

Scotland's Rural College

Rural Scotland in Focus - 2016

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Rural Policy Centre



Rural Scotland
in Focus

2016



Rural Scotland in Focus 2016

Contents

Foreword	3
Acknowledgements	4
Report Authors	4
Introduction	6
Section 1: Changing Land Management	8
1.1 Scottish agriculture	9
1.2 Socioeconomic and environmental outcomes from different landownership models in rural Scotland	65
1.3 What future for woodland and forestry in Scotland?	95
Section 2: Scotland's rural economies – looking beyond the land-based sector	114
Section 3: Policies for communities in Scotland – are they delivering national resilience outcomes	150
Section 4: Conclusions	188



Foreword

I am delighted to welcome you to the fourth edition of SRUC's *Rural Scotland in Focus*. Our two-yearly reports give you a fast-track to up-to-date evidence and commentary on key topics of rural and national importance, in order to inform policy, practice and research.

In our 2016 Report, we have focused on three themes. Firstly, changing land management, where we show the evolving face of agriculture across all its sectors, examine the important role of private, community and non-governmental organisation owned estates, and explore the importance of woodland and forestry for Scotland's environment and economy. Secondly, we describe the critical contribution made by Scotland's wider rural economy which encompasses a range of enterprises across a breadth of sizes and sectors. Thirdly, we analyse the policy push towards resilient communities, and question whether the evidence exists to say with certainty that such policies have made a significant difference at national level. For all three themes, we have looked both backwards and forwards, identifying how various drivers have shaped decisions over many decades, exploring how this leads to an accumulation of outcomes which then determine options for the future.

As with our previous reports, we are driven by the desire to provide impartial, objective, high quality evidence and commentary around issues of central importance to the future of rural Scotland. We have been supported in our analysis by contributors from across the private, public and third sectors, who have shared their valuable perspectives and knowledge, lending additional depth to the themes we have presented. This partnership approach continues to be a valued hallmark of the *Rural Scotland in Focus* reporting process.

In 2016, this combination of evidence leads us to conclude, as in our previous reports, that there is a pressing need for a rural strategy which not only brings together the policies and programmes that affect rural areas, but also couples these with the energy, innovation, resourcefulness and entrepreneurship of those living and working in rural communities and businesses. A forward-thinking and coherent policy approach, underpinned by solid evidence for its evaluation, monitoring and adaptation, will support an ambitious and confident rural Scotland that will create a step change in its contribution to a fairer, greener, smarter and more prosperous Scotland.

Ro-ràdh

Tha mi toilichte fàilte a chur oirbh chun cheathramh iris de *Fòcas air Tuath* na h-Alba bho Cholaiste Tuath na h-Alba. Tha na h-aithisgean againn gach dara bliadhna a' toirt dhuibh slighe sgiobalta chun fhianais agus na beachdan as ùire air cuspairean cudromach dhan tuath agus dhan dùthaich. Tha seo feumail ann a bhith a' dealbh phoileasaidhean, chleachdaidhean agus rannsachaidh.

Ann an Aithisg 2016, chuir sinn ar fòcas air trì cuspairean. An-toiseach, atharrachadh ann an riaghladh talmhainn, far a bheil sinn a' foillseachadh fàs air gach earrann de dh'ìomhaigh àiteachais, sgrùdadh air dleastanas cudromach oighreachdan fo shealbh phrìobhaideach, fo shealbh choimhearsnachdan agus fo shealbh bhuidhnean neo-riaghaltais, agus gu rannsachadh dè cho cudromach 's a tha coilltean do dh'àrainneachd is do dh'eaconamaidh na h-Alba. San dara h-àite, tha sinn a' mìneachadh cho riatanach sa tha eaconamaidh tuath na h-Alba san fharsaingeachd, a' gabhail a-steach raon de dh'ìomairtean de dh'iomadh meud is cruth. San treas àite, tha sinn a' toirt sùil mhionaideach air sparradh poileasaidh a chum coimhearsnachdan làidir, agus a' faighneachd a bheil fianais ann le cinnt gun tug na poileasaidhean sin buaidh mhòr sam bith aig ìre nàiseanta. A thaobh na trì cùisean, thug sinn sùil air ais agus air adhart, a' comharrachadh mar a tha cuid de dh'ùilean air buaidh a thoirt air co-dhùnidhean thairis iomadh bliadhna, a' rannsachadh na builean a dh'èirich asta sin agus mar a dhearbhas seo roghainnean airson an àm a tha romhainn.

Coltach ri na h-aithisgean eile a dh'ullaich sinn, 's e tha fa-near dhuinn fianais agus beachdan a thoirt seachad, a tha neo-thaobhach agus aig sàr àrd inbhe, mu chuissean a tha fìor riatanach do thuath na h-Alba san àm ri teachd. Fhuair sinn taic leis an anailis bho fheadhainn an sàs ann an roinnean prìobhaideach agus poblach agus cuideachd bhon treas roinn. Bhuapasan thàinig seallaidhean agus eòlas, a' toirt dhuinn doimhneachd a bharrachd air na cùisean. Tha an compàirteachas seo na chomharra luachmhor ann am pròiseas aithriseachd *Fòcas air Tuath* na h-Alba.

Ann an 2016, tha an cruinneachadh de dh'fhianais gar toirt gu co-dhùnadh, dìreach mar a thachair anns na h-aithisgean roimhe seo, gu bheil dian-fheum air ro-innleachd dhan tuath a bhios a' toirt ri chèile, chan e a-mhàin na poileasaidhean is prògraman a tha ri toirt buaidh air sgìrean san tuath, ach a tha dhan ceangal ri lùths, ùr-ghnathas, innleachdas agus gnothachas an fheadhainn a tha a' fuireach agus ag obair ann an coimhearsnachd air an tuath. Nan deidheadh gabhail ri poileasaidh soilleir, reusanta, stèidhichte air fianais làidir, bhiodh bun-stèidh ion-mhiannaichte, misneachail aig tuath na h-Alba a' cosnadh atharrachadh mòr a thaobh Alba a bhith nas cothromaiche, nas uaine, nas comasaiche agus nas saidhbhire.

Wayne Powell

Professor Wayne Powell

Principal and Chief Executive Scotland's Rural College

Àrd-ollamh Wayne Powell

Ceannard and Àrd-oifigear

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- Representatives of many different organisations, activities and projects across rural Scotland who wrote specific components as ‘case study’ contributions to the different report chapters. These individuals are recognised as specialists in their field and the contributions bring added depth and understanding to the report based on their experience and knowledge of policy, practice and research. Our approach of inviting contributions and input from specialists to complement the work of SRUC researchers reflects the importance we place on presenting multiple perspectives when describing and debating rural Scotland’s present and future.
- Colleagues within SRUC Research and SAC Consulting who helped provide background analysis and context to the Changing Land Management Section based on their expertise and daily contacts with farm, woodland and estate managers across the breadth of Scotland
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For more information see: <http://www.expressionsofscotland.com>
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- Calum Brown provided images for the Socio-economic and environmental outcomes from different landownership models in rural Scotland section.
- Additional photography by Iain White.

This report draws on a wide variety of research including work for the Scottish Government within the Strategic Research Programmes 2011 - 2016 and 2016 - 2021.

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Introduction

Welcome to the fourth edition of Rural Scotland in Focus.

Since 2010, the *Rural Scotland in Focus* Report series has provided impartial, evidence-based commentary which takes you to the heart of key rural issues. We also give links to a wide range of documents for you to explore further.

Each of our reports has focused on key themes:

- In **2010**, we examined population change, the resilience of the rural economy, rural infrastructure and services, community empowerment and asset ownership, and climate change, biodiversity and water quality.
- In **2012**, we provided updated data on population change and its implications, and we discussed changes in rural Scotland's economy and environment. We also focused on small towns, the role of the third and private sectors, next generation broadband and rural Scotland's role in a low carbon future.
- In **2014**, we again provided up-to-date data on population change, economic activity and housing. We also provided detailed analysis of: the role of young people in rural Scotland; rural poverty and disadvantage; and the importance of integrated spatial planning in rural areas. The conclusion of this report called for **an over-arching, integrated vision and strategy for rural Scotland** with ten underpinning principles: comprehensive, strategic, appropriate, significant, integrative, collaborative, people-centred, holistic, dynamic and innovative.

When considering the areas of focus for our **2016 report**, we were aware that much has changed in the intervening two years. May 2016 saw the re-election of a Scottish National Party (SNP) Government under the leadership of First Minister Nicola Sturgeon but without the majority that it gained in the previous election in 2011. One year prior to the election, the Scottish Government updated its Economic Strategy, with the document focusing particularly on tackling inequalities and the need for inclusive growth. Two pieces of legislation with huge significance for rural Scotland have also come into force: the Community Empowerment (Scotland) Act in Autumn 2015, followed in Spring 2016 by the Land Reform (Scotland) Act. We are also now in a new programming period for EU funding running from 2014-20. Looking forward, the provisions of the Scotland Act are changing Scotland's financial powers with implications for public finances.

November 2014 saw the first meeting of the Scottish Rural Parliament in Oban and the Parliament met for a second time in Brechin in October 2016. Organised by Scottish Rural Action, the Parliaments provide an opportunity for individuals from across Scotland to come together and discuss and debate key rural issues. A key part of the second Rural Parliament focused on debating the draft Rural Manifesto. The final version of the Manifesto will be published in December 2016, followed by a detailed action plan in Spring 2017. Perhaps most significantly, in June 2016, the UK voted to leave the EU. While much of the detail of the process, timing and outcomes is yet to be worked out, the referendum result has caused considerable uncertainty across the UK and beyond. In terms of rural communities and businesses, the prospect of a future without European Union (EU) support is creating considerable uncertainty with much debate over the challenges and opportunities that lie ahead.

Our 2016 report is therefore written in the context of this uncertainty. In all three sections – changing land management, wider rural economies, and resilient communities - we look back and we look forward, examining what is happening now within a longer timeline. We reflect on pathways, goals and targets, and examine the underpinning data.

Specifically, in Section 1, we have provided a detailed analysis of changing land management, looking at all agricultural sectors, the role of estates, and the significance of forestry and woodland. Underpinning this section is the perspective of adaptation – both looking back at how and why changes have taken place, and looking forward to key drivers and goals, as well as exploring the resilience and innovativeness of individuals and businesses, and the outcomes they deliver. SAC Consultants have provided significant input to this section, particularly examining pathways and options for agriculture's multiple sectors.

In Section 2, we then cast the net wider and examine the breadth of non-land-based businesses – typically small and medium enterprises (SMEs) – operating within rural Scotland, and the assumptions that usually surround them. We look at the range of sectors they cover, their size, shape, motivations and growth aspirations, and the contribution they make to the wider rural economy. We also examine what is not known about these rural enterprises, and what that means for support, investment and policy.

Finally in Section 3, we explore the complex landscape of policies aimed at enhancing the resilience and empowerment of Scotland’s communities since 1999. We map out the successive measures which have set out to achieve a range of goals, and the evidence sitting alongside the programmes and policies. This leads to conclusions around what can and cannot be said about how much progress has been made at a national level in terms of increasing community resilience.

The core theme of the report is **evidence** – identifying and reporting on what is **known**, what is **not known**, and the implications of both for policy design and implementation, and for livelihoods, businesses and communities across rural Scotland.

This growing evidence-base continues to point (as it did in 2014) to the need for an **over-arching rural strategy**, underpinned by an **ambitious and inclusive vision** which builds on the resources, entrepreneurship and capacity of those in rural Scotland. A strategy which is fundamentally integrated into the rural and national policies operating in Scotland, and which can deliver to local and national outcomes. Sound evidence, and appropriate tools to measure progress, will continue to be essential in monitoring delivery of such a strategy, particularly in this time of heightened national and international uncertainty.

We recognise that this report is being published in a time of unprecedented “unknowns”. The evidence suggests that, even in the midst of these significant unknowns, rural Scotland is in a position to create and seize opportunities, and deliver outcomes and benefits, both through harnessing existing resources and through using the rich evidence-base to inform and target inclusive and effective next steps.





Changing land management Section 1

- 1:1 Scottish agriculture
- 1:2 Different land ownership models
- 1:3 What future for woodland and forestry in Scotland?

Scottish agriculture

Steven Thomson with contributions from Andrew Barnes, Julian Bell, Gavin Hill, Robert Logan and David Keiley

Section 1:1



KEY POINTS

- To reduce reliance on support and become more resilient many farms need to innovate and adopt best practice – thereby improving profitability.
- Encouraging more young people into farming is essential for the future of the sector – younger generations often bring new ideas and methods to businesses that can drive business improvements.
- The importance of non-farm income sources in maintaining farm businesses is likely to grow - such as through the SRDP's LEADER funding for diversification.
- The legislative framework needs to provide landowners the confidence to lease land to new tenants, whilst offering tenants adequate security to develop their business.
- Profitable beef and sheep production remains challenging for many farms without CAP support. There is scope for better use of technology, genetic selection (EBVs) and management of sheep and beef that would improve productivity and reduce production costs.
- The soft fruit sector is highly adaptive and innovative with production rapidly expanding – but it remains highly reliant on migrant labour, with the risks from Brexit obvious.
- There is scope to utilise precision agriculture technologies to drive production efficiencies and reduce environmental impacts of cereal production.
- In 2014 the farm-gate price for milk collapsed leading to major profitability challenges - and although milk prices have started to improve again, there are increasing opportunities to use future markets that can provide some certainty over their future milk price.
- As the implications of Brexit start to unfold Scottish agriculture has an opportunity to reflect and take stock of how the sector is supported and regulated in the future. The Scottish Government's Future of Scottish Agriculture discussion document provides a useful starting point in thinking about a vision and strategy for a post-Brexit Scottish agricultural sector.

1.1.1 Introduction

Agriculture is a dynamic industry that has changed significantly over the last 50 to 60 years – driven largely through technological changes and innovations that allowed farmers to improve productivity. Whilst our farming landscapes suggest, to the lay person, that changes in agriculture are rare, the reality is that the subtlety of changing livestock breeds, crop varieties, inputs, farming methods, etc. is often lost to the untrained eye. Additionally, changes to Scottish agriculture have been stimulated by changes to the regulatory and support mechanisms for farming, particularly the Common Agricultural Policy (CAP) of the European Union. This section of the report discusses some of the changes that have occurred in Scottish farming sectors in recent times, highlighting the drivers of change, and what opportunities and challenges face the industry as we move forward.

Scotland is a diverse country that contains some 61,000 square kilometres of farmland, ranging from the Machair and mountains of the Western Isles, through the straths and glens of the Highlands, to the rolling coastal plains of the east and south. Despite this large farmland area only about 9% is cropped or fallow, with 21% used as grassland (with about 3.5% young grass) and 59% used for rough grazing - including over 9% that is under crofting common grazings¹. Figure 1 shows a consolidated version of the James Hutton Institute's Land Capability for Agriculture² map where the extent of Scotland's poor quality farmland can be seen. The map highlights that arable areas are predominately on the east coast, alongside land that is capable of mixed agriculture (both cropping and grazing), which spreads further inland and is also more prevalent in the south and west, particularly the dairy strongholds of Dumfries and Galloway and Ayrshire. Land capable of grassland stretches further inland up river floodplains, etc. However, the majority of Scottish farmland, particularly in the Highlands and Islands, is only capable of rough grazing. It is worth noting here that farmland around the Moray Firth, Thurso and much of Orkney differs from the rest of the Highlands and Islands in that they have areas of good quality farmland, allowing a wider range of farming activities and greater intensity of production to be undertaken. Some 85% of farmland in Scotland is classified as Less Favoured Area (LFA)³ as a result of the biophysical constraints faced by farmers in these regions, such as poor soil quality, elevation, slope, and weather conditions. In addition, many of these areas are also peripheral regarding distance to suppliers and markets.

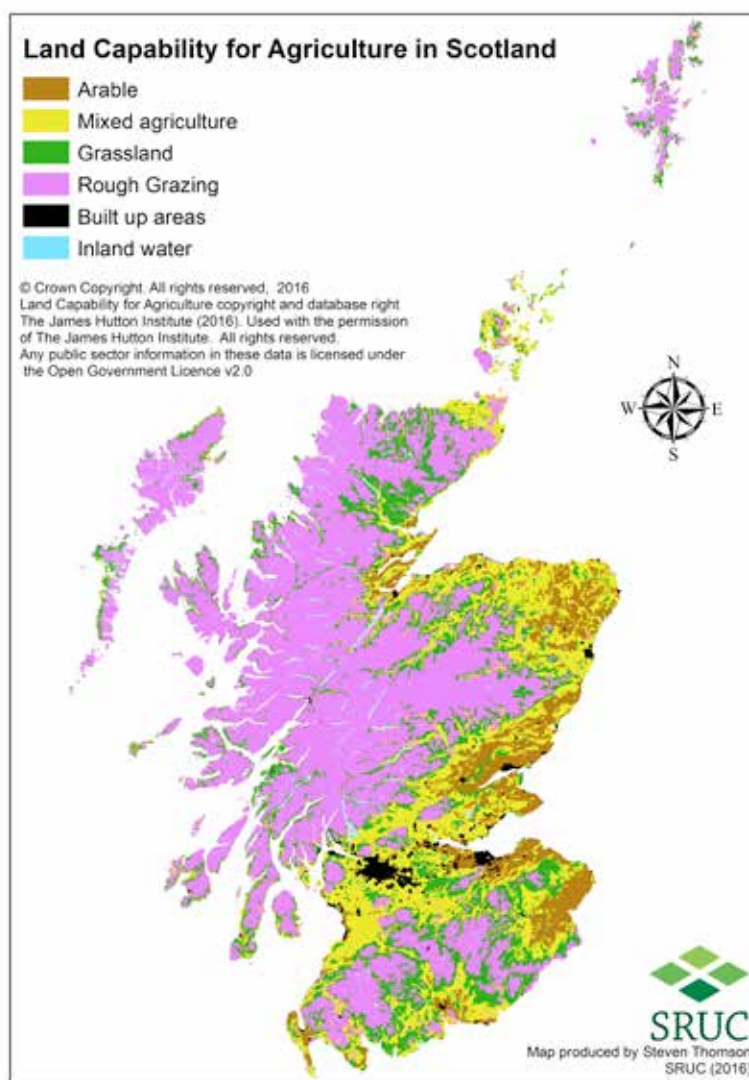


Figure 1: Composite land capability for agriculture map

- There are about 54,000 agricultural holdings in Scotland.
- There are about 13,000 crofters controlling some 19,000 registered crofts in the North West of Scotland utilising some 1,100 common grazings that extend to over 580,000 hectares.
- There are around 20,000 farm and croft businesses that claim direct CAP support.

