. These opportunities have been tested through consultation with stakeholders and are those where a collaborative regional approach can deliver the best outcomes.

3.2.1.1 Renewable energy (Energy transition)

The region currently accounts for over half of Scotland's current installed renewable energy capacity and this capacity could increase four-fold if all pipeline activity is realised, further still if proposed developments progress.

Reflecting this, HIREP members, and the broader consultation process, all recognised renewable energy as the primary opportunity for the region. This includes capitalising on renewable energy generation as a means for the region to maximise its future potential, creating highly-skilled and high-paying jobs in a rapidly growing sector. But also supporting evolution of the sector, supporting technological innovation, and ensuring the infrastructure exists in terms of transport, ports and harbours, housing, academic expertise and supply chain requirements, so that benefits can be retained in the region.

Central to this opportunity is not only the expansion of the renewable energy sector but also ensuring that local communities benefit from its growth. Without specific action, there is a risk that local benefits may not be maximised through this opportunity, despite it being a significant contributor to Scotland and the wider UK's renewable energy production. Local communities should derive tangible benefits from the renewable energy assets in the region, contributing to more equitable growth and community wealth building. address local needs and enhance community wellbeing.

3.2.1.2 Sustainable tourism and hospitality

Sustainable tourism is a key opportunity that could benefit the region across its varied geographies. While the visitor economy is well-established in the region, sustainable tourism has emerged as an opportunity for further growth, bringing potential to support vibrant communities, employment creation in rural communities and is key to the region's just transition to net zero. Visitor demand for the Highlands & Islands is consistently strong, especially with our international markets, and is reinforced by a strong brand based on our unique culture, heritage and landscape.

Future success will depend on our ability to achieve balanced, sustainable growth of the visitor economy, creating opportunities for communities and businesses to realise benefits, while seeking to protect and enhance the environment on which tourism depends.

3.2.1.3 Food and Drink, and Primary Sectors (including aquaculture)

The region's food and drink sector, built on our primary industries, is well-established and has a unique reputation with high value which is associated with our environment, people, culture and provenance. It is a significant economic contributor comprising 31% of Scotland's registered food and drink businesses and 28% of all Scottish Food and Drink employment, and there are over 18000 agricultural holdings in the region. Employment stretches across the region however there are location specific clusters notably areas such as Islay and Speyside are renowned for their whisky production, our islands and west coast for aquaculture, while Moray is recognised for its crop and animal production, and fish landings take place around our extensive coastline. To ensure a prosperous future for the sector and maximise benefit to local communities, enterprises will have to adopt new technologies, create higher value jobs and develop sustainable products and business models. Market insights indicate that both future employees and customers will be concerned about the low carbon footprint of food and drink products and enterprises' reputation for their role in the transition to net zero. As producers of high value products operating with a small labour pool, the Highlands and Islands has the motivation to be a forerunner in these areas. Regional greenhouse gas baselining highlights the scale of opportunity in addressing emissions from agriculture, land use and industry.

3.2.1.4 Life, Marine and Health Industries

The Highlands and Islands has multiple niche strengths in life, marine and health sciences, built on unique natural resources, growing academic expertise and innovative businesses. We have anchor life science assets across the region in UHI Shetland, the European Marine Science Park and Inverness Campus, the latter included in the Inverness and Cromarty Firth Green Freeport area. Collaboration between stakeholders and within clusters will be key to envisaging and creating the conditions for long term high value growth, for enterprises that are focused on range of markets overseas and domestically and tend to pay above average salaries. The Highlands and Islands has advantages in areas including biotechnology to use the regions natural resources, such as seaweed and timber, to create high value products for the food pharmaceutical and packaging industries; a testbed for remote and sustainable healthcare that delivers for sparse and dispersed population; and leading animal health, aquaculture and agritech research, development and innovation that ensures the sustainable future for the region's extensive marine and land based farming sectors.

3.2.1.5 Heritage and Creative Industries

With a well-established international brand recognition, our region has strengths in heritage, provenance and storytelling, creativity, Gaelic and other languages, and green credentials. The creative industries is the world's fastest growing sector, largely driven by transformational adoption of technology. Within the Highlands and Islands, it spans commercially successful businesses as well community-based organisations, and is buoyant across the whole geography, with clusters in many of our islands. Often strongly linked to distinctive local culture e.g. Gaelic culture in Innse Gall and visual arts and crafts, textiles and jewellery in Orkney and Shetland.