1.1.2 Agricultural Support

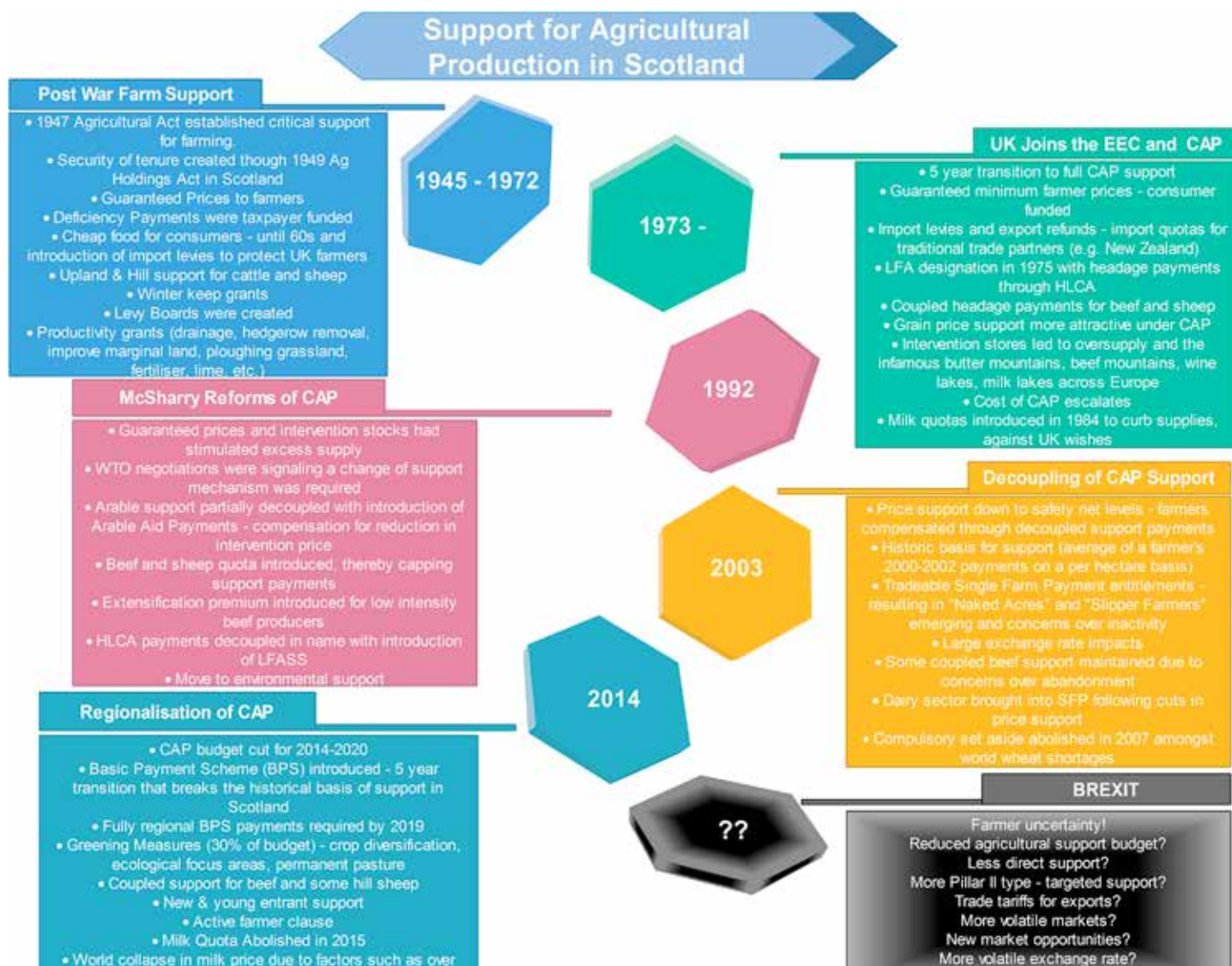
Price manipulation and support for agriculture is not a new phenomenon, having been around for centuries in the UK. Indeed markets for many farm products remained regulated in the UK until 25 years ago, through

statutory Marketing Boards that were introduced in the 1930s amidst growing concern over increased concentration of purchasing control into the hands of a few big food processors. Alongside the increased mechanisation of Scottish farming that occurred over the last 70 years, the main driver of change (with the exception of horticulture, pigs and poultry sectors) has been the agricultural support mechanisms that have been in place. This is particularly true of the CAP that Scottish farmers have been benefactors of since the UK joined the European Economic Community in 1973. A graphical summary of the key agricultural support over the last 70 years is provided in Figure 2.

The Common Agricultural Policy (CAP)

The CAP was originally designed to ensure farmers that could earn a fair living, ensure security of food supplies and make sure consumers could enjoy food at affordable prices. It has ultimately been a protectionist policy, traditionally using high guaranteed prices supported by a complex system of intervention stocks, import levies and export refunds. Coupled payments for beef and sheep (a subsidy per animal) became a major driver of change in the 1980s, incentivising increased herd and flock sizes as many started “farming subsidies”. An unwanted effect of protectionism and high guaranteed prices was considerable over supply of agricultural commodities across Europe, as farmers reacted to these artificial price signals. This policy-induced production increase meant that by the mid-1980s there were considerable food surpluses, in the form of butter “mountains”, beef “mountains”, wine “lakes”, etc. and a burgeoning CAP budget. This came to a head in 1984 when, in an attempt to curb the ever expanding supply of milk, production quotas were introduced in the dairy sector - quotas that remained in place for over 30 years. In addition, attempts to curb crop production saw the introduction of set-aside (where farmers were paid not to grow crops), on a voluntary basis, in 1988.

Figure 2: Key timeline of Scottish Agricultural Support Policy, 1945 to present



The McSharry⁴ reforms in 1992 signalled the first major step-change in the CAP. These reforms established a ceiling for the CAP budget and took steps to cut intervention prices, bringing farmers closer to world markets.

As the price support was cut farmers received compensatory payments, such as the Arable Aid Payment, that were based on the hectares of cropping land, or number of livestock produced, rather than on tonnes produced. Furthermore, real attempts were made to curb output through the compulsory introduction of set-aside – that lasted until 2007. Limits on support for beef and sheep support were introduced in the form of entitlement quotas, and there was an increase in support for less-intensive farming methods through the introduction of “extensification payments” in beef.

The Agenda 2000 reforms of the CAP introduced the concepts of two pillars of the CAP – Pillar I being price and income support and Pillar II being rural development measures. Pillar II, in essence, pulled together a number of disparate schemes such as agri-environment, agri-forestry, farm diversification, processing and marketing, etc. into a coherent suite of support under the umbrella of the Scottish Rural Development Programme (SRDP), which is now in its third iteration⁵. Support for Less Favoured Areas (LFAs) was brought into Pillar II of the CAP and technically decoupled in 2002 with the introduction of the Less Favoured Area Support Scheme.

During 2001 farmers in the South of Scotland were devastated by the effects of the Foot and Mouth Disease outbreak that resulted in the slaughter of 643,900 sheep, 87,700 cattle and 3,400 pigs - with compensation payments amounting to £171 million⁶.

The Single Farm Payment (SFP) was introduced in 2005, a formal attempt by the EU to break links between support payments and production. At this time Scotland opted for the easy choice of basing the new SFP on the historic payments each farmer had received. This meant that there was little change in the amount of support payments received – up until 2014. A new addition to the CAP rules during these reforms was the concept of cross-compliance⁷ – efforts to make sure farmers were not causing environmental damage and were meeting legal obligations, for example over livestock traceability. Since 2005, CAP recipients have had to comply with Statutory Management Requirements⁸ relating to public, plant and animal health, environment and animal welfare requirements, and also have had to maintain their land in Good Agricultural and Environmental Condition⁹. Amongst concerns over abandonment and loss of environmental benefits from cattle grazing, Scotland also retained some coupled support payments for the Scottish beef sector through a Scottish Beef Calf Scheme.

An unintended consequence of tradeable “SFP entitlements” and the cross-compliance rules meant that individuals (not necessarily farmers) could purchase these entitlements on the open market and then rent out some land that was not being used to claim support – “naked acres” – in order to activate these entitlements. Meeting cross-compliance rules was particularly easy on rough grazing, as it was the land of choice to rent by a new breed of inactive “slipper farmers.” The Scottish Government fought to ensure that payments were only allowed to be made to active farmers but as active farming measures were not introduced until 2015, the legacy of slipper farming¹⁰ will still be felt until the SFP is fully phased out in 2019.

The 2014 CAP Reform

After protracted negotiations, an agreement on the 2014 CAP reform package¹¹ was made in 2013¹². In Scotland the SFP is being transitioned out by 2019, with the new Basic Payment Scheme (BPS) gradually taking its place. The BPS is a regional payment and after extensive analysis, stakeholder engagement, and public consultation, Scotland opted for 3 agronomic regions: Region 1 – land used for crops or grassland; Region 2 – land that is rough grazing in non-LFA areas or was more intensively farmed in LFAs, and; Region 3 – more extensively grazed LFA rough grazing. By 2019 it is estimated¹³ that the support payments will amount to about €161/ha for Region 1, €27/ha for Region 2 and €9/ha for Region 3.

In addition, CAP Greening measures¹⁴ have been introduced and 30% of the CAP budget is conditional on compliance with three new measures: (1) Crop Diversification¹⁵ – where (with exceptions) a farmer must have a minimum of 3 crops if he/she has over 30 hectares of crops, with the largest crop being no more than 75% and the smallest no less than 5%; (2) Ecological Focus Areas¹⁶ (EFA)– where farmers with more than 30 hectares of crops (with exceptions) must put 5% of crop land into EFA measures such as field margins, fallow, buffer strips, green cover, catch crops and nitrogen fixing crops; (3) Permanent Pasture¹⁷ – Scotland as a whole must maintain its area of permanent pasture within 5% of the reference level. Further, there are restrictions on improving unimproved semi-natural grasslands, and farmers must maintain a nitrogen fertiliser and lime plan (an addition to mitigating climate change). The Greening payment amounts to about €83/ha in Region 1, €14/ha in Region 2 and €4 in Region 3.

As part of the 2014 reforms Scotland maintained coupled support for the beef sector through the Scottish Suckler Beef Support Scheme¹⁸ where eligible beef calves on the mainland receive about €100 and on islands €160. Additionally, a coupled Scottish Upland Sheep Support Scheme¹⁹ was introduced for Region 3 farmers, where eligible ewe hoggs receive a payment of around €85.

A key component of the CAP reforms was the “Scottish Clause”, which introduced a requirement for CAP recipients to be active farmers – although this only really applies to rough grazing areas in Scotland. To ensure that CAP support only goes to those actively farming, a “negative list” was introduced – detailing types of businesses that cannot claim support – and there now is a requirement to meet a minimum stocking density or undertake an environmental audit on rough grazing land used to claim CAP support.

LFA Support Reform and Brexit

As we move forward the LFA designation (and hence the LFASS support) is due to change in 2018 with the introduction of a new designation called Areas Facing Natural Constraint (ANC). Depending on the Brexit position, if a new scheme is to be launched in time, decisions and a consultation by the Scottish Government would need to take place in late 2016 / early 2017. Various scenarios for the designation have been considered with stakeholders in 2016 and for any proposed scheme the Scottish Government would have to satisfy the EU Commission that farmers in the new ANC area have lower profitability margins caused by natural constraints – i.e. the net income forgone and additional costs faced.

High Nature Value Farming systems

Davy McCracken, Hill and Mountain Research Centre, SRUC

High Nature Value farming (HNV farming) refers to farming systems important for the environmental benefits they provide, including support for a range of habitats and species (such as butterflies and birds) considered to be of high nature conservation importance. Across Europe, half of all species depend on habitats associated with agriculture.

The HNV farming indicator (along with that for HNV forestry) was developed by the Scottish Government to help in monitoring the Scottish Rural Development Programme and other strategies, e.g. the Land Use Strategy¹. HNV farming systems are traditional low intensity systems, typically with a mix of moorland, grassland and woodland. Historically, these systems have declined because of poor economic viability.

It should be noted that the indicator classifies farm types as HNV to provide an estimate of overall HNV farming, rather than identifying specific sites on the ground. The indicator is not intended to be used to inform site specific management decisions but rather to monitor how rural development measures are impacting upon the extent of HNV farming as a whole.

Scottish Government estimate that between 41% and 44% of Scottish farmland is HNV and this proportion remains relatively stable through time. The HNV farming areas support low intensity farming and therefore tend to be relatively large in area. This is evident from the fact that the 2,089 HNV holdings in 2013 represent only 4% of the total number of holdings in Scotland.

In the future, the Scottish Government will seek to understand emerging trends in HNV farming by identifying the influence of key drivers of change such as stocking rates, number of holdings no longer keeping livestock and farmers' attitudes. They will use case studies to illustrate changes in farming practices that are known to be important in terms of impact on biodiversity and will also cross-check trends in HNV farming against other critical indicators such as relevant Scottish Biodiversity Strategy indicators² and information on farming practices from the EU Farm Structure Survey.

Source: ClimateXChange Indicators and Trends For more detail see:

http://www.climateexchange.org.uk/files/3314/5934/5054/NA9_HNV_farming_210316.pdf

¹ <http://www.gov.scot/Topics/Environment/Countryside/Landusestrategy>

² <http://www.snh.gov.uk/publications-data-and-research/our-changing-environment/scotlands-indicators/biodiversity-indicators/>



As CAP support is extremely important in underpinning agricultural incomes in Scotland, and amounts to around 40% of the EU budget, the implications of Brexit on the sector are likely to be significant if similar support mechanisms are not put in place as the UK withdraws from the EU. However, Brexit should also provide opportunities for those willing to innovate and be truly market driven, focusing on high quality produce.

The Importance of CAP

The reason that CAP grabs so much attention in Scotland is because it plays a very important role in ensuring Scottish farms, on average, are profitable. Table 1 shows that in 2015 only dairy farming returned a profit before CAP support, with production costs exceeding production incomes in all other sectors (by 40% in LFA sheep farms). CAP support accounted for 60% of total farm output for LFA Sheep farms and 48% for LFA Cattle and Sheep farms – but only 8% for Dairy farms. In terms of Farm Business Income (FBI - a measure of net returns to unpaid family labour and capital) the CAP payments are fundamental to all businesses, apart from the dairy sector where milk price drives everything, as most farming activity is unprofitable, on average. This helps explain why there is so much concern and uncertainty in many farming sectors when CAP reforms occur.

Table 1: The importance of CAP to Scotland's farming sectors, 2015

2015	LFA Sheep	LFA Cattle	LFA Cattle & Sheep	Cereal	General Cropping	Dairy	Low-land Cattle & Sheep	Mixed	All Types
Costs as % Output	140%	118%	125%	116%	106%	93%	110%	118%	113%
CAP as % of Output	60%	38%	48%	20%	17%	8%	28%	24%	27%
CAP as % of Farm Business Income	282%	184%	201%	204%	123%	53%	143%	339%	173%

The 2014 CAP reforms perhaps brought about the most fundamental change in the way that Scottish farmers have been supported since entry into the EU. The break with historic production levels means that farmers now face significantly decoupled payments, and going forward they must make hard decisions about whether, or not, to use that support to cross-subsidise loss-making enterprises. The new CAP could not maintain the *status quo* under the EU's rules, meaning there was no way of avoiding redistribution of payments. This redistribution essentially sees some support transferred from farms that were traditionally more intensively farmed to those that were more extensive. In particular, this means that intensive beef and dairy producers in the Aberdeenshire and Dumfries and Galloway regions will be faced with decreases in the amount of CAP support flowing to them by 2019.

1.1.3 The Economics of Scottish Farming

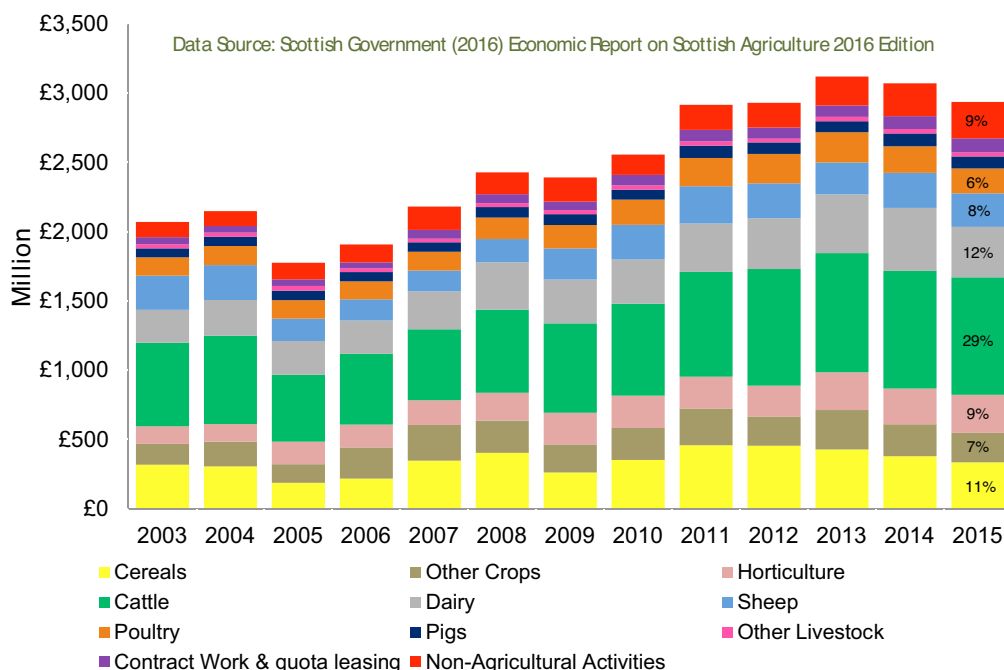
It is important to acknowledge that whilst farming is considered a way of life by many, farms tend to be run as businesses and therefore require a positive return on their investment to continue in the long run. The low turnover level of farms²⁰ suggests that farming, with CAP support, has generally been providing an adequate return to farming families. However, on closer inspection there is a very wide range of business profitability within Scottish agriculture, with many making economic losses, many being reliant on off-farm income sources, and a widespread reliance on agricultural support payments to survive. This section considers some of the aspects of the farming economy.

Scottish Farming Output and Expenditure

Scottish agriculture was estimated²¹ to have generated nearly £3 billion of output in 2015. Figure 3 shows that around 60% of this came from the livestock sector in 2015 with 28% from the cropping sector. Total output grew by about 50% in the decade to 2013 before tailing off slightly in the last couple of years – a direct consequence of changes in market prices for farm output. Cattle remained the largest contributor to Scottish farm output in 2015, contributing about £850 million (29%) of direct output. Dairy contributed £364 million (12%), cereals £334 million (11%), horticulture £274 million (9%), sheep £242 million (8%), other crops £213 million (including potatoes at £167 million), poultry £181 million (6%), pigs £86 million (3%) and non-

agricultural activities £263 million (9%). In particular, there was significant growth in the horticultural sector, where output grew by 115% between 2003 and 2015 – including a 250% rise in the value of soft fruit output and an 84% rise in vegetable output. In addition, non-agricultural activities grew by 138% and contracting work more than doubled to £101 million.

Figure 3: Value of Scottish Agricultural Output, 2003-2015



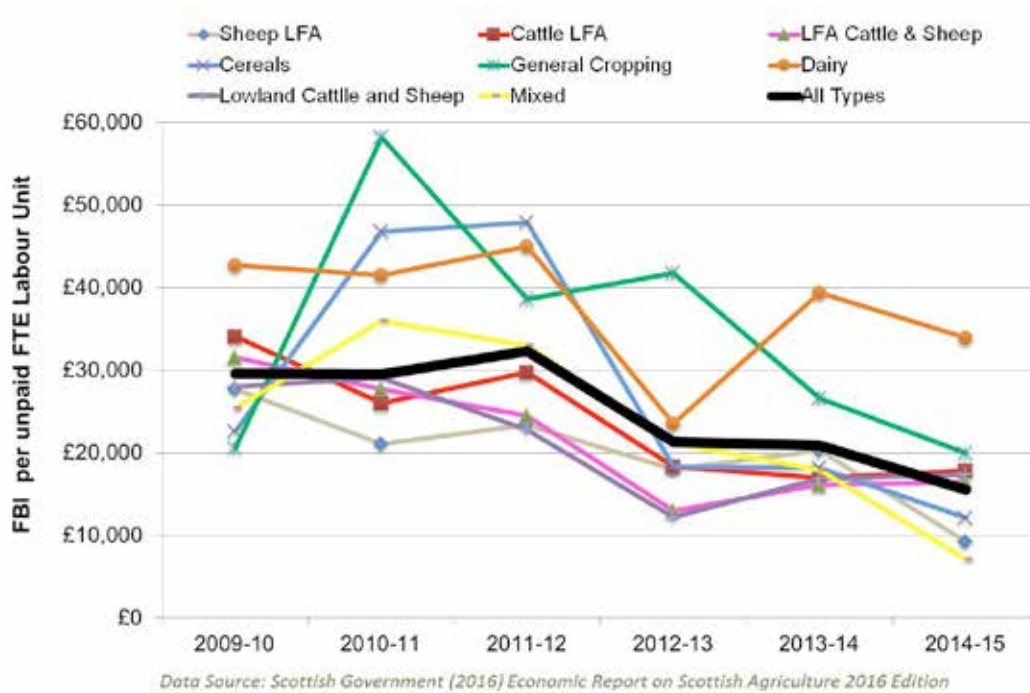
Whilst the value of output is important in determining the relative contributions of different farming systems to the Scottish economy, all farms spend money on inputs that can underpin a wide variety of rural businesses. Despite a slight decline from the 2013 peak, in 2015 farmers (excluding non-businesses purchases) were estimated to have spent over £2.75 billion on business inputs, up 56% since 2003. In 2015, feedstuff accounted for 22% of all purchases by the farming community at £593 million (down from £675 million in 2013 – a bad weather year). Around £370 million (14%) was spent on hired labour in 2015, with £169 million (6%) on fertilisers and lime and £114 million (4%) on fuel and oil. Farm input costs have experienced rapid inflation in recent years. Heavily linked to rising energy costs, in the decade to 2012, fuel and oil expenditure increased by 183%, fertiliser and lime increased by 129% and feed expenditure more than doubled (114% growth). This rapid increase in expenditure has eroded the benefits of improved farm-gate outputs experienced since 2007.