The region has a major opportunity to build on its international reputation and many assets, with particular strengths in areas of largest growth such as digital content, authentic traditional crafts, digital heritage, environment and sustainability.





3.2.2 Enablers and Challenges

Realising our regional opportunities requires effective policy, investment and service delivery across the region and requires a sharp focus, given the challenges of geography, demography, infrastructure deficiencies and cost of service provision. Each of the enablers, identified by HIREP members and through consultation, is a fundamental requirement for development and presents challenges best addressed through collaborative action.

3.2.2.1 Housing

Housing provision and availability across the region is a fundamental enabler of development, and the current housing system is not operating in a way that supports economic development, community resilience or population attraction and retention.

Fit for purpose and affordable housing, across all types and tenures, in the right locations, underpins realisation of the region's transformational economic opportunities by ensuring that worker accommodation is available. It supports growth of the region's SME base through provision of housing in proximity to employment. It is also critical to community cohesion and resilience, given the importance of housing availability for residents and those providing key services.

The need for new housing investment across the region is matched by the need to invest in existing housing stock to improve energy efficiency, address fuel poverty and contribute to a reduction in greenhouse gas emissions.

The region's housing challenge is multifaceted. Collaborative action by HIREP seeks to understand and address barriers in the housing system, leading to investment in housing stock that meets the needs of all parts of the region.

3.2.2.2 Transport services and infrastructure

There are numerous transport challenges across the region which can result in journeys with low average speeds, low frequency and reliability issues. Transport services are expensive to deliver over a large geography and, in many parts of the region, reliance on private cars exacerbates transport poverty. Specific challenges include:

- Poor road networks including trunk roads and other main routes;
- Limited electric vehicle charging infrastructure and need for public investment to expand;
- Reliability and resilience of ferry services;
- Limited public transport options across much of the region;
- Inadequate and restrictive rail networks; and
- Frequency and cost of flights from many of the region's airports

These challenges have multiple impacts. They can hamper access to employment and public services, particularly amongst low-income groups and they are a barrier to businesses accessing supplies and markets.

Sustained investment in transport infrastructure and connected services is required, not only to enable efficient, timely and resilient services, but also to support the decarbonisation of transport.

3.2.2.3 Population and Shortage of labour

Depopulation is a significant challenge for the region and working age population has been exacerbated by outmigration and the impact of Brexit. The decline in the numbers of working age has decreased more rapidly between 2011 and 2022 in the Highlands and Islands (-5.3%) than Scotland (-1.1%) and almost a quarter (24.2%) of the population in the region were of retirement age (65+), (20.1% in Scotland). There is also unevenness of population distribution across the region. The opportunity afforded by digital connectivity to “work anywhere” in certain jobs is potentially an opportunity for the region but is heavily dependent on addressing the issues that determine regional attractiveness.

Population challenges are cross-cutting, impacted by factors such as:

- Lack of affordable housing;
- Expensive and poor public transport options, reducing options for people who do not have a car/cannot afford a car to commute to work or access public services such as child and adult care provision;
- Access to affordable digital connectivity;
- Access to core services eg. healthcare (incl. elderly and childcare) and education;
- Poor internet access, meaning the region is particularly unattractive to young people and families;
- Lack of access to vocational training and higher educational opportunities; and
- Lack of attractive long-term employment opportunities or career progression, making it difficult for residents to earn a living in the region

Labour shortages have become more prevalent in the past few years, impacted by Brexit and the pandemic, and have been more acute in sectors such as tourism and hospitality, food and drink, construction and health and social care. Challenges are also more persistent in more rural and island areas. Lower wages are an inhibitor to attracting population: increasing fair work and wage rates are key. There is an overriding need to improve the issue of depopulation and increase access to labour through systemically addressing the above-mentioned issues to make the region a more attractive place to live alongside a regional effort to support talent attraction, upskilling and reskilling, and reducing economic inactivity.

3.2.2.4 Skills shortages

As explained earlier, addressing the related challenges faced by the region is crucial to attracting and retaining skilled labour. To make the region a desirable place for long-term living and employment, challenges such as housing, transport, digital connectivity and cost of energy must be addressed.

Acute skills and labour shortages are noted to be a key issue in the region and are highlighted as being inextricably linked with depopulation. These shortages have, among other things, led to businesses reducing their service offerings as well as their opening hours. The two problems are interlinked but come with their own unique challenges, while labour shortage makes it harder to find people to hire, skills shortage makes it harder to find the right people.

The region has long-standing skills gaps and skills shortages which will continue, partly driven by the changing nature of skills in workplace such as digitisation. For our future and current workforce, the skills required to enter and progress in work are also changing.

Consultation respondents highlighted the opportunity for skills and labour attraction to the region through various sectoral opportunities, for example renewable energy, life sciences and aquaculture. Delivering net zero requires new skills and will require change within the skills system if we are to realise the opportunity.

3.2.2.5 Energy

While the regional opportunities from energy transition are evident, there are also challenges. The transition to net zero will require a mix of public and private investment in enabling infrastructure. The scale of such investment is beyond the capacity of the REP and its members. There is, however, a crucial role to play in identifying and evidencing the need for infrastructure, working collectively to aggregate data, and advocating for investment. Such investments have the potential to generate considerable community benefit, the challenge being to secure benefits of appropriate scale and maximise resulting community and regional benefits.

“Depopulation is often linked to the other challenges listed in this consultation, such as housing, cost of living and employment opportunities. Many younger people, those most likely to be economically active, leave the island for better housing and employment prospects. Reversing the trend of depopulation should be a central focus of any Highlands and Islands Economic Strategy.”

Furthermore, the cost of energy presents a substantial issue for both local communities and private businesses, especially for those without access to mains gas. Consequently, these individuals and businesses are often reliant on more expensive energy sources for heat, such as oil and electricity. High energy costs are a particular issue for business in the current inflationary environment. While the cost of energy is outwith its direct control, there is a potential advocacy role for the REP.

Moreover, respondents were particularly frustrated with the cost of energy in the region considering the region's significant contribution to a transition to net zero and renewable energy calling it a "regional injustice".

Regional actions can include seeking influence on investment in, for example, transmission infrastructure and seeking more effective approaches to community benefit.

3.2.2.6 Digital Connectivity

Digitalisation is a key driver of innovation and productivity in the region, with equity of access, at affordable cost, to high-speed connectivity being a pre-requisite to delivering the ambition in this plan. Such access is not yet universal throughout the region, leading to a geographic digital divide and stifling the realisation of opportunities in some (often remote and / or island) communities. As investment continues nationwide to deliver ever faster broadband speeds, there is a danger that, without continued public and private investment, more of the region falls further behind. Across a region with dispersed population and lengthy travel times between

settlements, mobile connectivity is equally important, while being challenging to deliver effectively. Continued investment is required to deliver 4G and 5G connectivity outwith main settlements.

Improving digital access across the region is of paramount importance to businesses, being a strong driver of productivity. It is also fundamental to delivery of public services, including education and health services which are, increasingly, implementing digital service delivery models to address the challenge of distance.

Alongside investment in physical infrastructure, there is a continuing need to maximise the economic and social benefits of digital through supporting business and social innovation.

3.2.2.7 Accessible public and private services across the region

The availability of services across all parts of the region is fundamental to the ability to retain and attract population. Delivering such services across the Highlands and Islands is logistically challenging and costly. The need to deliver over distance and the lack of scale economies as a result of small and dispersed populations requires innovation, partnership and significant resources.

Services include childcare, social care, cultural and leisure services, along with education and health services. While these are often the responsibility of individual HIREP partners, there is merit in regional learning and potential collaboration to develop and deliver services using new and innovative models.



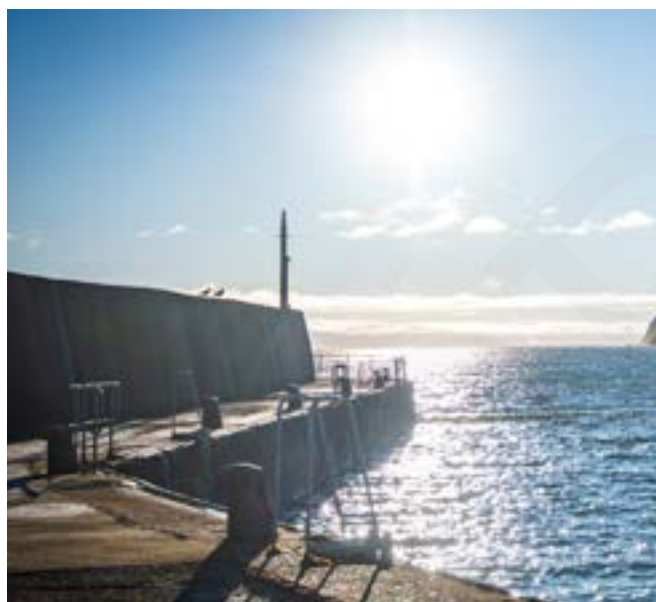
We need to build on our improving connectivity and recognised expertise in partnership delivery of services. For example, the OECD in its rural innovation work has recognised the healthy state of social innovation and role of social enterprises in service provision, especially across remote mainland and island communities. Such partnerships should be enhanced, with HIREP having a role in building partnerships and sharing good practice across the region. A collective regional voice articulating what works most effectively in service delivery across the HIREP geography and the investment required to deliver is needed.