Scottish Farming Returns

Farm incomes across most sectors have been under pressure in recent years, despite general price increases compared to a decade ago. Figure 4 shows that since 2009-10 average farm business incomes (FBI)²² per unpaid full-time equivalent (FTE) worker have decreased by about half. Some farm types, such as dairy, general cropping and cereal farms have tended to out-perform other sectors, but these farm types are more exposed to the vagaries of world market prices, exchange rates and weather conditions. Nearly all sectors experienced a difficult 2012-13 where wet and cold weather conditions played havoc with harvests and livestock production.

Since 2013, a reduced CAP budget, CAP reform and reduced prices have had negative impacts on farm incomes, and the next three years will continue to be a challenge for some farmers as the new BPS fully beds in. Nearly all sectors now have a FBI of under £20,000 per unpaid FTE to act as a personal income source and provide reinvestment into the business. Mixed-farm FBIs fell by over 70% during this period to only £7,000 per unpaid FTE, with LFA sheep farms having had a decrease of two-thirds to £9,000 per unpaid FTE. This downward income trend is a challenge for the industry, particularly in attracting the next generation of farmers to join the family business or to attract “new blood”. However, when considering these figures, the ability of farm businesses to absorb some of the farming family’s living costs should be acknowledged²³.

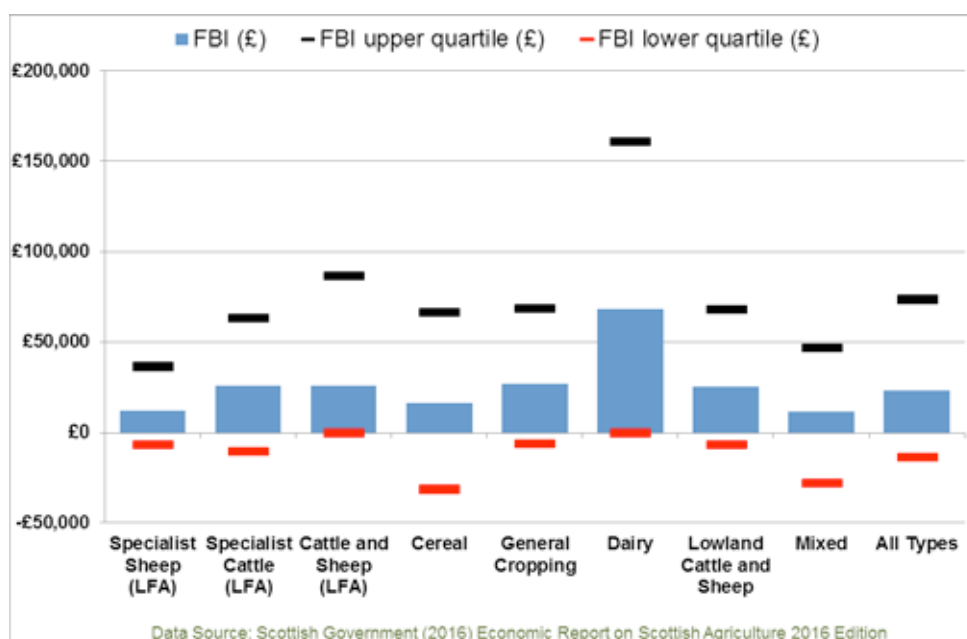
Figure 4: Farm Business Income per Full-Time Equivalent labour by sector, 2009-10 to 2014-15



Whilst farm incomes on average have been relatively poor recently, there is a very wide range of performance in each sector, and average incomes can be dragged upwards by the top 20% who tend to be very well run and very successful. Figure 5 shows the extent of performance variance within each sector, through the upper and lower quartile FBIs (25% of farms are below the lower quartile and 25% above the upper quartile). This highlights that in nearly all sectors at least 25% of farm businesses are losing money per unpaid FTE of labour, whilst in every sector (other than mixed farms and LFA sheep farms) a quarter are estimated to be earning over £40,000 per FTE of unpaid labour. Across all sectors (with the exception of LFA Sheep farms) the difference between the upper and lower quartiles is at least £40,000 per FTE unpaid labour.

This wide disparity in economic performance suggests that there is considerable scope for efficiency and profitability improvements to be made, notwithstanding that businesses across Scotland are faced with differing biophysical conditions and can have very different asset bases to work with. Furthermore, it is acknowledged that farmer motivations are an important consideration that are often overlooked when discussing profitability and technical efficiency, particularly as many farmers may not be primarily motivated by profit - rather by maintaining their lifestyle, or acting as custodian of the farm until intergenerational succession occurs.

Figure 5: Average, upper and lower quartile Farm Business Incomes per unpaid FTE, 2015



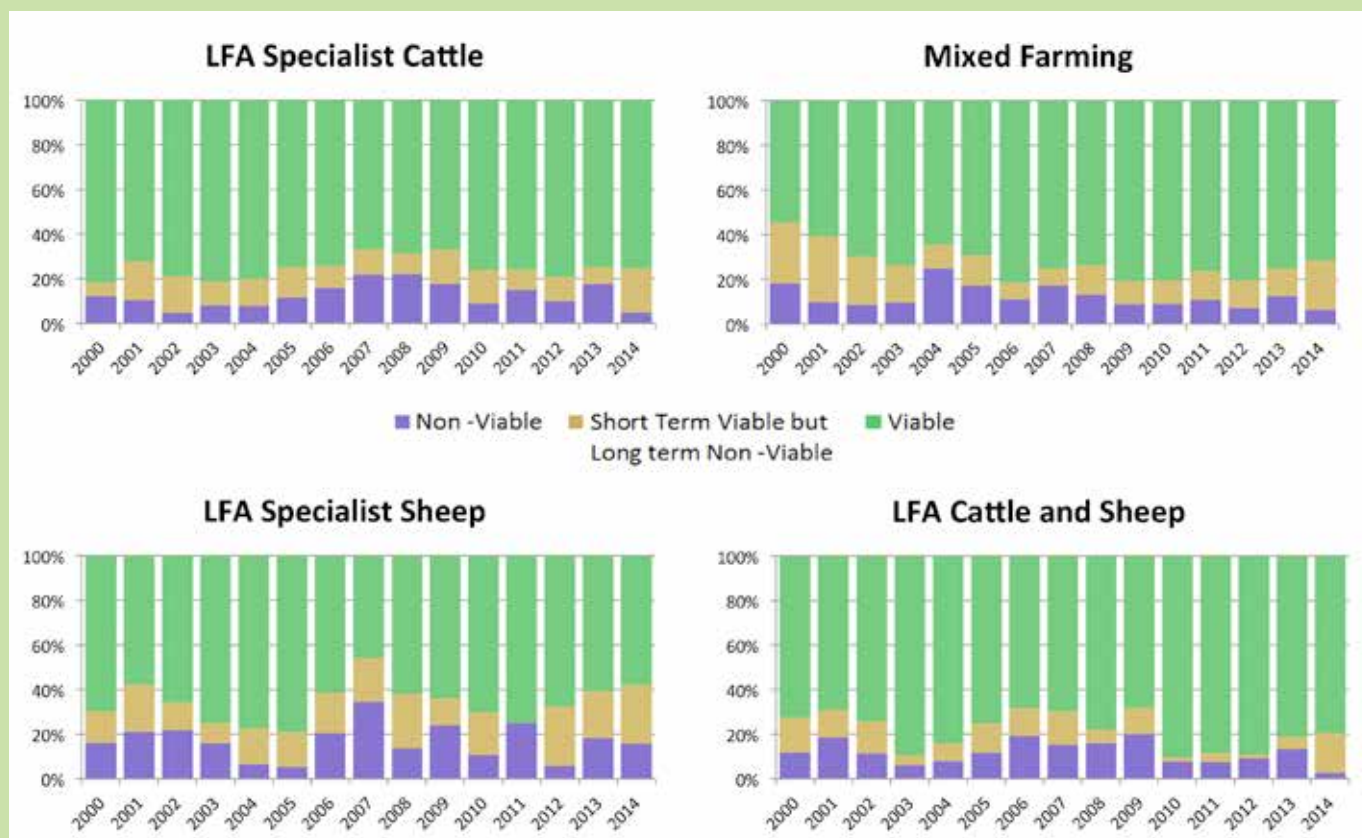
Farm Business Viability

Andrew Barnes and Steven Thomson, Land Economy, Environment and Society, SRUC

As part of the Scottish Government's Strategic Research Programme¹ SRUC researchers have developed a method to assess different forms of farm business viability using the Farm Account Survey. This provides insights into the financial sustainability of farm businesses over time, using indicators of short and long term business viability between different farm types and through time. Short term viable means that total income (including CAP support) covers cash needs of the business and long term viable means that income covers cash needs, depreciation and unpaid family labour. Businesses can therefore be classified as being either viable or non-viable in the short and long run, or a combination thereof:

- **Viable:** where the business can cover its on-going cash needs, can cover re-investment needs, and provide a minimal wage to unpaid labour.
- **Short-term viable but long-term non-viable:** the business can meet its on-going cash needs but does not generate enough cash to cover longer term reinvestment needs or pay unpaid family labour the minimum agricultural wage.
- **Non -viable:** the farm business cannot cover its immediate cash needs and does not generate enough cash to cover re-investment needs, and provide a minimal wage to unpaid labour.

Long and short term viability of selected Scottish farm types, 2000-2014



Across all sectors there are a proportion of farms that are economically non-viable. The figure above shows the pattern of viability of a selection of farm types over the period 2000 to 2015. For example in the LFA cattle sector there is consistently around 10-15% of farm businesses that are non-viable (purple) and a further 10-15% of businesses that are viable in the short run but non-viable in the long run (yellow). Between 5% and 30% of LFA sheep farms are non-viable in the short and long term each year and in 2014 some 40% of LFA sheep farms had some difficulty in covering short term cash needs or providing an adequate return to re-invest and provide a minimum agricultural wage to unpaid labour.

Further analysis reveals that a high proportion of non-viable businesses remain non-viable year on year, suggesting that motivations other than profitability are important drivers for many businesses. It is important to recognise that many of these low viability farms may face bio-physical challenges and can be important for the delivery of ecosystem services (flood management, water quality, biodiversity, forestry, etc.), particularly in High Nature Value farming systems. The viability of such farms could be improved by any future payments for ecosystem services.



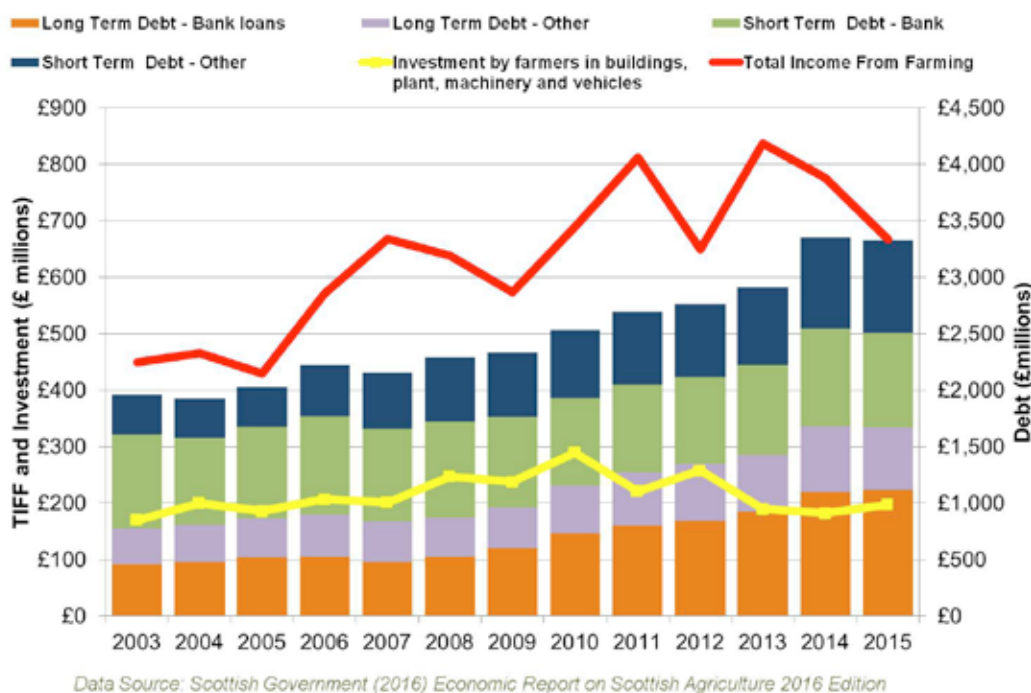
¹ <http://www.gov.scot/Topics/Research/About/EBAR/StrategicResearch/future-research-strategy/Themes>

Scottish Farm Borrowing

Figure 6 shows that in recent years the amount of farm debt has reached record levels of over £3 billion²⁴, with interest payments estimated to be £103 million in 2015, some 3.5% of gross agricultural output. The rise in debt coincided with the general upturn in farm gate prices from 2007, reflected in the improvement of Total Income From Farming (TIFF) – a measure of net returns to Scottish agriculture. This period of rising farm debt also coincided with 8 years of very low cost borrowing (Bank of England base rates have been at or lower than 0.5% since 2009). Whilst debt may be funding some investment, the annual change in total debt is considerably lower than the £190-£250 million invested by farmers annually. 2014 saw a considerable jump in total debt (by £425 million) and this may have been as a result of poor financial returns following the bad weather of 2012/13 coupled with a reduction in CAP payments received as a result of budget cuts and exchange rate effects.

Both short and long term debt have increased over this period, but it is noticeable that the proportion of long term debt has risen from 39% to 50%, with more long term loans / mortgages taken out (148% more in 2015 than 2003). It would be interesting to find out how much of the additional farm debt relates to renewable energy installations which can bring long term, relatively stable income. The level of short term bank advances (overdraft) has remained relatively stable. Other short term sources of debt (creditors – outstanding bills, etc.) rose dramatically over the period, from £360m to £820m, which may be of some concern.

Figure 6: Scottish agricultural debt, investment and total income from farming, 2003 to 2015



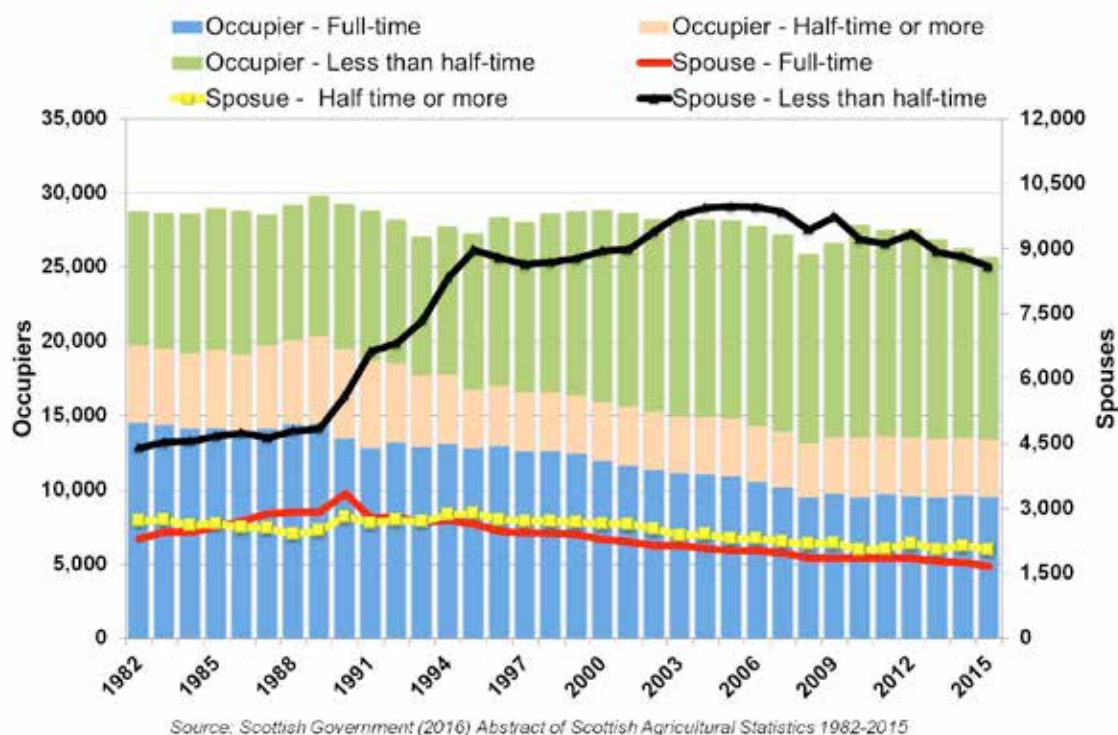
In 2014-15 the average Scottish farm had external liabilities of £131,000, of which bank loans and overdrafts accounted for £78,000. Bank borrowing ranged from £14,000 for Specialist Sheep LFA farms to £180,000 for Dairy farms. Whilst some farms may have heavy borrowings, on average Scottish farms tend to have low debt-to-asset ratios, with the average farm only having £9 of debt for every £100 of asset. Despite increasing debt, land price increases have meant that the net worth of the sector has been improving, meaning that borrowing (in improving commodity markets) was easier for farmers than other sectors of the economy that felt the full effects of the recession. In recent years banks have moved away from asset-based lending and now have much greater scrutiny over the ability to repay and service the debt meaning it has become a tougher borrowing environment for many farmers.

1.1.4 Farming Folk

Farmers, Crofters and their Spouses

Figure 7 shows how the number of full time occupiers of agricultural holdings has fallen by about a third in the last three decades (from about 14,500 to 9,500 in 2015), whilst occupiers working part-time on their holding for more than half of their time also fell by around a quarter (to about 3,900 in 2015). At the same time the number of spouses working full-time also fell by 27% (to 1,670 in 2015), with a 25% decrease in spouses working on the holding for more than half their time. There was a significant rise in the number of occupiers (by 36%) and spouses (by 30%) working less than half of their time on their holding, with an estimated 16,000 occupiers and 8,500 spouses in this category in 2015. Whilst the rise in occupiers working less than half their time was gradual, there was a sudden rise in spouses working less than half time in the late 1980s and early 1990s that coincided with the economic recession of that time – with some spouses perhaps having no option but to return to work on the farm.

Figure 7: Numbers of occupiers and spouses on Scottish agricultural holdings, 1982 - 2015



Queens University Belfast and The James Hutton Institute are currently examining the role of women in agriculture for the Scottish Government. The research²⁵ aims to identify the challenges for, and potential policy tools to improve, women's participation in farming and leadership of the agricultural sector in Scotland. SRUC also undertook a key campaigning role in a drive to improve the gender balance in the Scottish farming sector at the 2016 Royal Highland Show and have produced a Voices of Women in Agriculture video to highlight challenges faced by women and aspirations of women in Scottish agriculture²⁶.

Age profile

Much is mentioned about an ageing farm population in Scotland, with the average age often quoted as nearing 60. Table 2 shows the age distribution of farmers registered for CAP support. This highlights that across Scotland, a third of farmers and crofters are over 65 years old with nearly 60% over 55 years of age. In contrast only 10% are under 40 years of age (they classify as "young farmers" according to EU age criteria²⁷). It is apparent that the specialist farm types (pigs, poultry, dairy and horticulture) have a higher proportion of under-55 year olds in charge compared to others – suggesting there is generally earlier inter-generational transfer of business control in what are often more intensive farming systems, compared to other sectors where "maintaining a way of life" is a principal motivation for many farmers. Many of these specialised sectors were also outwith the CAP support mechanism.

There is very little difference in the age distribution by region, tenure, or if the farmer/crofter is full or part time (a slightly smaller proportion of full time businesses are run by under 40 year olds). However, a higher proportion of croft owners (15%) are under 40 years of age – perhaps reflecting lower capital barriers to entry, its part-time nature, and its social role in housing provision in some areas of the Highlands and Islands.

Table 2: Age grouping of Scottish farmers and crofters by farm types

Farm Type	Age				Total
	Under 40	40 to 54	55 to 64	65 and over	
Cereals	8%	30%	30%	32%	1,222
General Cropping	8%	30%	29%	32%	476
Horticulture & permanent crops	5%	42%	23%	30%	102
Specialist pigs	20%	45%	20%	14%	49
Specialist poultry	15%	39%	24%	23%	75
Dairy	14%	47%	23%	16%	722
LFA Cattle & sheep (LFA)	10%	31%	26%	32%	9,742
Lowland cattle & sheep	9%	32%	28%	31%	1,150
Mixed	11%	31%	30%	28%	1,538
Forage	9%	26%	25%	40%	2,278
Other	10%	13%	33%	43%	30
Total	10%	31%	27%	32%	17,384

Data Source: Scottish Government – June Agricultural Census, 2015

It should, however, be noted that there will often be more than one generation working on family farms, but it is often the head of the family business (and key decision maker) who completes the official “paper work”, whilst the younger generation may be responsible for the day-to-day operational tasks on the farm. This can, therefore, suggest that the active farming population is actually older than the reality, with the younger generation actively farming (often as minor business partners) but not represented in official statistics – it is likely the same in other industries that have large numbers of small and micro businesses, but unfortunately the data does not exist for these industries.

It is acknowledged that farming, unlike many other business sectors, is often considered “*a way of life*”, and since farmers are both living and remaining active longer it perhaps explains the low rates of exit from the sector. Thus, the increasing average age of farmers may simply reflect an increased age at which successors take on the farm business coupled with growth in the average age at which new entrants from outside agriculture can afford the significant capital investment required to start-up in farming.

Professor Matt Lobley, in the Farmers’ Guardian Guide to Succession Planning²⁸, discusses the “**succession effect**” where expectation of succession can lead to a change of mind-set of those running the family farm in-as-much as they want to pass more onto their successor, and the “**successor effect**” where new blood takes control of the business, often leading to business growth and investment. Lobley does, however, caution over the “**farmers boy syndrome**” – those over 21 years old with no delegated decision making powers – a position it is estimated that a quarter of successors find themselves in. He, and other succession experts in the guide, discuss how broaching the subject of succession is often very difficult for many farming families – but with careful management it can ultimately provide stimulus for the business and provide retirement opportunities for the older generation that might otherwise not exist.

The Scottish Government has, since 2007, been very supportive of trying to encourage a new younger generation to take control of farm businesses. They introduced an attractive package of support for New Entrants and Young Farmers²⁹ through the SRDP 2007-2013 that has continued in the SRDP 2014-2020³⁰ where young farmers and new entrants can receive start-up support of up to €70,000. In addition, one-to-one specialist consultancy advice and mentoring from experienced farmers is available to young and new entrants through the Farm Advisory Service³¹. The Scottish Government also, in recognition of the difficulty in establishing a foothold in the industry, have established a number of Starter Farms³². These starter farms are managed by Forest Enterprise Scotland³³ and successful entrants are given a 10 year lease to enable them to build up a farming business.

Renewable Energy in Rural Scotland



Jim Campbell, SAC Consulting

In recent years many farmers, rural businesses and community groups have developed renewable resources aided by incentives such as Renewable Obligation Certificates, Feed In Tariffs and the Renewable Heat Incentive. This has allowed them to not only offset energy costs but also reduce their carbon footprint, helping the marketability of their produce. Developing a diversified income stream unaffected by variations in oil, crop and livestock prices has provided a further benefit. However, with substantial cuts in tariff payments for new schemes - and the prospect of these disappearing altogether in the not too distant future - developers of new schemes are now required to maximise the value gained from home produced energy by using on site energy as efficiently as possible and finding local or niche markets where a premium over basic export rates is available.

Both the range and scale of renewable technologies deployed has become fairly diverse. Along with the very visible wind turbine and solar photovoltaic projects there are a great many rural buildings now heated by biomass boilers and heat pumps. Beyond the construction phase, small scale hydro developments can often be fairly invisible in the landscape and can be popular community developments where resources are available close to towns and villages. A good example of a micro-hydro project where extra value has been gained by cooperation with a local energy user is a small scheme at Kames, Kilmelford which has been developed by the owner of an area of woodland with no on-site energy demand. Instead of exporting power directly to the grid, the hydro scheme supplies an adjacent fish farming company with any surplus being exported via the fish farm's existing grid connection. Both the developer and the fish farm benefit from the energy produced by splitting the difference between the export value available to the generator and the import cost offset by the fish farm. Further developments in energy storage, demand management and smart grids and the commercial mechanisms for local generators to take advantage of these opportunities will improve the viability of small integrated renewable energy schemes without reliance on large scale grid upgrades.



A considerable number of farm based anaerobic digester (AD) plants have now been commissioned using waste and crop based feedstocks to produce biogas. The larger of these supply upgraded gas direct to the gas network for distribution to homes and businesses whereas smaller plants use the gas to produce electricity with the heat produced used for space heating or for drying other products. Buccleuch Estates have constructed an AD plant at Bowhill, Selkirk. The plant is fed with a diet of farm yard manure from cattle and sheep accommodation and poultry manure from laying hens, supplemented when necessary with a small quantity of ensiled crop. The plant produces 200 kW of electricity around the clock. Digestate from the end of the process is separated into liquid and solid fractions providing a consistent, nutrient rich, odour free fertiliser which when applied to crop or grassland will greatly reduce reliance on bagged fertiliser. Heat from the CHP generator is used to dry grain, woodchip and a proportion of the solid fraction of the digestate which is mixed with straw to provide a hygienic bedding for livestock.

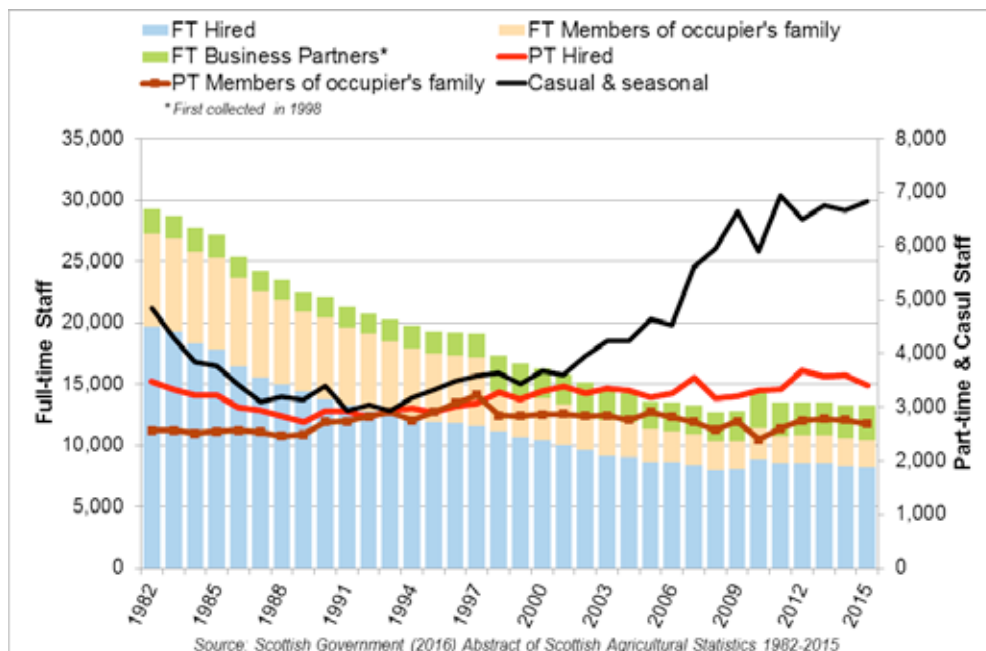


For more information contact jim.campbell@sac.co.uk

Farm Workers

As farming has become increasingly mechanised over the decades the number of agricultural workers has fallen significantly, although agriculture remains an important employer in many rural communities across Scotland. Figure 8 shows how the number of full time workers (including business partners and family members) has fallen from 25,600 in 1982 to 11,529 in 2015 (a 55% decrease), with full time hired labour having fallen by more than 11,000 (62%) over the same period. Over the same period the number of part time workers only increased by 8% to around 4,000 and reliance on casual and seasonal workers having increased, with their number having increased to nearly 4,600 in 2015 (an increase of 29% since 1982).

Figure 8: Scottish agricultural labour force, 1982 -2015

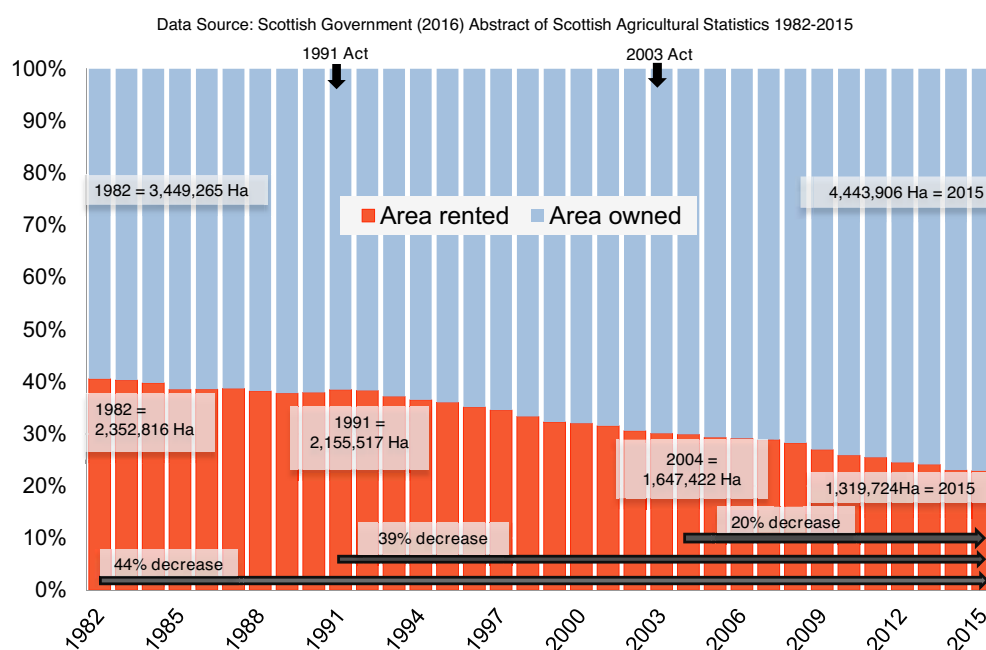


Agricultural Tenure in Scotland

Figure 9 shows the long term trends in the proportion of owned land and land under all agricultural tenure arrangements (including crofts) in Scotland. In 1982 let land accounted for 40.5% of Scottish land, and in the decade to 1991 it fell gradually to 38.5% of land area. In the period following the Agricultural Holdings (Scotland) Act 1991 the rate of decline in let land increased, falling to 29.9% of total farmland by 2004. The enactment of the Agricultural Holdings (Scotland) Act 2003 and the introduction of the decoupled Single Farm Payment coincided at the end of 2004, and by 2015 the area of let land fell to

just under 23% of Scottish farmland. These changes represent a 44% decrease in the area of let land from 1982, a 39% decrease since 1991 and a 17% decrease since 2004.

Figure 9: Proportion of farmland owned and under agriculture tenure arrangements, 1982 to 2015.



Thus, a long term downward trend in the area under agriculture tenure continues despite efforts in 1991, 2003 and 2016 to reform agricultural tenure laws. Each reform had the admirable aim of trying to stimulate the rental market. Unfortunately the 1991 and 2003 reforms did not have the desired effect despite the introduction of new forms of agricultural leases in 2003 – Limited Duration Tenancies (LDTs) and Short Limited Duration Tenancies (SLDTs)³⁴. The introduction of a pre-emptive right to buy land for tenants (and the presence of the threat of an absolute right to buy) under the Agricultural Holdings (Scotland) Act 2003 did nothing to instil confidence in landowners, and the continued talk of an absolute right to buy in the lead up to the Land Reform (Scotland) Act 2016 did nothing to allay the fears of traditional landowners. The drivers of change surrounding tenancy issues are numerous, and include the obvious factor that the stock of farmland on large traditional estates has been reduced as some sitting tenants purchase their farms as the opportunity arises (either through the free market or through a pre-emptive right). It certainly appears that the limited uptake of SLDTs and LDTs relates to factors such as: the control of the land; inheritance taxation considerations; the ability of landowners to access decoupled CAP support payments (particularly as there was no “active farmer” clause under the SFP); and leasing through contract farming arrangements or seasonal lets, all playing a part in the continuing downward trend for farmland leased in the long term.

In November 2013, 1,135 tenant farmers (1,227 in October 2016³⁵) had registered their interest in a pre-emptive right to buy their lands, covering more than 190,000ha. This represented 21.4% of the estimated total area under secure 1991 Act leases in 2013, and was spread across Scotland but with some higher concentrations in counties traditionally associated with estate ownership and tenant farming. The Church of Scotland and Crown Estate were the landowners with the largest number of tenants’ interests registered for their land.

Despite a decline in the use of secure farm leases there is a very active seasonal lets market³⁶. Between 2005 and 2013 there was a significant uplift in the declared³⁷ area of land let on a seasonal / temporary basis. According to IACS data there were 510,805ha of seasonally let land in 2005 (just after the introduction of the Single Farm Payment) and by 2013 this had reached 721,907ha, a 41% increase and representing some 13.5% of the total non-croft farmland. Rough grazing accounted for the majority of this land, rising in importance from 62% of the total in 2005 to 75% in 2013. The key changes in the seasonally let land market were entirely CAP driven, relating to: (a) “slipper farmers” renting “naked acres” to activate SFP entitlements and (b) “naked acres” let to active farmers who were looking for additional eligible hectares to ensure they did not receive CAP penalties for having ineligible features (scree, gorse, roads, etc.) on their land that could have led to an over-declaration of their eligible area when compared to the number of SFP entitlements they claimed. This was particularly the case following 2009 when SGRPID tightened up on ineligible features as a result of an EU audit criticism. Data for 2014³⁸ reveal that in the period of uncertainty surrounding the 2014 CAP reforms (in particular the active farming clause), the area of formal seasonally rented land fell by about 30,000 hectares, with suggestions that those changes might have been due to land owners seeking to take control of land to benefit from the new CAP support mechanism.³⁹

It is likely that contract farming will continue to blossom in the near future as landlords seek to maximise returns from their land through CAP support payments, whilst minimising longer term risks relating to land reform. It also appears that those land owners that still lease land through secure 1991 Act tenancies continue to have concerns over land reform, particularly the uncertainty it brings to the sector – something that the Independent Adviser on Tenant Farming and the forthcoming Tenant Farming Commissioner⁴⁰ can hopefully address thereby reinvigorating this important step onto the farming.

1.1.5 Scotland’s Cropping Sector

Crops and fallow accounted for about a tenth of Scottish farmland in 2015. Cereals dominate the cropping area, covering about three-quarters of Scotland’s cropped area - accounting for about 11% of total output from farming in 2015. Spring barley (the key ingredient for the Scotch whisky industry) alone accounted for 43% of the cropped area, with wheat the next largest cropped area at 18%. Winter barley (9%), oilseeds (6%), fallow (6%) and potatoes (4%) were the next largest uses of cropping land. It may be a surprise to some that fallow land accounted for 6% of the total crop and fallow area, but this is a direct response to the new CAP Greening measures, where fallow was a popular option to meet Ecological Focus Area requirements. In fact, the area of fallow nearly trebled from 11,400ha in 2014 to 33,100ha in 2015 – jumping from 2% to 6% of Scotland’s cropping and fallow area. The area of rye grown also grew sharply from around 400 hectares in 2014, to 3,700 hectares – likely as a result of Crop Diversification requirements.

There are very strong regional dynamics within the cropping sector, and there are many ways of looking at the data - as detailed in Table 3.

- Part (a) of the table reveals how important selected Local Authorities are regarding Scotland's total area of crop land and also how important cropping is as a land use within those Local Authorities. For example, Aberdeenshire accounts for 27% of Scotland's crop and fallow land, with 31% of Aberdeenshire covered in crops and fallow. Although East Lothian only accounts for 5% of Scotland's crop area more than half of its farmland is dedicated to crops (similar to Fife where the respective figures are 9% and 55%).
- Part (b) reveals how important the selected local authorities are regarding the total area of specified Scottish crops. For example, Aberdeenshire accounts for 35% of Scotland's barley, 13% of its wheat, 29% of its oilseed rape and 17% of its potato areas. The Borders is the most important area for wheat production (21%) and Angus is the most important area for potatoes (nearly a third of all Scottish potato hectares).
- Part (c) reveals how important certain crop types are within each Local Authority. For example: 69% of Moray's crop area is dedicated to barley, 43% of East Lothian's crop area is dedicated to wheat, with 10% of the Borders cropping hectares made up of oilseeds and 12% of Angus' made up of potatoes.

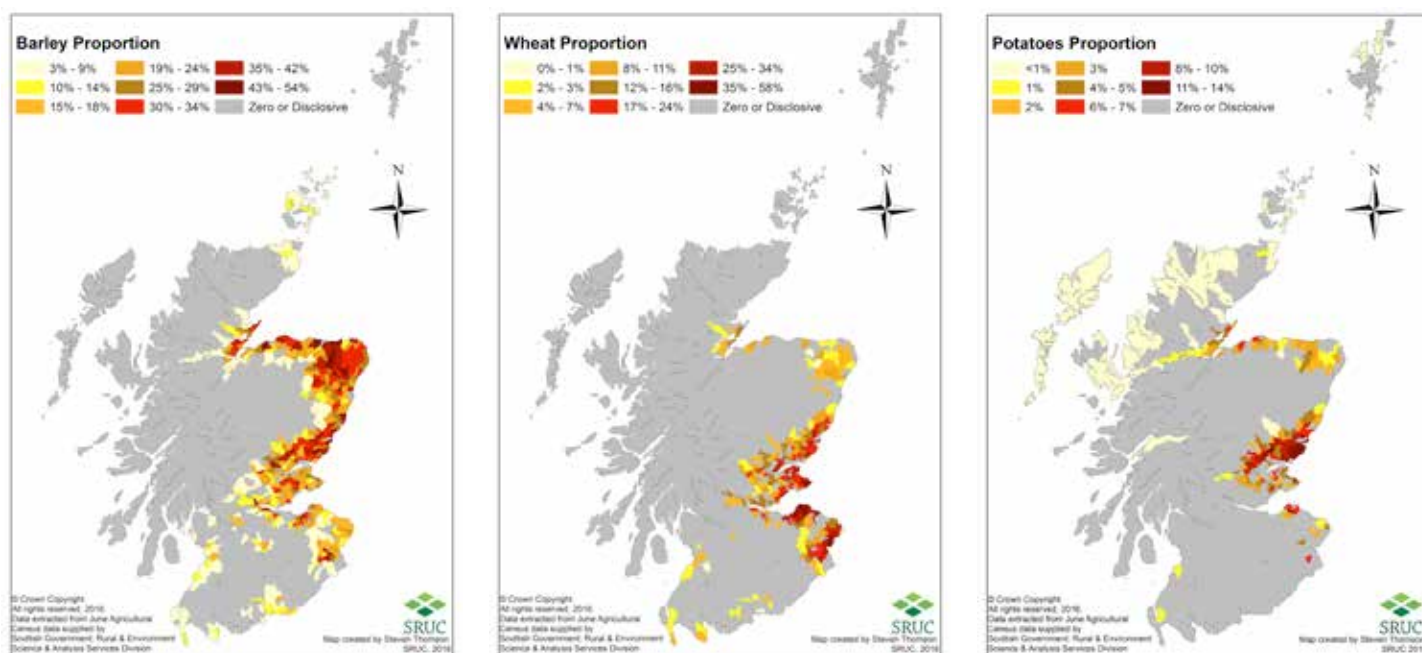
Table 3: Regional distribution and importance of selected Scottish crop production, 2015

Local Authority (LA)	(a) LA crop area as % of:		(b) % of Scottish Area of:				(c) % of LA's cropping area under:			
	Scotland's crop area	LA's total Farmland	Barley	Wheat	Oil-seeds	Potato	Barley	Wheat	Oil-seeds	Potato
Aberdeenshire	27%	31%	35%	13%	29%	17%	67%	9%	6%	3%
Scottish Borders	12%	19%	8%	21%	21%	7%	35%	32%	10%	3%
Angus	12%	37%	10%	13%	15%	32%	45%	19%	8%	12%
Perth & Kinross	10%	14%	9%	10%	6%	18%	46%	18%	4%	8%
Fife	9%	55%	7%	15%	7%	9%	39%	30%	5%	4%
Highland	7%	2%	7%	3%	6%	6%	59%	9%	5%	4%
East Lothian	5%	52%	3%	12%	7%	4%	32%	43%	8%	4%
Moray	4%	16%	6%	1%	1%	4%	69%	5%	2%	4%
Dumfries & Galloway	4%	5%	4%	3%	1%	1%	53%	17%	1%	1%

Data source: Extracted from Scottish Government June Agricultural Census 2015

Figure 10 reiterates the location of Scotland's barley, wheat and potato production, revealing the proportion of farmland in a parish under each crop. Barley is a very important crop in Moray and Grampian and Tayside, with more than a third of farmland under barley in many of these parishes. The better climatic conditions in the south east of the country mean that it is an important wheat growing area, with many parishes in Fife, East Lothian and Berwickshire having wheat accounting for at least a quarter of farmland. Tayside is vitally important for the potato sector, with the majority of production concentrated there.