3.2.2.8 Natural habitat and climate change

The Highlands and Islands faces substantial challenges as a result of climate change, and the potential impact on the natural environment, local communities, transport and infrastructure and local businesses. Key risks as a result of climate change include:

- Loss of coastal communities and natural resources as a result of rising sea levels and coastal erosion;
- Increased frequency and intensity of extreme weather events such as storms and floods and increasing temperatures; and
- Loss of biodiversity and habitat degradation impacting fragile ecosystems such as peatlands and marine environments

“It is important to maintain, and preferably expand on, the current provision of services which are viewed as key to sustaining a viable community. If the island’s population falls further it could jeopardise key services and further accelerate the process of depopulation, with the school, GP surgery, shops and businesses potentially shutting as a result.”



It is unarguable that we need to take action to reduce the region’s carbon footprint. The scale and nature of the region’s carbon emissions is detailed in research commissioned by HIE demonstrating the scale of emissions from land use and agriculture. It points to the need for changing agricultural practices and investment in restoration of natural habitats (particularly peatlands and native woodlands). Whilst clearly a challenge, carbon reduction also presents opportunity in the form of environmental enhancement and nature-based business and job opportunities. There is potential for significant community benefit to be derived from natural capital investment at regional scale over the long term.

Even if the region can collectively deliver net zero, our climate is likely to continue to change with warmer drier summers, warmer wetter winters, and more extreme weather events – storms, floods, droughts. A risk-based approach to climate change adaptation will be essential for future generations in the region.

This is a cross-cutting challenge which not only has potential consequences for the opportunities identified such as for sustainable tourism and life, marine and health sciences, but also the potential to exacerbate other challenges including disrupting transport and infrastructure and attributing to further depopulation.



3.3 CONCLUSION

These key opportunities and enablers are required to achieve our vision, alongside a need to ensure these are clearly understood by governments and investors. Infrastructure investment is fundamental, requiring a long-term approach and innovation, especially to be appropriate for our geography and dispersed populations and businesses.

Whilst our goals and aims are shaped around where we can combine our efforts to do more and achieve more for the region, there is an overarching requirement for collective and consistent promotion of the benefits and evidence of the needs of the region to help secure its vital continued and future contribution to the sustainable and inclusive growth of Scotland and the UK.

4. Goals and actions



INTRODUCTION

The Strategy sets out clear goals and associated actions requiring regional collaboration to deliver our Vision. Actions considered best delivered at a local level are not incorporated but HIREP will remain agile and consider additional actions if required as part of biennial delivery plans.



To deliver these goals, HIREP will put appropriate governance arrangements in place, including the alignment of some existing regional specific groups, to provide clear ownership of both development and delivery of agreed actions.

CROSS CUTTING THEMES

The Strategy has identified four cross-cutting themes considered fundamental to meeting our goals and adding value to our actions:

Community Wealth Building and Benefit

- › The region has a strong and proud history of extensive community-led development and action. Community Wealth Building (CWB) is fundamental to a successful place-based approach to socio-economic development and actions will be woven into HIREP's response to regional opportunities and will contribute to addressing, in part, key enablers. It is recognised that community-led development is a powerful mechanism for population retention.
- › The understanding of CWB principles differs within HIREP partners and implementation across the region is at different stages. Building on development of a common understanding, HIREP's focus will be on the identification of CWB actions that are most effectively delivered at regional scale, for example community benefit from energy and other investments, natural capital benefits, and procurement approaches.
- › Sharing community benefits is a core component of CWB. The potential scale of community benefits arising from major investments, including onshore and offshore wind developments, transmission infrastructure investments, and, in the longer term, natural capital, could yield considerable sums for the region. How this can be distributed equitably across the region, to stimulate key sectors (e.g. domestic retrofit market) and for long lasting, sustainable impact is the challenge we face, and a key opportunity.