Figure 10: The proportion of parish farmland under specific crops, 2015



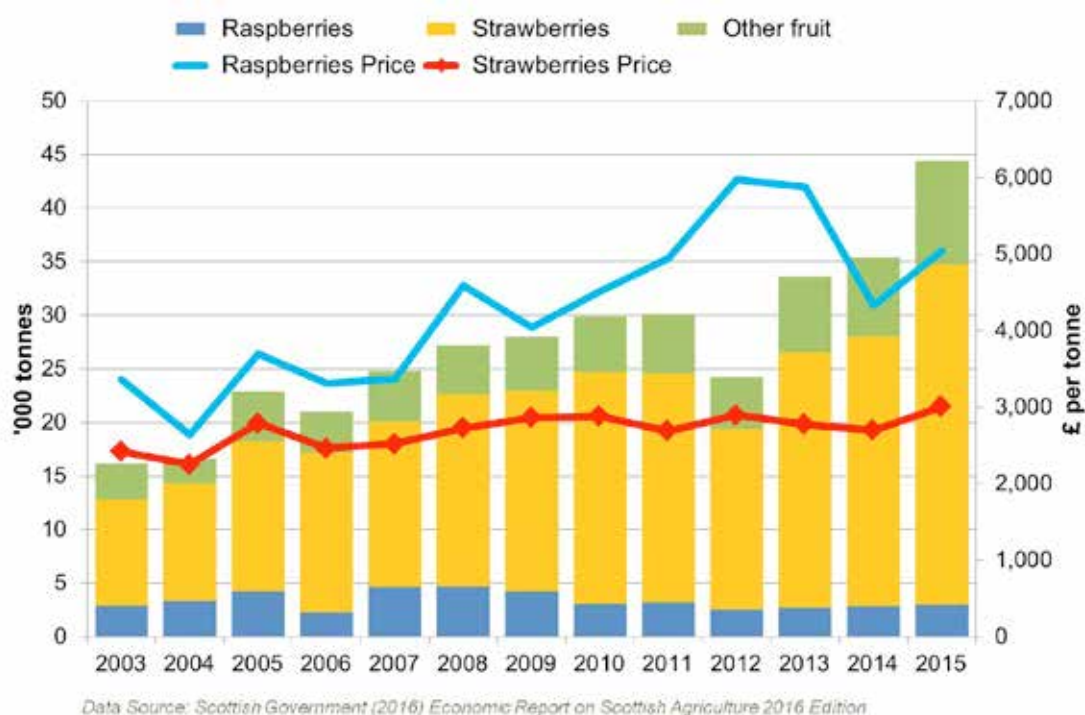
Soft Fruit

One of Scottish farming's recent success stories has been that of horticulture, in particular the growth of the soft fruit sector. Fruit and vegetable production is highly concentrated in the east coast of Scotland (particularly Fife, Perthshire and Angus) in the hands of relatively few specialist producers. The sector now accounts for a tenth of Scottish agricultural output.

Being historically unsupported under the CAP, the sector has had to be innovative and entrepreneurial to thrive. The innovations that have improved technical efficiencies in the sector include: the move from field-based strawberry crops to table topped systems housed in polytunnels; the development of accurate irrigation systems that facilitate better growing and harvesting conditions, and; the development of new varieties and the establishment of new commercial fruits (e.g. blueberries). Whilst the sector has self-financed research and development programmes it also works closely with the James Hutton Institute (JHI) in plant breeding programmes. Indeed, just recently the sector received a welcome boost through a £1.3 million Agri-Tech Catalyst award to the JHI⁴¹ to help further improve production - particularly an extension of the growing season through identification of raspberry traits that make them more resilient to pests and diseases and blueberry traits that allow them to be better adapted to growing in Scotland's cooler climate.

The soft fruit sector is a growth sector and Figure 11 shows how production is estimated to have grown by 170% between 2003 and 2015, to over 44,000 tonnes. Most of this growth is down to the rapid expansion of strawberry production (220% growth over the period) to nearly 32,000 tonnes with 190% growth in the output from other fruits – blueberries, blackcurrants, etc. Despite the price of raspberries improving by over £1,600 a tonne, production has remained relatively stable, with a slight decline since its peak in 2008. The Scottish Government estimates that the Scottish soft fruit sector's output was over £125 million in 2015 and it is worth noting that it is also estimated that exports of UK berries trebled from £1.8 million in 2012 to £5.3 million in 2014⁴².

Figure 11: Scottish soft fruit production and prices, 2003 to 2015



Undoubtedly the Scottish fruit sector is full of innovators, seizing market opportunities and using technologies to extend production seasons, etc. Examples of this include:

- A recent Scotsman article⁴³ highlighted how PJ Stirling (one of Scotland’s largest fruit growers) managed to bring their season forward by three months through the use of a biomass heat sources in a glasshouse system, enabling growth during the winter season. This system has the potential to extend Scottish berry production to a year round crop, with Peter Stirling quoted as estimating an additional 150 tonnes could be harvested on their farm alone.
- Recently, an article in the Courier⁴⁴ explains how the Arbuckle family has introduced a new berry variety to Scotland – the Honeyberry. It is the fruit of the edible honeysuckle plant that is considered a natural health remedy in Japan, where they are highly sought after. Stewart Arbuckle was quoted explaining: “*The berry market is growing year on year and there’s a demand for new fruit. I went onto Google three years ago, looking for alternatives to what we already grow and discovered honeyberries. They’re better than acai or goji berries because they taste nice on their own and the Japanese can’t grow enough of them to satisfy their home market. In the last decade Canada has got in on the act and they call them haskap berries while the Americans call them honeyberries. There is huge demand and not enough supply, so we teamed up with a grower in Nova Scotia and planted our first orchard of honeyberries two years ago. That has now grown to 12 acres and we’re bringing in and trialling new varieties.*” It is expected that around 10 other growers will be extending their fruit varieties by planting honeyberries, highlighting that active co-operation in the sector is commonplace - to achieve critical mass in this instance. Opportunities to add value are never far from minds in the soft fruit sector with the world’s first honeyberry gin launched in a partnership between the Arbuckle family and Strathearn Distilleries.⁴⁵

These types of innovations are all market driven, aimed at helping satiate the growing demand for home grown berries.⁴⁶ Indeed, British Summer Fruits,⁴⁷ the industry body that represents 98% of berries sold in UK supermarkets (where strawberry sales account for over £500 million alone), suggest that there are four key drivers of growth in the soft fruit market: (i) increased consumer demand due to berries’ health benefits; (ii) more areas of berries grown; (iii) development of new varieties, and; (iv) innovative growing methods that have extended the British season.

Diversification at Castleton Farm

Paul Mayfield SAC Consulting

Castleton Farm is a 250 hectare arable and fruit farm owned and run by the Mitchell family, situated in the Howe of Mearns in Aberdeenshire. The Mitchells moved to Castleton in 1992 and farmed it as a mixed dairy and arable farm but decided in 1999 to stop dairy farming and to expand the existing 6 hectares of strawberries.

The first poly tunnels were erected in 2000, helping to eliminate many of the weather related risks involved with growing strawberries outdoors in Scotland. Since then raspberries, blueberries and cherries have also been introduced, expanding the area of fruit to around 100 hectares and making it of Scotland's biggest commercial fruit growers.

Castleton claims to be the most Northerly commercial blueberry farm in the world, enabling them to produce fresh blueberries after the rest of the northern hemisphere has finished production, filling the gap before the southern hemisphere starts production. The farm has its own pack house that is British Retail Consortium accredited, enabling it to supply many of the large retailers, with the majority of the fruit going to Marks and Spencer and Tesco. It employs over 600 seasonal workers each year, with 350 living and working on the farm at the peak of the season.

The farm has a reputation for innovation and its commitment to environmental sustainability and as well as LEAF Marque accreditation it has made significant investment in renewable energy including:

- 50kW roof-mounted solar PV array on the packhouse;
- a 60kW biomass boiler at the farm shop and café;
- 4 x 1MW woodchip fuelled biomass boilers to heat the caravans for the seasonal; workforce and heat 2 hectares of tunnels housing strawberries and raspberries, helping to significantly extend the growing season;
- 2 x 50kW combined heat and power biomass boilers which produces 80% of the electricity used by the farm as well as all of the heat requirements.

In 2004 a shop was opened seasonally from June until October selling their own fruit and local meats, cheeses, vegetables and much more. As popularity grew a custom built Farm Shop and Café was opened in 2008, located within sight of the main A90 Aberdeen road. This diversification became so popular that an extension was added in 2013, increasing the floor space in the shop, seating numbers in the café and providing a second kitchen for the production of the Castleton Homemade Range - a range of quality take home ready meals, pies and home baking. It also creates the **Berrylicious**¹ range of jams and chutneys that adds value to the second class fruit from the farm – that had previously been regarded as waste.

In 2015, the business undertook a review of its added value berry product range and identified potential new fruit-based products that would increase the product range without drastically altering the characteristics of the Castleton brand and without the use of artificial preservatives. Using funding from a Scottish Funding Council Innovation Voucher, the business worked with SRUC hospitality / product development staff and facilities at the SRUC Elmwood Campus in Cupar to develop a range of fruit based coulis, syrup and vinegar products. These were introduced to the Castleton product range in the latter half of 2015, helping to attract new customers, grow sales and increase the utilisation of the lower grade fruit from the farm.

Castleton Farm is a leading example of a farm that has used diversification as a means of expanding its business in order to make it economically sustainable, while still retaining its core focus on producing a high quality product - in this case fruit.



¹ <http://castletonfarmshop.co.uk/>

The horticulture sector is, however, highly reliant on seasonal and migrant labour, and Brexit could, depending on the final outcome, pose some challenges for Scotland's soft fruit and field vegetable producers. Table 4 (a) shows that an estimated 127,000 work days are undertaken by non-family casual labour in Scottish agriculture, with 45% of this being undertaken in the horticulture sector and 44% being undertaken in Aberdeenshire (of which 88% is in horticulture) alone. More importantly, especially with regards to Brexit and the positioning over migrants, is the fact that nearly 460,000 migrant (non-UK) work days (this is about 2,090 FTEs) were undertaken on Scottish farms in 2015, with 85% of that being in Scotland's horticultural sector, particularly the successful soft fruit industry. Three quarters of Scotland's migrant farm work is undertaken in Angus and Perth and Kinross, with the vast majority of use being in their horticulture sector. Any Brexit consequences that restrict EU migrant labour could have significant impacts for the soft-fruit and field vegetable sector that Scotland must fight to avoid.

Table 4: Estimated (a) Casual labour and (b) Migrant labour in key Local Authorities and proportion attributed to horticulture, 2015

(a) Non-family labour employed on non-regular basis

Local Authority	Holdings	Work Days	Average days per Holding	% of Scottish Total	% LA total in Horticulture
Perth & Kinross	85	13,147	155	10%	56%
Angus	54	4,414	82	3%	0%
East Lothian	30	798	27	1%	10%
Fife	44	2,872	65	2%	31%
Aberdeenshire	193	56,341	292	44%	88%
Scotland	1,502	127,307	85		45%

(b) Migrant workers (i.e non-UK nationals)

Local Authority	Holdings	Work Days	Average days per Holding	% of Scottish Total	% LA total in Horticulture
Perth & Kinross	25	190,992	7,640	42%	91%
Angus	33	152,758	4,629	33%	91%
East Lothian	7	60,757	8,680	13%	99%
Fife	20	19,952	998	4%	54%
Aberdeenshire	43	14,969	348	3%	12%
Scotland	217	459,801	2,119		85%

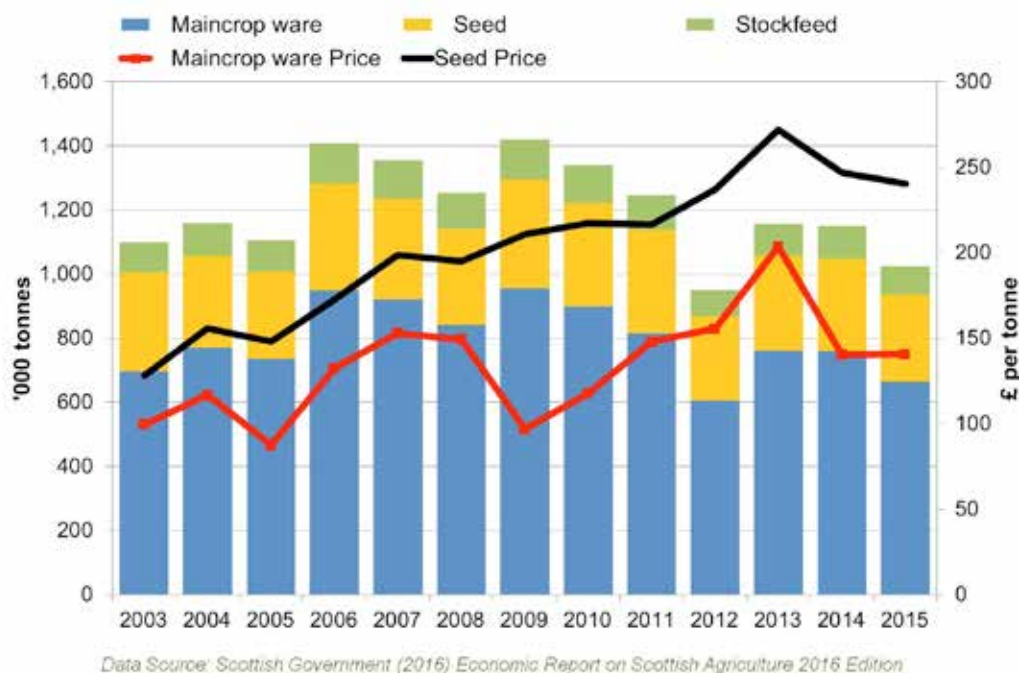
Data Source: Scottish Government's June Agricultural Census – 2015.

Potatoes

Potatoes play a significant role in the agricultural economy of Scotland, and have a wider cultural role given the historical importance in the Scottish diet. The Scottish potato sector produces seed potatoes for a number of export markets, given its favourable climatic conditions, and also ware potatoes for human consumption. According to AHDB⁴⁸, in 2015, 21% of Great Britain's planted potato area was in Scotland, with 45% of that area planted for seed. However, the area planted fell by 19% between 2011 and 2015. The trend in potato production and price is shown in Figure 12 and it does highlight this decline in production since 2009, with

a noticeable dip in 2012 due to the second wettest year on record. Ware potato production fell by 30% between 2009 and 2015 with seed potato production fairing better, only falling by 20%. Perhaps some of this decreased production is a reaction to declining UK consumption of fresh potatoes, which fell by 27% in the decade to 2013.

Figure 12: Scottish potato production and prices, 2003 to 2015



Scotland has an international reputation as a major producer of quality seed potatoes. Seed potatoes produced in Scotland must be certified by The Scottish Agricultural Science Agency under the Seed Potato Classification Scheme (SPCS)⁴⁹. In 1984 over 20,000 hectares were dedicated to seed production, however this has declined by nearly 40% to around 12,000 hectares⁵⁰. In Scotland, seed potatoes can only be grown on land that has not had potatoes cultivated on it in the preceding five years and is free from potato cyst nematodes⁵¹. Scotland exports seed and ware potatoes to more than 40 different countries. In 2015-16⁵² Scotland exported seed potatoes to 24 countries that included Egypt (64% of exports), followed by Morocco (11%) the Canary Islands (6%) and Saudi Arabia (6%).

Production of potatoes can involve significant expenditures with respect to purchasing and subsequent royalty payments on the seeds. Inputs are generally high and intensive, such as fertilisers and pesticide treatment. In addition, specialist equipment is needed to maximise efficient planting and harvesting, leading to high capital costs. A further expense is the cost of storage, as well as costs for grading and upkeep of stores. Whilst planting decisions are affected by prices, farmer confidence and contractual arrangements, potato yields have been increasing due to improved agronomy, crop protection, varieties, irrigation, fertiliser regimes, etc. However, the biggest driver of potato supply in the short term is the weather. A range of factors may, therefore, affect future sustainability of the industry within Scotland. Broadly these are weather related, as the climate warms and increases the threat of exotic pests and diseases, but also structural, in terms of the willingness of farmers to grow potatoes. Additionally the importance of the export market for seed potatoes cannot be under-estimated during this time of Brexit.

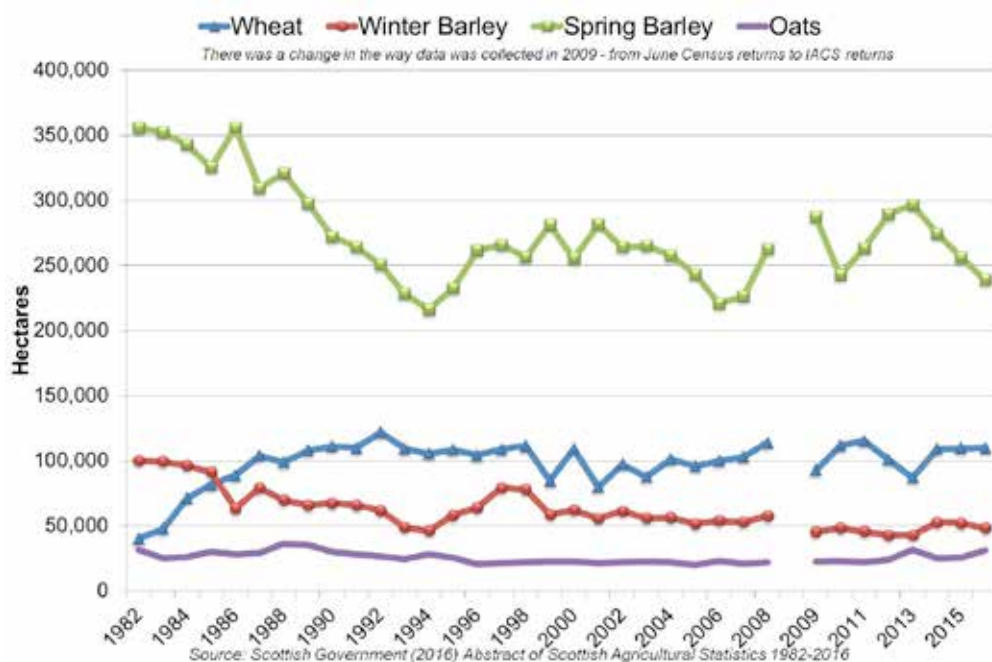
Scotland's Cereal Sector

When the UK entered the CAP the relative support prices for barley were more attractive than under UK support mechanisms meaning a number of farmers (including those in marginal areas) sowed spring barley. However, by the 1980s the introduction of the "headage" payments for suckler cows and sheep made them more attractive options again. This, coupled with the realisation that growing and harvesting the crop successfully in some areas was extremely challenging, meant that the area of spring barley declined (as shown in Figure 13). This was also affected by increased wheat plantings, which have been relatively stable since 1990.