Innovation and Entrepreneurship

- The region has embraced innovation and championed entrepreneurship over decades, wielding it to respond to both the challenges and the distinct opportunities created by our geography and natural and cultural assets.
- Extensive social innovation, aided by the region's high levels of social capital and number of social enterprises, has been impactful in finding novel ways of delivering community services and benefits. The OECD, in its recent work on innovation in rural areas, highlighted the powerful impact of social innovation on development in the Highlands and Islands and recognised the solid foundation on which to build.
- Innovation is key to improving productivity, competitiveness, profitability and entrepreneurship. The drivers of change will require the region to adopt and exploit technology, data, artificial intelligence and advance innovation. Embedding these across the strategy, diversifying, and developing entrepreneurial skills and knowledge will increase resilience and broaden the economic base.

Population

- The Highlands and Islands has experienced periods of significant population decline throughout its history which have resulted in successive governments and the European Union recognising the need for strategic support. With the 2022 Census indicating that every part of the region has experienced a decline in working age population, although more keenly felt in the islands and the North mainland, the Strategy recognises the core need for significant investment in people, infrastructure, businesses to tackle this challenge. The region's greatest asset is its people. They are intrinsic to realising our ambitions and creating the conditions for population growth requires actions across all the goals in the Strategy.

Just Transition

- Scotland's ambition to end its contribution to climate change by 2045 has far reaching implications for the Highlands and Islands and its people, communities and businesses. The positives include the renewable energy opportunities that are evident in the region are critical to achieving national ambition, and the extent and capacity of our natural capital both to sequester carbon whilst generating economic opportunity and good biodiversity outcomes.
- The challenges could be summarised through the examples of the need to reduce the emissions impact of agriculture and land use, and the scale of work required to decarbonise domestic and commercial heating.
- The change required will require good data, collaboration, careful planning and delivery to ensure that benefits are shared across all geographic areas and interest groups and that costs do not fall disproportionately on particular areas or groups. Each of the regional opportunities and enablers / challenges includes a net zero component to be addressed in a "just" way.

OUR STRATEGIC GOALS AND ACTIONS

Goal 1: Become a region which delivers high quality and affordable housing for residents

Enhancing local housing options is crucial for community sustainability and resilience. Providing residents with a quality home creates a foundation for long-term wellbeing and fosters stronger communities and is critical for attracting population.

Sub-goal 1.a: Improve the functioning and responsiveness of the housing “system” to emerging needs in the Highlands and Islands

Action(s)

- **Strengthen the regional evidence base** for housing investment
- **Support the revitalisation of rural areas** by putting a joint focus on increasing housing availability in both rural and urban communities.
- **Strengthen the planning capabilities of local authorities** to help them better anticipate and meet local housing needs.
- Empower and support community housing trusts to **build capacity** to take forward feasibility work and develop propositions for community led housing developments.
- Establish a **regional demonstration project** to test new approaches to addressing housing in rural locations, governed by a committed partnership of public private and community representatives. Use the learning to inform region-wide solutions
- Work with Scottish Government to help ensure that **housing policies and regulation are rural proofed** and consider devolving of housing funds to island and rural areas to enable flexible responses at local level.

Sub-goal 1.b: Increase access to high-quality housing across entire region

Action(s):

- Increase the construction of more publicly **-owned housing and social housing**, ensuring dispersal of provision across rural areas.
- Accelerate the **development of mid-priced private housing options**, recognising the market failure of private housing provision across many rural areas
- **Repurpose vacant homes and holiday rentals** by encouraging occupancy / utilisation as permanent primary homes and exploring different mechanisms, including new tax models, to promote change.
- **Champion energy-efficient housing** by encouraging the construction of energy efficient housing as well as upgrading the existing housing stock.
- In response to evidence of the market failure of the SME building sector in rural and island communities, develop a **region-wide approach to growing building capacity and skills** to deliver a pipeline of proven housing demand
- Consider the need to **pilot short-term housing solutions** to alleviate pressures in key locations.

Goal 2: Transform the region's transport infrastructure into an exemplar of efficient rural mobility

Connecting people, communities and businesses to employment, services and markets is a prerequisite for development. Transport that is reliable, resilient and affordable, providing effective connections across the region and connecting the region to the wider world opens up business opportunities and makes the region an attractive place to live, work and visit.

Sub-goal 2.a: Improve transport connectivity for local residents, businesses and visitors by increasing the availability, reliability and affordability of public transport across the region.