The impacts of this sudden world price rise for cereals in 2007, amidst global shortages, are apparent with rapid increases in the area of Spring Barley planted in 2008 and 2009, and the subsequent 2009 price crash

affecting the 2010 plantings. More recently the downturn in the area planted relates to CAP Greening, with a need to diversify single crop spring barley rotations under Crop Diversification rules and the need to put land into Ecological Focus Areas. SAC Consultants estimate that the 13% decrease in spring barley area between 2014 and 2016, coupled with smaller yields in 2016 due to the weather, means that Scottish spring barley production was some 400,000 tonnes lower than in 2014.

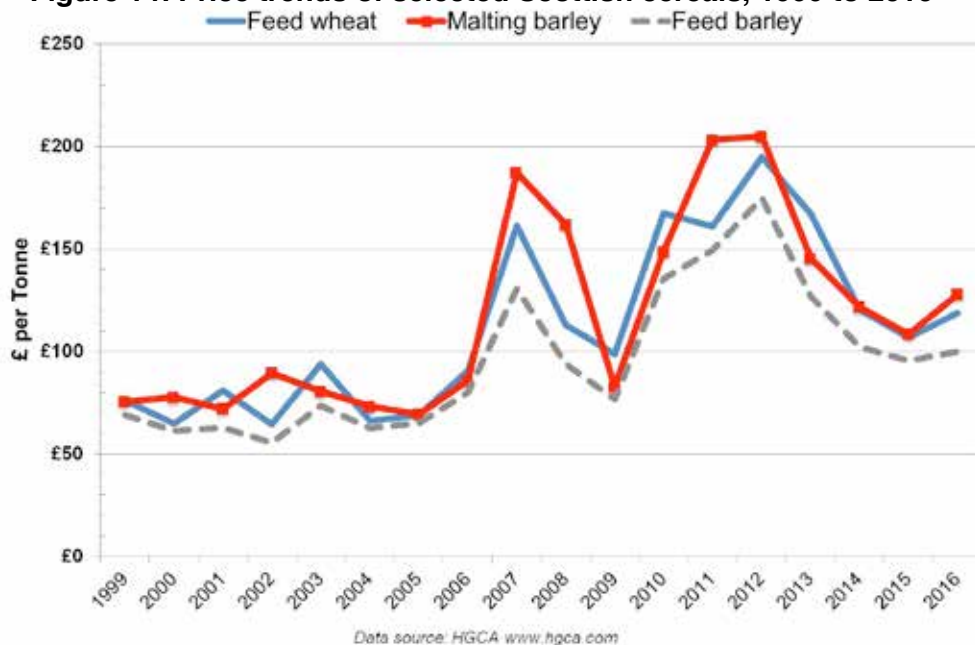
Figure 13: Trends in Scottish cereal production, 1982 to 2016



Whilst the introduction of Greening rules has cut Scottish sowings of spring barley it has boosted the area grown in England where farmers have had to diversify out of continuous wheat, as well as add spring crops in to combat black grass. As a consequence more distilling barley is being grown in England and distilling demand overtook brewing demand in 2015 in the UK.

Figure 14 shows the price of Scottish wheat, malting barley and feed barley over the last 17 years. It highlights the prolonged period of suppressed prices farmers faced in the period up to 2005 as world supplies satiated demand. In 2006 and 2007 there were considerable global plantings of crops for bio-fuels – they appeared more attractive financially than conventional cereals and were encouraged by rising oil prices – and instances of drought in some major cereal production areas meant that prices more than doubled between 2005 and 2007. Since then Scottish cereal farmers have experienced good prices, with the exception of 2009 until 2012 after which they fell back significantly (by £96 per tonne for malting barley between 2012 and 2015). The situation could have been even worse more recently if UK grain prices had not benefitted from the recent devaluation of Sterling. Without it UK wheat prices would have been £20 per tonne lower in summer 2016. This situation arises as world grain prices are denominated in US dollars and Sterling has lost over 20% against the Dollar in the last 2 years. Brexit uncertainty is likely to continue to weaken Sterling and thereby indirectly support UK grain prices for the next few years.

Figure 14: Price trends of selected Scottish cereals, 1999 to 2016



Ballindalloch Estate Diversification

Paul Mayfield SAC Consulting

Ballindalloch Castle and Estate, situated in the Spey valley, has been the home of the Macpherson-Grant family since 1546. With a long history and strong heritage the family have developed a number of commercial enterprises to provide business diversity to enable the estate to become economically sustainable. These enterprises include:

- Farming, both rented and in-hand. The estate farm is a mixture of cropping and livestock production and is home to the oldest surviving bloodlines of Aberdeen Angus in the world, established by Sir George Macpherson-Grant in 1860;
- Commercial forestry across the estate;
- Rural activities;
- Fishing on both the River Spey and River Avon;
- Tourism to Ballindalloch Castle and Gardens;
- Hospitality through holiday lets and corporate entertainment;
- Leisure on the championship standard golf course;
- Renewable energy from the recent erection of wind turbines.



This range of enterprises means that Ballindalloch Estate is an important contributor to the local economy in terms of both employment and the income generated. As a further development the family wished to create a micro distillery to increase their business portfolio and take advantage of the growth in the Scotch whisky market. The area is renowned for whisky production with a number of existing distilleries surrounding the estate, including Cragganmore, which the family had a significant interest in until recently.

In 2013, the estate approached SAC Food and Drink to initially undertake a feasibility study into the development of the micro distillery. SRUC subsequently helped to develop a business plan and complete a successful Food, Processing, Marketing and Co-operation¹ (FPMC) grant application that was approved in June 2013, with an award of over £1.2 million.

Planning permission was granted for the refurbishment of redundant farm buildings at Lagmore Steading, situated beside the Ballindalloch golf course, to create the distillery and a second nearby steading, also unused, into a secure store where the whisky is stored in casks to mature.

This is a micro-distillery with an entirely closed loop production system: malting barley from the estate farms (malted at Bairds Malt, Inverness); water from a spring on Craggan Hill that is adjacent to the distillery. The waste draff is fed to the cattle and pot ale and lees are spread back onto the estate fields, returning any residue nutrients back to the land. The term 'single estate' whisky was coined by the team while developing the business plan and grant application and is an excellent example of a diversified business with a 'Circular Economy', a concept that is attracting increasing attention as businesses seek to become environmentally and economically sustainable.

The distillery started production in the late summer of 2014 and was officially opened on the 16th April 2015 by the Duke and Duchess of Rothesay. The whisky will be targeted at the global, ultra-premium market so it is likely to be 2026 before we see Ballindalloch Whisky released onto the market in any significant quantity. In the meantime however, increasingly popular bespoke tours of the distillery including The Art of Whisky Making that provides a 'hands-on' day helping to make whisky in the distillery. These tours are an example of how the estate seeks to provide new activities and enterprises that will generate jobs and income to ensure the future sustainability of the business and local community.



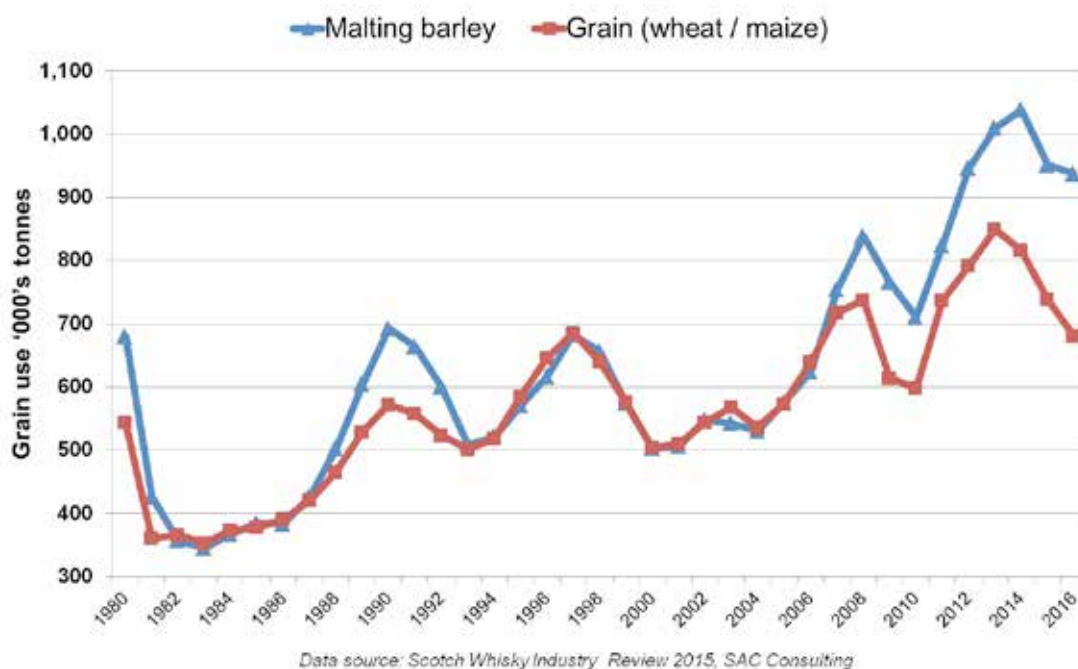
¹ <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/food-processing--marketing-and-co-operation/>

There is a premium for malting barley in Scotland (it has ranged from £10 to £54 per tonne since 2009) that reflects both international and local supply and demand factors. The majority of malting barley in Scotland is grown on contract as distillers, and hence the maltsters, want to try and ensure supply – the attractiveness (premium) of these contracts reflects the overall buoyancy of the whisky sector. Very good premiums in 2012 and 2013 reflected strong growth in whisky production and demand for malting barley. Weaker premiums more recently reflect the weaker demand for whisky and good harvests in Scotland and Europe. In 2016, while whisky demand for barley remains subdued, a poor harvest in Scotland and quality problems in Europe (wet weather) have boosted premiums. Malting capacity in Scotland is around 750,000 tonnes, however, traditionally the Simpsons malting plant in Berwick has been viewed as part of the Scottish processing sector. This means nominal Scottish capacity is higher than statistical reports suggest.

With whisky production expected to start increasing again this will create opportunities for Scottish farmers to increase spring barley area. However competition remains strong and English farmers have now begun to grow distilling barley which means efforts to improve yields and competitiveness in Scotland need to be stepped up.

The whisky sector is the single biggest user of Scottish grain – an estimated grain use of 1.6 million tonnes in 2016 (malting barley, wheat and imported maize), equivalent to 58% of 2016 grain output (2.7 million tonnes). Figure 15 shows how there has been a rapid increase in the amount of grain used by Scotch whisky distillers from 2004 (52% increase) as the industry expands output. In fact, distilling capacity has grown by a quarter since 2010, in response to a positive global outlook for whisky, although both whisky production and exports have declined since. As production and exports have fallen, it reduced demand for malting barley by about 169,000 tonnes since 2013. Demand for wheat in distilling has also been lost due to the switching of the Invergordon distillery from wheat to imported maize.

Figure 15: Scotch whisky grain use, 1980 to 2016

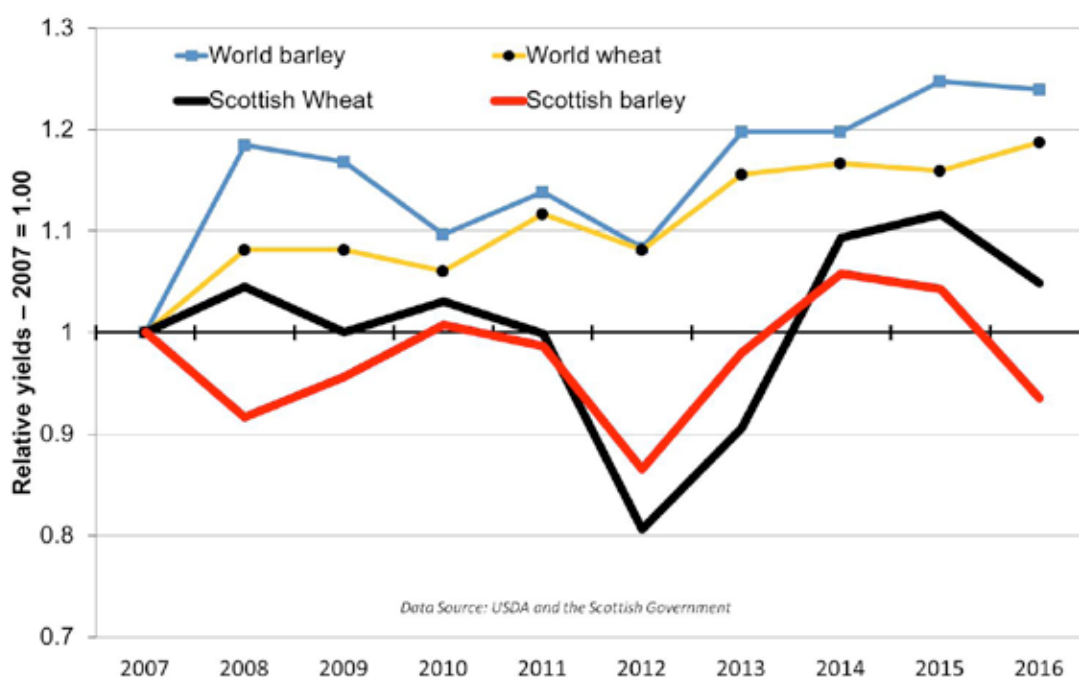


Whisky production operates on a cycle typically 7 years between one peak and another and the current downturn puts the industry about half way through this cycle, suggesting an upturn in the next year or two. The overall trend is upwards and it is important that Scottish cereal producers are ready and able to meet increased demand when it comes. Longer term it is essential to reverse the loss of competitiveness that Scottish wheat has seen against imported maize, otherwise further demand will be lost. Improving crop and spirit yields, trimming costs and making the most of the Genetically Modified-free and fully traceable nature of Scottish wheat will be necessary to keep it competitive.

Since 2015 reduced demand for wheat for distilling, coupled with good wheat yields, have moved Scotland from being a net importer of wheat to a small exporter. As a consequence the price premium of Scottish wheat over the UK average has declined from a typical £5 to £10 per tonne level to zero. This makes wheat less attractive versus other crops such as barley, although where good yields can be obtained, wheat remains the best-paying cereal crop in Scotland.

Rising cereal yields have been a feature of global agriculture for many decades and have played a large part in falling relative food prices. They have also been essential to maintain farm viability in the face of falling real prices for cereals. However, in the last 10 years cereal yields in Scotland have stagnated or declined. Part of this reflects poor growing conditions in several years, and that fact that Scottish cereal yields are high by global standards - making further marginal gains harder. However, in terms of competitiveness Scotland's cereal farmers are losing ground to their global competitors as indicated in Figure 16.

Figure 16: Global and Scottish barley and wheat yield changes, 2007 to 2016.



SAC Senior Rural Business Consultant, Julian Bell assesses some of the challenges and opportunities for the cereal sector in Scotland. His analysis of Farm Accounts Survey data reveals a wide variation in physical and financial performance across Scottish cereal farms. For the 2014 crop year the top 25% of farms based on profitability achieved:

- Higher yields of 1.14 tonnes per hectare (13% higher) for winter wheat and 0.82 tonnes per hectare (14% higher) for spring barley.
- Relatively similar variable costs.
- Lower fixed costs at £135 per hectare (15% lower).
- Lower overall costs per tonne produced at £39 lower per tonne for wheat and £50 lower per tonne for spring barley.
- Profitable cereal production before CAP payments where average producers made a loss before CAP.
- Higher prices for grain through more long term contracts / better marketing and quality.

This shows that there are many innovative farmers who manage their business precisely, aiming to maximise returns. Nevertheless, there remains a reliance on CAP support across much of the sector. This does, however, mean that there is potential for the sector to move towards profitability without subsidy through innovation and adoption of best practice that can drive improved technical performance and lower fixed costs. Restructuring is a key process needed to facilitate this move.

Yields: Progress in cereal varieties and agronomy are being made with Scottish trial results matching the gains in global cereal yield. So in terms of technical improvement there is no reason why improvements in average Scottish cereal yields could not be keeping up with the global trend. Rather there appear to be other factors preventing a similar improvement in average farm yields in Scotland. Possible reasons include: lack of structural change in the sector (as better producers achieve considerably higher yields); excessive soil compaction due to the trend towards larger farm sizes; larger machinery and wetter weather; and also the reduction in attention to detail as farms expand. Possible solutions include: (i) enabling restructuring so better operators can take on more land; (ii) and improved use of precision and smart farming that enable more tailored / automation of agronomy across larger areas where management time is limiting. This also enables controlled traffic farming using GPS to reduce soil compaction.

AD crops: Anaerobic Digestion (AD) offers the potential for new sources of income for arable farmers and a diversification of crop types. Economic viability is almost entirely dependent on subsidies under the Feed in Tariff and Renewable Heat Incentive Schemes. However, in recent years rates have been cut drastically by the UK government and are expected to fall further from January 2017 under current consultation plans. AD is also likely to be increasingly restricted to wastes rather than crops, with a maximum of 50% inclusion of energy crops proposed in the feedstock mix of new plants. This limits the future expansion of the sector. However plants already built and under construction (supported by previous rounds of higher subsidy payments) already represent a significant local market for arable farmers to supply feedstock to. The viability of energy crops versus conventional arable crops is a key driver of uptake by farmers. Recently good AD tariffs have supported feedstock prices whilst grain prices have been weak which has made AD crops competitive. In 2016 the balance is shifting back towards cereal crops due to the rise in grain prices following Brexit.

Trade: In a 'normal' season the UK is a net exporter of cereals, however periodically poor harvests (e.g. 2012 and 2013) can plunge the UK into deficit. Trade in the last 10 years has remained predominantly within the EU, accounting for 70% of imports and 79% of exports. Exclusion from the EU single market in agricultural products could be very disruptive to both UK cereal producers and consumers (livestock) depending on the terms agreed, and in seasons of large surpluses the UK could face severe disruption to wheat and barley exports if we were subjected to the current EU tariff regime. Price fluctuations would likely be higher outside of the EU raising the importance of price insurance and risk.

Precision farming: Key innovative practices may emerge around the uptake of Precision Agricultural Technologies (PAT) to improve productivity and manage costs. Specifically PATs can lead to: reduced soil compaction; reduced fuel use; improved soil nutrient status for pH, phosphate and potash; reduced pesticide/ herbicide applications through improved targeting of pests, disease and weeds; and improved crop quality and consistency through targeted fertiliser use, etc. An on-going survey of farmers is being conducted by SRUC to examine farming intentions towards uptake of these technologies in the cropping sector and finds high levels of adoption of machine guidance and variable rate technologies but also strong intentions to invest in other PATs such as variable rate seeding/planting and variable rate pesticide application. Investigating the relationship between productivity and on-farm efficiency with these technologies is also being explored to evaluate the incentives and barriers to greater uptake within the sector.