Action(s):

- › Work with HITRANS, ZetTrans and SPT to **support the development and delivery of their RTS Action/Delivery Plans**, which include road, rail and ferry infrastructure and service enhancements, improved integration across travel modes and exploration of fixed link options
- › **Revitalise efforts to deliver against commitments made regarding strategic road enhancements**, including A9 and A96 dualling and A82, A83 and A85 and to improve quality and safety and unlock regional economic potential.
- › **Support the case for improvements to air travel**, including enhancements to existing services and the establishment of new services, this should consider use of the Public Service Obligation (PSO) contracting system.
- › **Support the case for investment in ferries infrastructure and service improvements that meet the needs of communities and businesses.** Support the exploration of fixed link possibilities in the medium term.
- › **Strengthen the planning capabilities of local councils** and improve the planning processes associated with infrastructure approaches in order to help better meet local transport infrastructure needs.
- › **Strengthen the evidence base relating to the effects of flooding and coastal erosion due to climate change**, including identifying resource requirements to address the current and future impacts on the region's transport infrastructure.
- › **Strengthen the evidence relating to transformational economic opportunities** and the case for transport improvements that will be required to enable and maximise the benefits of these, supporting planning and advocacy efforts.

Sub-goal 2.b: Pursue innovation in technology and service provision to deliver enhanced and more resilient and sustainable transport connectivity across the region.

Action(s):

- › **Future-proof regional car infrastructure by developing electric and low carbon opportunities**, ensuring that funding models and delivery models are reflective of the challenges in rural parts of the Highlands and Islands. Ensure that the necessary skills are in place within the local supply chain to deliver and maintain infrastructure.
- › **Build on the success of the Sustainable Aviation Test Environment (SATE) project**, to capitalise on emerging decarbonisation opportunities in the aviation sector positioning the region as an early adopter of new technologies for the movement of people and goods. Looking ahead, the specification of PSOs can be critical in the transition to the Highlands and Islands becoming a Net Zero Aviation region.
- › **Widen the use and awareness in the region of Demand Responsive Transport (DRT)**, particularly for rural communities which currently have limited or no regular scheduled bus services, taking learning from projects such as Moray Council's m.connect DRT service using an app-based booking system.

Goal 3: Build resilience and competitiveness through place-based opportunities and stimulating an active culture of entrepreneurship and innovation

A place-based approach focusing on areas of opportunity and supporting clusters recognises and builds on our regional competitive advantage. Enhancing entrepreneurship and encouraging business innovation builds resilience, increases productivity and results in more competitive businesses able to offer higher paying jobs. There are benefits from focusing on the untapped potential of under-represented groups such as women and young people.

Sub-goal 3.a: Stimulate an entrepreneurial and innovation-active culture within the region

Action(s):

- › Develop and facilitate **new opportunities for peer-to-peer learning and networking** across the region, and nationally/internationally through learning journeys, to support entrepreneurs in all stages of their journey.
- › Consider regional campaigns and programmes to **promote entrepreneurship in education**.
- › **Increase regional alignment from external funding** to increase effectiveness and efficiency of enterprise support.
- › **Develop a regional innovation plan** to support the opportunities where the region has a distinctive competitive advantage.
- › **Increase the number of spin-outs in the region** through expanding knowledge of the current regional footprint and developing new approaches to support and enhance.
- › **Increase the adoption and diffusion of innovation** in businesses, social enterprises and community organisations
- › Enable **enterprises to capitalise on opportunities**, especially from **digital technology, international markets**, and supporting the **transition to Net Zero**.
- › Improve delivery and effectiveness across the region through **sharing monitoring and evaluation outcomes and lessons learned**.

Sub-goal 3.b: Support new opportunities to enable growth and resilience in our food and drink, primary, sustainable tourism, creative industries, and life sciences and health sectors

Action(s):

- › Support the transition of well-established sectors to ensure they **embrace new technologies and the transition to net zero** by understanding the barriers that hinder change and identify regional opportunities that would lead change.
- › **Explore the benefits and delivery models for regional cluster approaches** which are appropriate for the region's unique geography and can stimulate innovation to support our regional transformational opportunities.
- › Take **inspiration from global exemplars** to inform the regional growth of niche high value life science sectors.
- › **Grow our knowledge economy** in areas where the region has a distinct natural advantage and attract more international business to work with our academic institutions and to locate to the region.
- › Ensure **delivery of wider economic and community benefits to the visitor economy around the investment in growth deals**. Seek to identify a pipeline of potential future strategic investments.
- › Support collaboration across the REP to **achieve maximum benefits for the visitor economy arising from the Visitor Levy**.
- › **Support key Gaelic speaking communities** with interventions to promote socio-economic opportunities and enhance resilience.

Goal 4: Maximise the economic and community benefits from renewable energy investments and drive the region's move to net zero and climate resilience/adaptation

The region is at the forefront of Scotland's transition to net zero, being home to much of Scotland's renewable energy resource and natural capital. Safeguarding and strategic use of this natural resource will generate long-term value, retained in the region, with actions to ensure that businesses, communities and individuals across the whole region benefit.

Sub-goal 4.a: Actively work towards safeguarding and enhancing the region's natural capital

Action(s):

- › **Incorporating a natural capital approach to regional and local decision making** by enhancing public awareness of its natural resources and understanding the risks and benefits of nature-based solutions e.g. flood management, coastal management, naturalising watercourses, peatland restoration, native woodland protection and enhancement.
- › **Place special emphasis on the restoration and conservation of local peatlands, and protecting, enhancing and creating extensive native woodlands.** Peatlands not only form an integral component of the regional landscape, cultural heritage, and natural environment but also serve as vast carbon reservoirs, storing an estimated 1600 million tonnes of carbon in Scotland – a significant proportion of which is found in the region. Much of this resource is degraded and acting as a source of carbon rather than a sink. Championing this proactively enables the safeguarding the region's natural habitat and makes a major contribution to delivering our net zero ambition.
- › **Proactively anticipate and strategically plan for the possible displacement of coastal communities due to rising sea levels.** Where feasible, the use of innovative adaptation solutions which preserve coastal communities should be prioritised and strategies such as selective local abandonment should only be considered where no other route is viable.

Sub-goal 4.b: Maximising the economic and community benefits from renewable energy development

Action(s):

- › **Develop a strategic regional approach to securing and distributing community benefit funds,** including statutory, planning related funds and voluntary funds
- › **Support the scaling and growth of local supply chains** through the aggregation of place-based demand/sharing of data, to ensure that existing businesses can pivot positively whilst also attracting new entrants to the market.
- › **Identify and fill capacity and capability gaps through targeted inward investment to capture benefits within the region**
- › **Secure investment in our ports and harbours and other enabling infrastructure** ensuring that the region can fully and robustly contribute to decarbonisation of the grid and realise the benefits of the emerging hydrogen economy. It is also important to ensure that all investments are proactively screened for climate risks, both current and future.
- › **Support innovation and the development of new technologies** such as marine energy technology/new and emerging technology/advanced manufacturing techniques/floating offshore wind, where the area has a natural advantage/opportunity to take a leading role.
- › **Seek to influence a regulatory, market and consenting framework** that recognises the strategic importance of our region, supports all renewable energy sectors, reduces project delivery risks and increases private sector finance.



Sub-goal 4.c: Develop and implement more climate smart technologies and solutions in everyday life

Action(s):

- **Streamline the path for pioneering climate-smart solutions** by reducing barriers associated with development and implementation.
- **Increase awareness of the existing cultural and natural capital of the region as a source of growth and build on existing work** (e.g. that of NatureScot) on ways in which local communities benefit from this investment, continuing the benefits realisation planning undertaken as part of the vision development.

Sub-goal 4.d: Creating the conditions to enable affordable energy solutions for all

Action(s):

- **Advocate for the region** in relation to potential solutions to high regional energy costs.
- **Identify and create special provisions to tackle the high cost of energy for rural communities** as many of them are not connected to mains gas and therefore are more reliant on costlier options such as oil and electricity.
- **Identify and implement innovative and effective community benefit approaches** to maximise the long-term benefits from the regions' renewable sectors.

Goal 5: Actively work towards expanding and accelerating the level of access to affordable high-speed digital connectivity across the region

High speed digital connectivity is a game changer for business innovation, community access to services and regional attractiveness. Continued investment in infrastructure and increasing adoption of enhanced connectivity is needed to reduce the “digital divide”.

Sub-goal 5.a: Increase the level of access to high-speed connectivity across the region

Action(s):

- › **Maximise delivery of Scottish Government (R100) and UK Government (Project Gigabit) programmes** to increase availability of high-speed connectivity to all parts of the region
- › **Proactively encourage more private and public sector collaboration** to develop better digital infrastructure across the region.
- › **Identify ways of facilitating access to affordable and fast internet connectivity in communities** that are not current rollout plans and enact these within a reasonable time frame.

Sub-goal 5.b: Increase the adoption and use of digital technologies to increase productivity and economic and community resilience

Action(s):

- › **Support digital innovation**, through demonstration projects, best practice learning, digital hubs and the development of “smart” places



Goal 6: Develop a coordinated response to skills and labour requirements across the region.