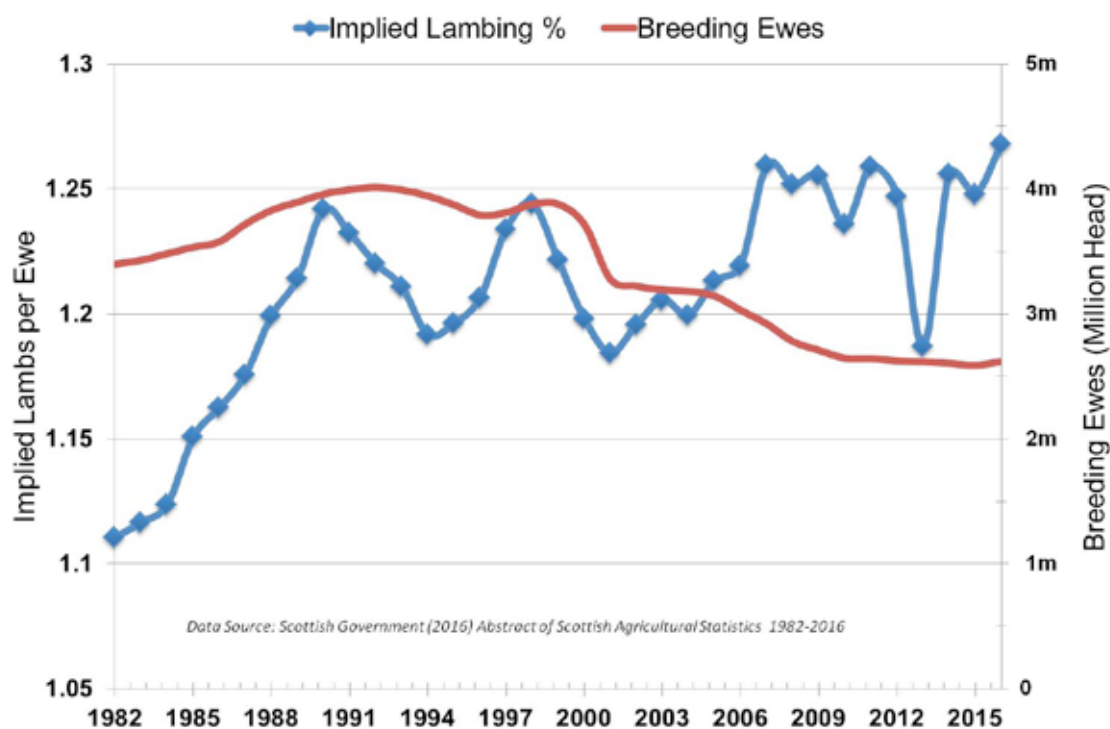
1.1.6 Scotland's Sheep Sector

In 2015 there were around 6.8 million sheep (including lambs) in Scotland with around 2.6 million breeding ewes and 698,000 hoggs for replacement. Scotland represents over 20% of the UK's total sheep flock. However, Scottish flock numbers have fallen year on year from a peak of around 10 million in the 1990s meaning the national flock has shrunk by a third in under 20 years.

Figure 17 shows how Scotland's breeding flock was hit by the devastating effects of the 2001 Foot and Mouth Disease outbreak where the number of sheep in Scotland fell by more than 11% in a single year. In addition, the longer term consequences of the decoupling of CAP support for sheep – firstly through the LFA support payments in 2002 then in 2005 with the introduction of the Single Farm Payment – are evident. The decoupling of support - that is a move away from paying on a per ewe ("headage") basis to a per hectare of land basis - led to a 17.6% reduction in the 2005 to 2015 period, before a slight upturn in 2016.

Figure 17 also reveals that over the last three decades the number of lambs per ewe is estimated to have risen from 1.1 to 1.27 revealing some productivity gains – although recent gains are down to fewer ewes being grazed on hills. These productivity gains are likely to have been driven in the 1980s by the desire to increase the breeding flock to maximise “headage” payments, coupled with export markets for small (live) lambs. The flattening of ewe productivity in the 1990s was a result of a complex mix of factors including the introduction of “headage” quota, poor profitability and a worsening Euro – Sterling exchange rate in the late 1990s. Since decoupling of CAP support payments in 2005, there was a relatively sharp increase in lambs per ewe as farmers adjusted their management regime, with more cross breeding and less reliance on high hill grazing. The large dip in 2013 was a direct result of the weather with the 2012-13 season being particularly wet, leading to testing breeding and rearing conditions, including feed scarcity and quality issues that resulted in lower births and lamb survival rates.

Figure 17: Change in Scottish breeding ewes and estimated lambing percentage, 1982 to 2015



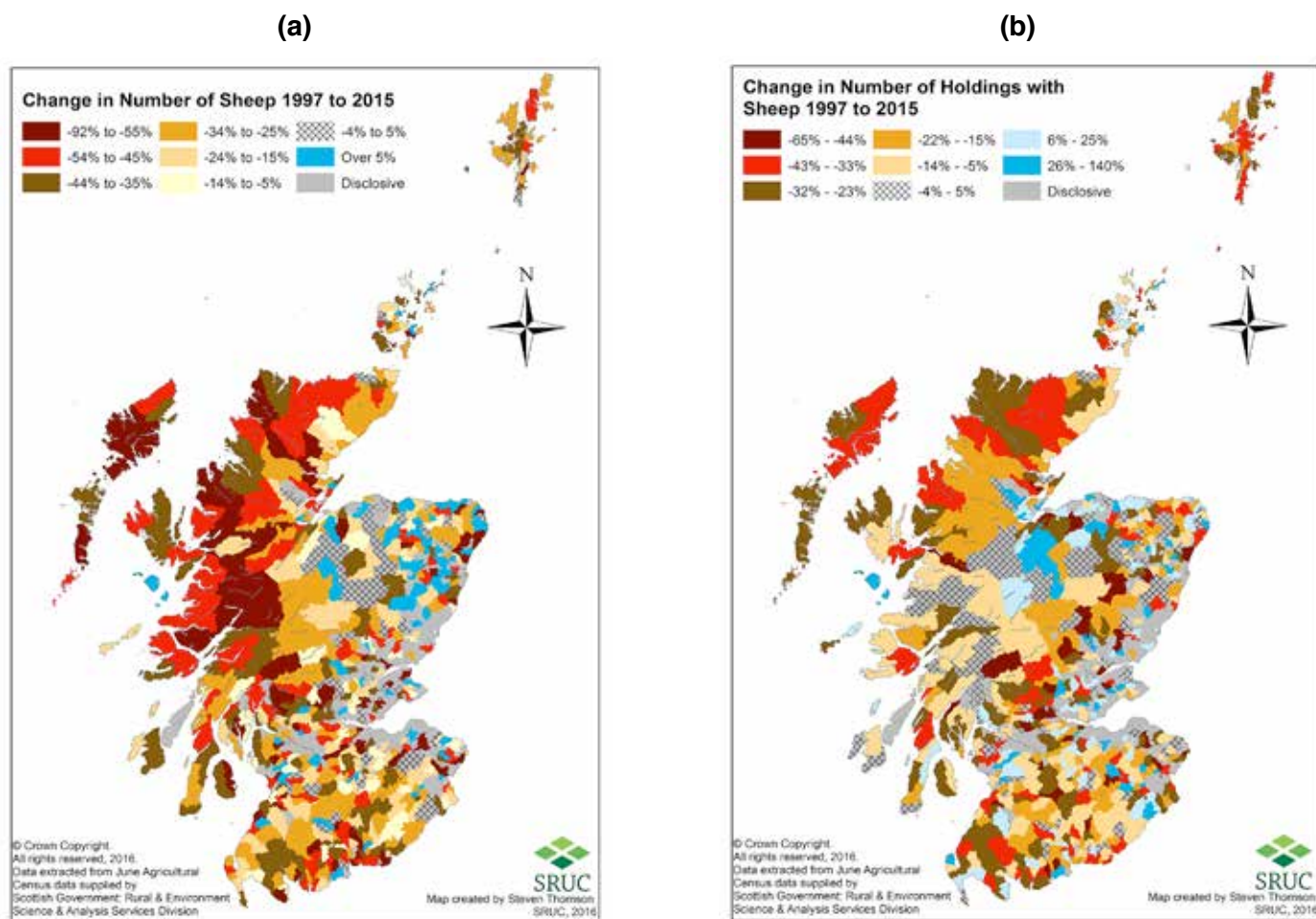
Whilst at a national level the decline in sheep numbers is perhaps alarming, there have been significant regional differences in change to sheep farming as highlighted in SRUC’s *Retreat from the Hills* and *Response from the Hills* reports. Figure 18a highlights how the change in the number of sheep has by no means been uniform across the country. Parishes in the north west of Scotland (extensive rough grazing areas) have largely had declines of more than a third, with some areas seeing sheep numbers more than halved between 1997 and 2015. Overall, Scotland lost some 2.86 million sheep and 4,017 holdings carrying sheep over that period.

There were 11 agricultural parishes that had their June sheep count (including lambs) decline by more than 20,000 between 1997 and 2015. In contrast there are nearly 60 agricultural parishes where sheep numbers increased by more than 1,000 over the period, highlighting how different regional trends can be.

Figure 18b also reveals how it is not just a reduction in sheep numbers resulting from downsizing of flocks, but there has been quite large scale abandonment of sheep production on holdings, particularly in the north west of the country. Indeed, in the Western Isles there are two agricultural parishes with more than 40% reduction in holdings carrying sheep, a combined reduction of nearly 500 holdings. It should be noted that since 1997 many areas of north east Scotland have seen sheep numbers increase and there has been greater stability in the Borders. Despite the devastating effects of the 2001 Foot and Mouth Disease crisis in Southern Scotland the overall long term decline in sheep has not been as pronounced as in the west Highlands and Islands.

However, what needs to be acknowledged in any examination of the data is that it provides a snapshot of the industry each year in June and fails to reveal just how dynamic the sheep industry is, with large seasonal movements of replacement stock and store lambs (particularly from August till November)⁵³.

Figure 18: Change in the sheep and number of agricultural holdings with sheep, June 1997 – June 2015⁵⁴



Across Scotland the sheep industry is concentrated in the hands of relatively few, large, holdings with a significant proportion of holdings only having a very small number of breeding ewes. Table 5 highlights that 60% of the 12,660 holdings with breeding ewes carry less than 10% of the breeding ewes in flocks of less than 100. In direct contrast, a quarter of holdings with ewes (about 3,275) account for 80% of Scotland's 2.6 million breeding ewes in flocks of over 250. Nearly a third of Scotland's breeding flock are on just 505 holdings with nearly 60% on 1,600 holdings. This means that despite the industry being widespread across many small-scale sheep producers, the real focus on making improvements in the sheep sector should likely be focused on the large scale producers.

Table 5: Distribution of Scotland's breeding ewes by flock size- 2015

Flock Size	Holdings with Ewes		Ewe Numbers		Average Ewe Flock
less than 10	1,737	14%	8,787	0.3%	5
10-50	4,077	32%	100,388	4%	25
50-100	1,680	13%	118,655	5%	71
100-250	2,093	17%	337,260	13%	161
250-500	1,482	12%	529,141	20%	357
500-1,000	1,087	9%	754,503	29%	694
Over 1,000	505	4%	739,440	29%	1,464
Scotland	12,661	100%	2,588,174	100%	204

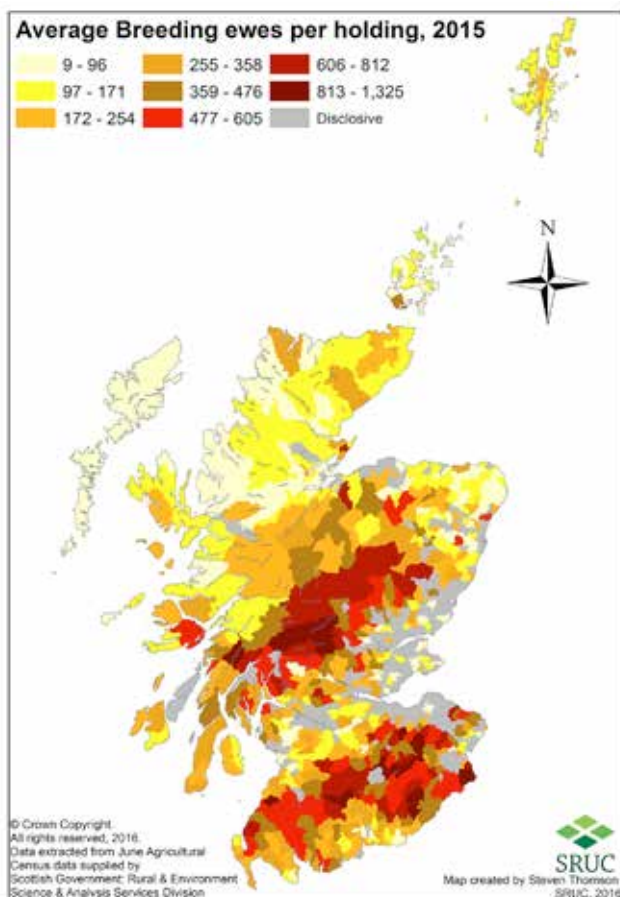
The sheep sector is characterised by disadvantage related to biophysical constraints much of the land used for grazing sheep and remoteness that leads to high transportation costs. The large use of rough grazing in the sheep sector often means that there are limited farming alternatives available to producers, other than to extensively graze sheep. Better grazing quality enables more intensive sheep farming systems in areas such as the Borders and Dumfries and Galloway with large breeding flocks reaping the rewards of high productivity per ewe. Aberdeenshire farming systems are generally more focused on beef and cereals meaning it has a smaller number of ewes in the region, although they do have high productivity rates due to the availability of good grazing

The Highlands and Islands had 55% of the holdings with breeding ewes in 2015, but they only carried 23% of the national flock - reflecting the large amount of small croft holdings in the region. Eastern Scotland carried over a third of the national breeding flock on 17% of Scottish holdings carrying breeding ewes. Figure 19a reveals how the relative scale of sheep production differs across, and within, the different regions of Scotland. The largest breeding flocks were found in the central Highlands and the Southern Uplands where average flock sizes tended to be over 500 ewes (June 2015). This contrasts sharply with the crofting regions where average flock sizes are generally under 200 breeding ewes, with many areas (including the Western Isles) under 100 ewes.

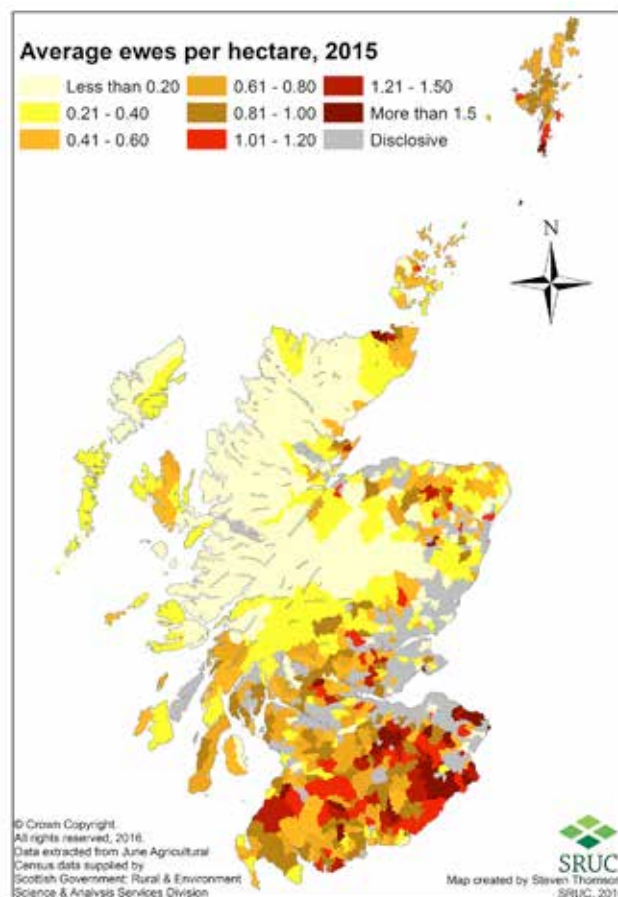
The relative intensity of sheep production in Scotland is provided in Figure 19b and largely reflects differences in biophysical constraints. Breeding ewe density is greatest in the Borders, where on-average holdings have more than one ewe per hectare, reflecting better quality grazing and more intensive sheep farming systems. This is in direct contrast to much of the Highlands and Islands where average stocking densities of less than 0.2 ewes per hectare prevail over large areas of farmland. Whilst the data does not allow within farm stocking densities to be examined, there is considerable anecdotal evidence that farming systems in the North and West of Scotland have significantly changed since 1997 - with greater use of better quality in-bye rough grazing and grassland and much reduced use of high hill rough grazing areas, not least because of a reduction in shepherds in these areas.

Figure 19: Average breeding flock size and density per Scottish agricultural parish, 2015

(a)



(b)



Related to the biophysical constraints faced, as well as the scale and type of management systems used, is productivity per ewe. Figure 20 shows the significant differences in ewe productivity between the West Coast Highlands and Islands and the rest of east and Southern Scotland. Areas in the Borders, Central Scotland, Orkney, Aberdeenshire and Dumfries and Galloway have notably higher average productivity rates with more than 1.5 lambs per breeding ewe generally achieved (some farms will have much greater rates – closer to two – but the figures reflect the parish averages). The least productive areas are the extensive hill farming and crofting systems of the Western Isles, Lochaber and Skye where average ewe productivity is less than one lamb per breeding ewe.

Figure 20 Lambs per ewe, 2015

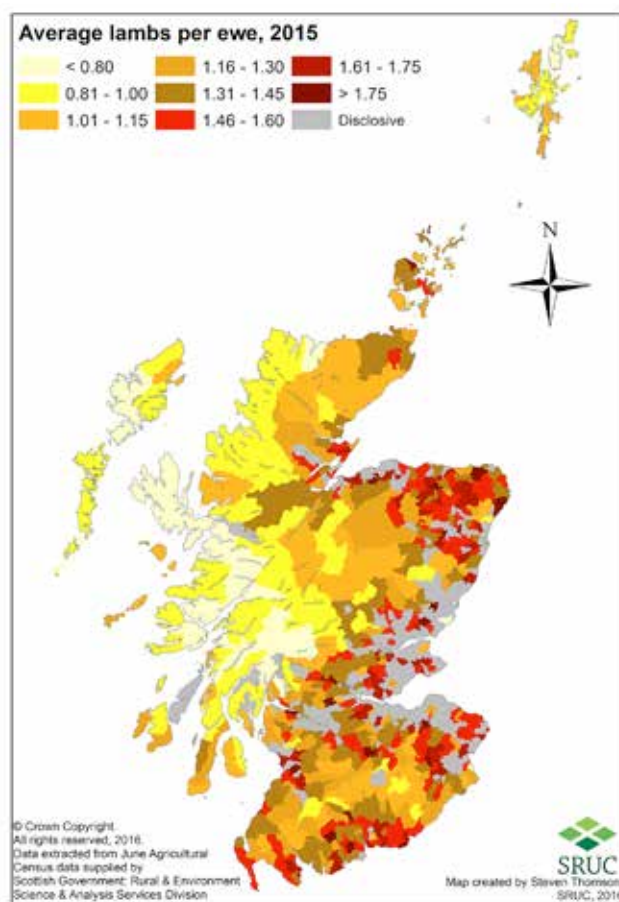
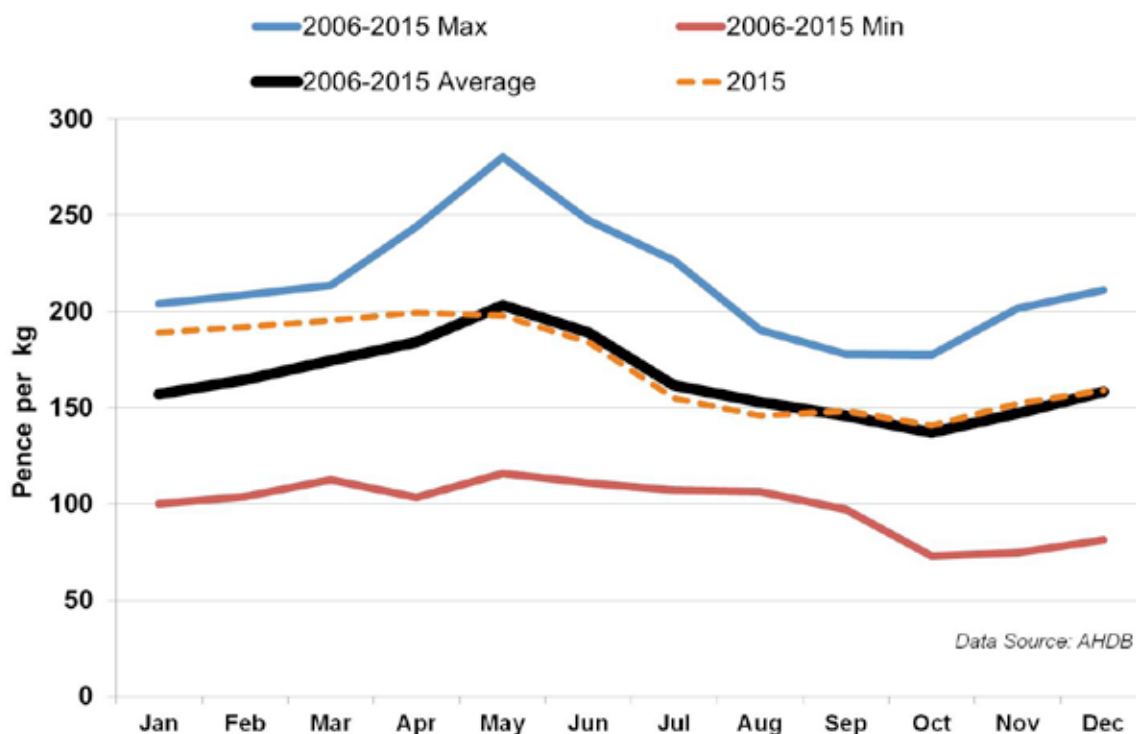