Our regional opportunities require people with the right skills. Understanding and responding to future skills and labour needs gives businesses confidence they can access the skills they need and provides individuals with pathways to well paid work and career fulfilment in the region.

Sub Goal 6.a: Develop a shared understanding of labour and skills needs

- › **Developing and communicating a greater understanding** of need and emerging economic investment / opportunities through and shared evidence base developed to inform regional / local provision.
- › **Develop proposals to align Investment in skills with economic need** – prioritising agreed economic priorities and working with the skills system to respond, our combined Investment in post school skills should focus on both supporting skills development and economic growth.

Sub-goal 6.b: Protect and build on the best of provision

- › **Maintain and expand the best of provision** capitalising on growing the workforce in response to short- and medium-term employment opportunities and supporting workforce development.
- › **Support and grow the best of our Academic Pathways**, reflecting regional/local strengths and opportunities.
- › **A greater commitment to Work Based Learning** in response to employer, resulting in greater access locally.

- › **Develop the current workforce through upskilling and reskilling**, ensuring our people and businesses thrive.
- › In response to the working age population challenge, changing nature of work and business models, focus our efforts in **addressing need through work-based learning in a number of agreed priority sectors, important to the regional economy**.

Sub-goal 6.c: Talent Attraction and Retention

- › **Regional Partners commit to adopting work-based learning into workforce planning**, providing a step change in opportunities across the region with the public sector to earn and learn.
- › **Develop proposals to build on existing strengths of partners, including FE/HE alumni, Graduate Apprenticeships and co-delivery of provision with industry to promote regional opportunities and attract talent.**
- › **Work with UHI to ensure they are ably resourced to support the regional skills and education requirements** (e.g. the development of a Medical School to grow the number of medical and healthcare professionals that are crucial to sustaining local communities).



Goal 7: Increase the profile and understanding of the Highlands and Islands to support effective policy and unlock regional investment

A powerful regional voice, supported by robust evidence detailing the opportunities and challenges in all parts of the region, is needed to exert effective policy influence and secure external public and private funding to further our regional ambitions. Using our knowledge and resources to shape innovative solutions, responding to unique situations across the region will demonstrate the value of place-based approaches.

Sub-goal 7.a: Enhance the regional evidence base to support advocacy and business case development

- Progress a **regional economic intelligence hub** to increase access to and use of regional data and intelligence and collectively address identified gaps to support regional ambitions.
- Develop a **Regional Investment Prospectus** to promote the region's assets and opportunities.

Sub-goal 7.b: Bolster advocacy efforts with national government to better highlight the region's unique needs

- **Advocate for and develop alternative ways of funding and providing key public and private services in the region** (e.g. health and childcare through innovative means such as community health hubs in areas of higher footfall).
- **Develop and communicate a clear HIREP position in regional and rural policy and funding discussions with governments** to secure effective policy and maximise resources to realise regional opportunities

- **Advocate for the region on key issues relating to the implementation of the strategy** and respond, as appropriate, to consultations as a regional partnership to ensure a common and consistent voice for the region.

Sub-goal 7.c: Identify new ways to deliver public services across the region, through use of technology and innovative partnership delivery models

- **Identify the national systems and policies which are not currently delivering for the region and work towards national recognition that these may not apply to the HIREP region** considering its unique geography and dispersed population. Undertake an analysis of the existing systems which impact on the implementation of the Strategy and develop proposals for alternative systems.
- **Design and implement innovative service delivery models**, building on the region's high levels of social capital, expertise in social innovation and existing public / private delivery model collaborations

5. Delivering Our Strategy

DEVELOPING AN ACTION PLAN FOR DELIVERY

Section to be completed following consultation.

Our regional strategy will guide the collaborative work of HIREP, working with wider partners and stakeholders. Sitting alongside this strategy, a detailed delivery plan, refreshed every two years, will set out the key steps and the milestones to progress our goals and associated actions. It will include:

- › Roles and responsibilities for the HIREP, officers' group and HIREP subgroups, aligned to the Strategy's goals.
- › The role of the regional intelligence hub in providing research, analysis and evaluation support to evidence the case for action and "measure" progress.
- › The potential role that external investment may play in realising our collective goals.
- › The role that advocacy will play – the HIREP as a powerful voice for the region, in discussion with governments and others.

MONITORING PERFORMANCE

This section will be completed following the consultation and partnership agreement of the preceding sections. It will detail the outcomes expected to be delivered by the goals and associated actions to achieve the vision in the short-medium-long term and will set out how these will be monitored.

Partner logos