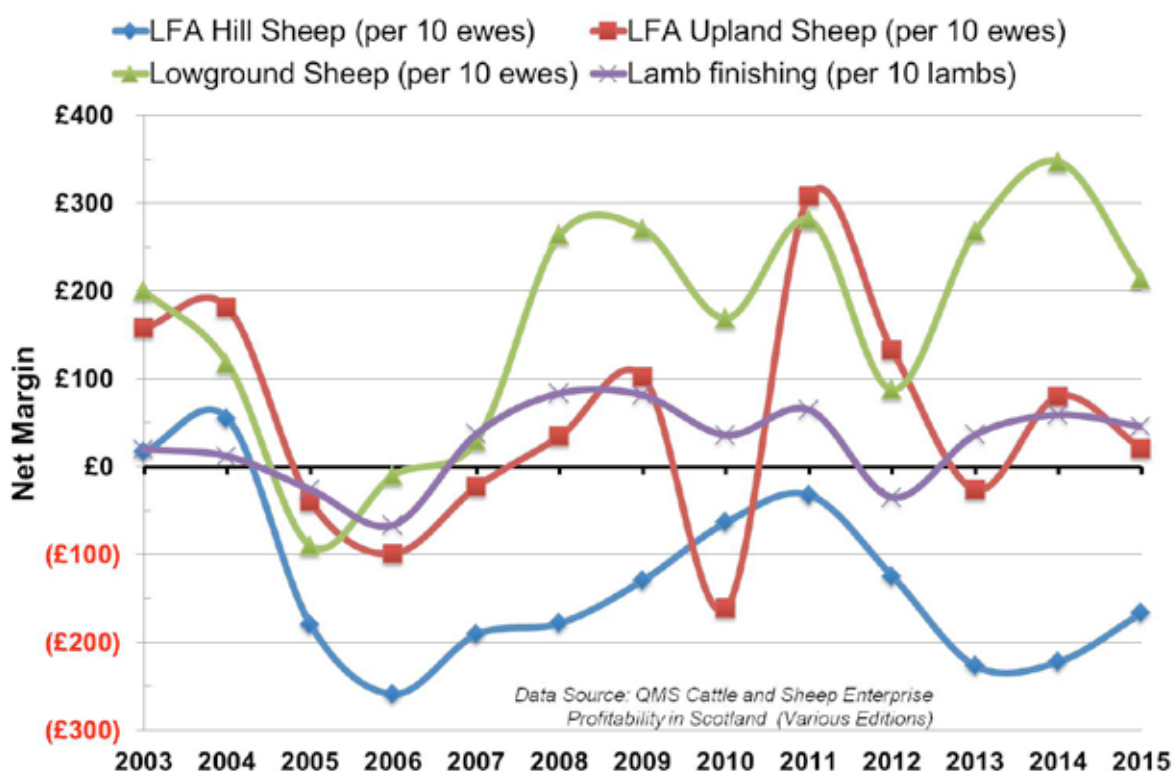
Figure 21 shows the wide range of seasonal prices that Scottish lamb producers have been faced with over the last decade – with differences of up to £1.70 a kilogram live weight being achieved between years. Most of the low prices were achieved in 2006, as the market picked up significantly between 2007 and 2012. The seasonality of prices is clear from this with a peak in late spring when spring lamb starts becoming available, followed by a trough in early autumn as the bulk of lambs come to the market. Carcase weights have remained relatively stable over time for lamb (about 19kg dressed weight) although there are seasonal changes – for example in the new year as older, over wintered lambs come onto the market. Lamb prices are affected by the global market, particularly the strength of supplies from UK producers and from key trading partners (i.e. New Zealand) and the strength of demand from the UK's biggest market - France. With a strong export market for Scottish Lamb the exchange rate can play an important role in setting prices.

Figure 21: Scotland monthly SQQ lamb live weight prices



The changes in lamb price, coupled with input cost variations can significantly affect the profitability of the sheep sector. Quality Meat Scotland (QMS) annually produce a report called *Cattle and Sheep Enterprise Profitability in Scotland*⁵⁵. These reports give an indication of how different parts of the sheep sector are performing on an annual basis and the average figures are summarised in Figure 22. Whilst all sheep enterprises returned some profits in 2004, this was due to the coupled “headage” payments under various CAP schemes. Since 2005 the Single Farm Payment does not appear in these profitability figures, as it was technically decoupled from production. This reveals how, despite rapidly rising sheep prices between 2007 and 2012, hill farmers still did not make a profit as variable costs also doubled over the period. The upland sheep producers have generally made some profits in recent years whilst lowground breeders have generally been making more than £20 per ewe net profit. These figures highlight the reliance of Scottish sheep farming on CAP support (for lowland flocks you would need a flock of 750 to 1,000 ewes to provide a pre-CAP profit of around £25,000).

Figure 22: Average annual profitability of sheep enterprises under different systems, 2003-2014



There is considerable variability in performance within the sheep sector – largely down to management factors. In 2014 hill sheep farmers, on average, were losing over £220 for every 10 ewes they had – although the top performers were only losing £27 per 10 ewes compared to losses of £270 per 10 ewes for the bottom third. For example, the top hill sheep performers had significantly lower replacement costs and variable costs per kilogram of output, more lambs reared per ewe, heavier lambs, lower concentrate costs, etc. – all factors that are in control of the farmer. AHDB figures⁵⁶ for 2015 reveal that only 57% of UK lambs marketed met their target specification (fat and conformation), with 27% too fat and 16% of poor conformation (particularly in heavier lambs sold). This reiterates that there is significant scope for many farmers to adapt their practices, innovate, and generate improved profits from their sheep. However, with such a high proportion of sheep missing specification it suggests that the price incentives for meeting (or missing) market specification are not strong enough to encourage behavioural change.

SAC Livestock and Business Consultant, Robert Logan has highlighted some of the key drivers of change in the sheep sector and what opportunities and challenges the sector is likely to be faced in the future. Robert believes that whilst the top farmers are hungry for knowledge there is general apathy in much of the sector – driven by uncertainty, fixation on prices, small flocks, small farms and prohibitively high capital reinvestment requirements:

Drivers of change:

- The sector has low profitability with less (skilled) labour available to undertake shepherding tasks.
- The weakening of Sterling since the Brexit vote has translated into a £10-15 per head lift in lamb price. This is driven by the fact that approximately 30% of UK sheepmeat is exported. The vast majority of exports go into the EU and in particular, France, who account for over half our annual exports annually – meaning there is also risks should this demand waiver.
- Production remains highly seasonal and is very weather dependent with anecdotal evidence that some farmers are moving to later lambing in attempt to avoid inclement weather during lambing.
- Successive slow springs have delayed grass growth and increased the surge of lambs ready mid-season. This has meant reasonably good trade in early season but few producers are able to capitalise.
- There is wide variation in carcass specification as producers sell when they think the market is best (they either delay or hasten sales – depending on their price projections).
- All but the most extreme hills are typically net benefactors of CAP reform which will start to change farmer outlooks but their cash flow concerns remain from low prices and delayed payments.

Opportunities and challenges:

- The outcome from Brexit trade negotiations for sheepmeat will be critical – particularly regarding access to the EU market. There could be a period of greater market volatility for the sector to deal with.
- Increasing global demand for sheepmeat is positive but offers few immediate opportunities for anything other than fifth quarter material. Demand from China is increasing but is unpredictable, although it does absorb 35-40% of NZ lamb.
- Scotland needs to adopt innovative sheep systems that reduce production costs per kilogram of meat sold to benefit the producer and mitigate falling consumption and aggressive retailing. This will also reduce the carbon impacts per kilogram of product.
- Lamb is an expensive protein, with high 'on the plate' wastage and has had limited product development with an ageing consumer demographic. Ethnic sheepmeat sales are propping up average UK consumption. Within the younger generations, sheepmeat increasingly needs to compete directly with chicken and beef.
- The current EUROP grid classification system lacks market focus and the grading system needs to develop to reward saleable meat yield that will lead to innovation in the sector through progressive Estimated Breeding Values (EBV)⁵⁷ and CT scanned tups, etc. There is wide variability in carcasses due to the vast range in breeds and production systems, and only moderate uptake of EBVs to date. Significant improvements could be made with greater use of EBVs.
- The industry needs more resilient production systems. Despite the weather and price, top performers seem to have a similar cost of production (per ewe) but rear and finish more lambs.
- The industry is challenged by an ageing farmer profile, and whilst there are relatively low barriers to entry, getting access to land and buildings can be difficult – support such as that available through the SRDP 2014-2020, may help encourage some new entrants into the sector – but quicker intergenerational transfer is required to give the sector the stimulus it requires. Of primary importance must be to present ways of providing improved access to land and demonstrating farm sheep profitably. These will be key to stimulating younger farmers entering the sector.
- Farmers should be making better use of Electronic Identification as a management tool⁵⁸ and faecal egg count kits should become common place to overcome increasing wormer resistance. In addition, selection of stock with resistant traits would see a reduced need for, and cost of, worming.

In 2016 the *Scottish Sheep Sector Review: A pathway to a profitable future: a vision for the future of the Scottish sheep industry* led by John Scott, was published⁵⁹. This sets out a suite of recommendations relating to: production profitability; abattoir profitability; functionality of the supply chain; growing the demand for sheepmeat; increasing sheep slaughterings in Scotland and; encouraging new entrants. It calls for improved physical and financial benchmarking, identification of skills gaps, development of sheep farming modern apprenticeships, finding ways of better matching supply with demand, provision of carcass feedback to producers, greater added value in more integrated supply chains, greater promotion of share farming and sheep farming as a career, improvements in the genetic potential of the national flock – particularly through genomics and selection of stock resistant to economically important diseases, etc. As with all Scottish agricultural strategies that set out a vision for the future, and pathways to achievement, it is essential that progress towards them is not hindered by the unquestionable attention that Brexit has grabbed.



Developing the Food and Drink Sector

Paul Mayfield SAC Consulting

Food and drink is a significant sector for Scotland's economy employing around 34,000 people, 19 % of all Scottish manufacturing jobs and generating a turnover of £14.4bn in 2014 (Scotland Food & Drink). The most recent Bank of Scotland Food and Drink Research Report (2016)¹, conducted in the wake of the Brexit result, confirms an uplift in business confidence and growth expectations compared with 2015. Across the food and drink sector businesses expect turnover to increase by an average of 24% over the next five years - achieved by a variety of means including entering new UK markets (49% of businesses) and new product development (45% of businesses).

Arguably, this growth means that there has never been a better time for our food and drink businesses to innovate and expand. Product quality, provenance and heritage are ways in which brands can differentiate themselves and Scottish firms have done this effectively to date – although markets are becoming increasingly sophisticated. Product and process innovation along with collaboration across the supply chain are ways to provide that all important point of differentiation. Business as usual will not suffice, as consumers look for new and healthier products. Demand for products with reduced salt, fat, sugar, 'artificial' additives and flavourings, as well as growth in non-allergen foods, also mean that food producers and manufacturers need to continue to innovate to exploit these new growth opportunities.

Food and drink companies also face other challenges such as improving productivity, risk management in terms of people and markets, building sustainability into their business and resilience into their supply chain. Growing recognition of the need to reduce waste both pre and post farm gate provides opportunities to improve efficiency and to help develop a circular economy by developing new products from what was previously considered 'waste'.

Funding and support is currently available for the sector to help them achieve these goals, through grants such as the Food Processing, Marketing and Co-operation Grant Scheme which, although competitive, is open to food businesses of any size and Interface Innovation Vouchers that are available to qualifying businesses and projects. Connect Local (www.connectlocal.scot) is a collaborative project managed by SAC Food and Drink working in partnership with SAOS², Scotland Food and Drink and Seafood Scotland. The project is a successor to the highly successful Think Local and is focussed on smaller food, drink and seafood businesses seeking opportunities to expand into new growth areas through improvements in support, network infrastructure and collaborative working. The Market Driven Supply Chain project is managed by SAOS in collaboration with SAC Consulting and other organisations and has delivered a number of projects helping to increase supply chain efficiency and collaboration across the sector.

Growing strong, credible and sustainable brands will help support Scotland's global reputation as a Land of Food and Drink³ but investment in skills, innovation and efficiency will be required if this vision is to be realised and maintained. In addition, credible environmental and sustainability credentials are important to brand growth. Businesses need to understand their target markets, have a clear and future-proofed brand Unique Selling Point, be seen by their customers and consumers as credible and have a long term vision.

Alongside this is the need to capitalise on the changes in purchase and eating behaviour and have a ‘tangible’ online presence.

Across the supply chain the industry needs to increasingly work together to provide planning, investment in skills, customer insight, infrastructure and product and process innovation in order that Scottish food and drink companies minimise the challenges and exploit the opportunities that will undoubtedly emerge over the next few years. Despite the current uncertainties, it is encouraging to see an increasing number of emerging rural food and drink businesses developing innovative new products, who are prepared to adapt to meet the changes and opportunities that are occurring within the marketplace.



¹ <http://business.bankofscotland.co.uk/pdf/4938-BOS-FoodAndDrinkReport-Interactive-02.pdf>

² <http://www.saos.coop/>

³ <http://www.foodanddrink.scot/about-us/our-vision-mission-and-strategy.aspx>

1.1.7 Scotland’s Beef Sector

The beef sector accounted for about £850 million or nearly 30% of Scottish agricultural output in 2015, supporting a wide array of rural businesses reliant on the sector: feed, energy, machinery, veterinary services, fertilisers, hauliers, livestock markets, abattoirs, etc., including the wider beef supply chain through to retailers and caterers. Scotland currently has around 28% of the UK breeding herd and in 2016 there were 437,000 beef cows (or suckler cows) with calves in Scotland with a further 83,000 female beef cows over two – that consists of replacement heifers and animals for slaughter. In total there were 1.8 million cattle in Scotland in 2016.

The suckler cow herd is relatively well spread across Scotland with 31% located in the south west of Scotland, 27% in the Highlands and Islands, 26% in eastern Scotland, and only 16% in the north east of Scotland. As the cattle statistics do not readily allow finishing cattle to be identified, male cattle over one (including a small proportion of breeding bulls) was used as a proxy. This shows that north Scotland had about 28% of the finishing herd in June 2015, with the south west having 35% and eastern Scotland 22%. As with sheep, the industry is highly dynamic and the June Census data simply provides a snapshot of the industry and does not account for the large “store” cattle movements from suckler cow breeders in the hill and upland areas to specialist lowground finishers that occur throughout the year⁶⁰.

The beef sector has become pretty concentrated with a large proportion of the industry reliant on relatively few farmers. Whilst Table 6 shows that there are around 10,250 holdings with suckler cows in Scotland, a third of those holdings have less than 10 cows and account for only 2% of the national beef breeding herd. In contrast about 400 holdings (3.5%) account for nearly a quarter of Scotland’s suckler cows in herds of over 200. There is even greater concentration in the finishing sector where – using this proxy of males over one – 13% of the finishing males are on 45 holdings (0.5%) in herds of over 400, with a further 14% on 139 holdings. Overall 45% of all Scottish male cattle over one are located on just 550 holdings.

Table 6: distribution of suckler cows and male cattle over 1 by herd size, 2015

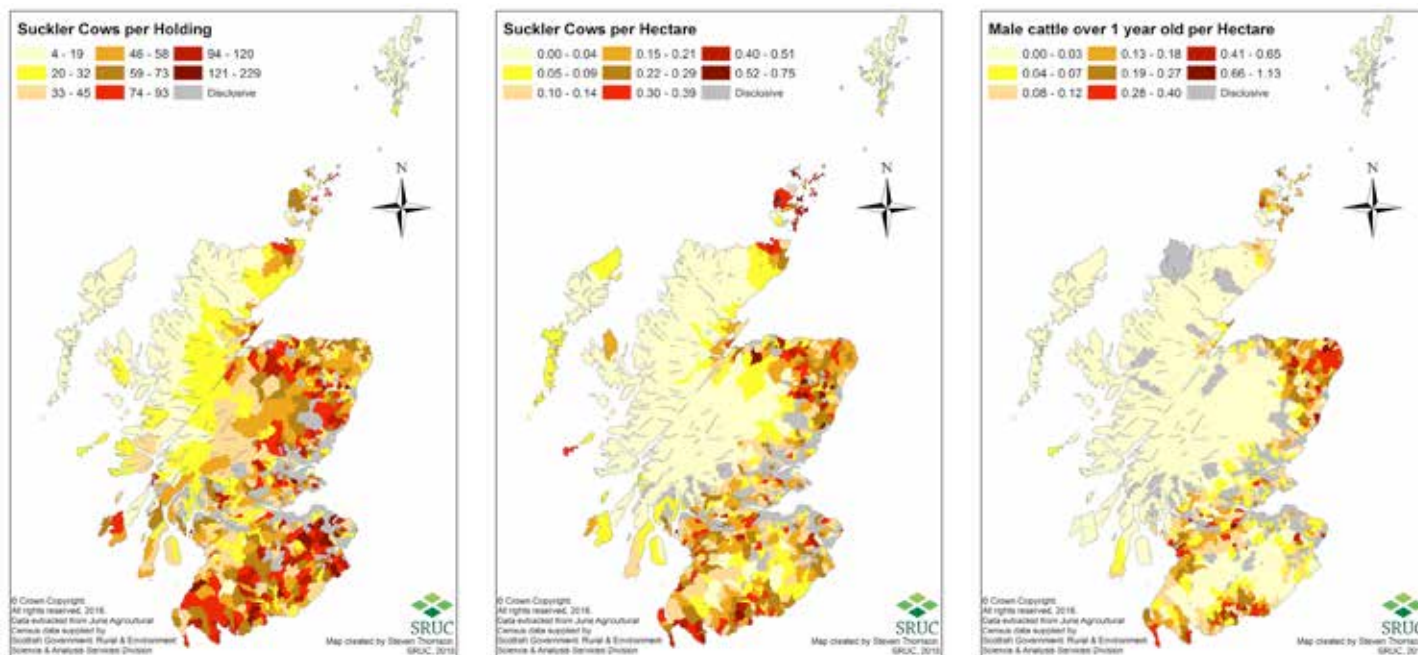
Herd Size	Holdings with Suckler Cows		No. of Suckler Cows		Holdings with finishing males		No. of Finishing Males over 1	
	No. of Holdings	% of Total	No. of Cows	% of Total	No. of Holdings	% of Total	No. of Males	% of Total
<10	3,376	33%	12,968	2%	5,132	53%	17,031	6%
10-50	3,414	33%	88,125	17%	3,161	33%	75,318	27%
50-100	1,894	18%	136,083	26%	862	9%	59,213	22%
100 - 200	1,181	12%	160,583	31%	367	4%	50,399	18%
200-400	352	3%	91,129	18%	139	1%	38,216	14%
>400	50	0.5%	30,592	6%	45	0.5%	34,612	13%
Scotland	10,267	100%	519,480	100%	9,706	100%	274,789	100%

Data Source: Extracted from the Scottish Government’s 2015 June Agricultural Census

Based on the Scottish Government's data, Figure 23 reveals the average herd size across Scotland's parishes. In the main crofting parishes in the north and west (excluding Orkney) average suckler cow herd sizes are small – generally lower than 20 cows. In contrast in Southern Scotland and the north east Scotland average suckler cow herd sizes are much bigger, as a result of better quality grazing land and bigger farms.

The second map in Figure 23 shows that suckler cow intensity (per hectare) is greatest around the Solway Firth in Dumfries and Galloway, in Orkney and in upper Grampian. These farming areas are heavily reliant on cattle and are an important source of cattle for the beef industry. The finishing sector is vitally important for the entire beef sector, and as previously discussed, is highly concentrated in the hands of a relatively small number of specialist producers. The third map in Figure 23 highlights how important Aberdeenshire and Dumfries and Galloway are for the finishing sector – with high densities of male cattle over one (a pattern replicated when looking at finishing cattle per holding).

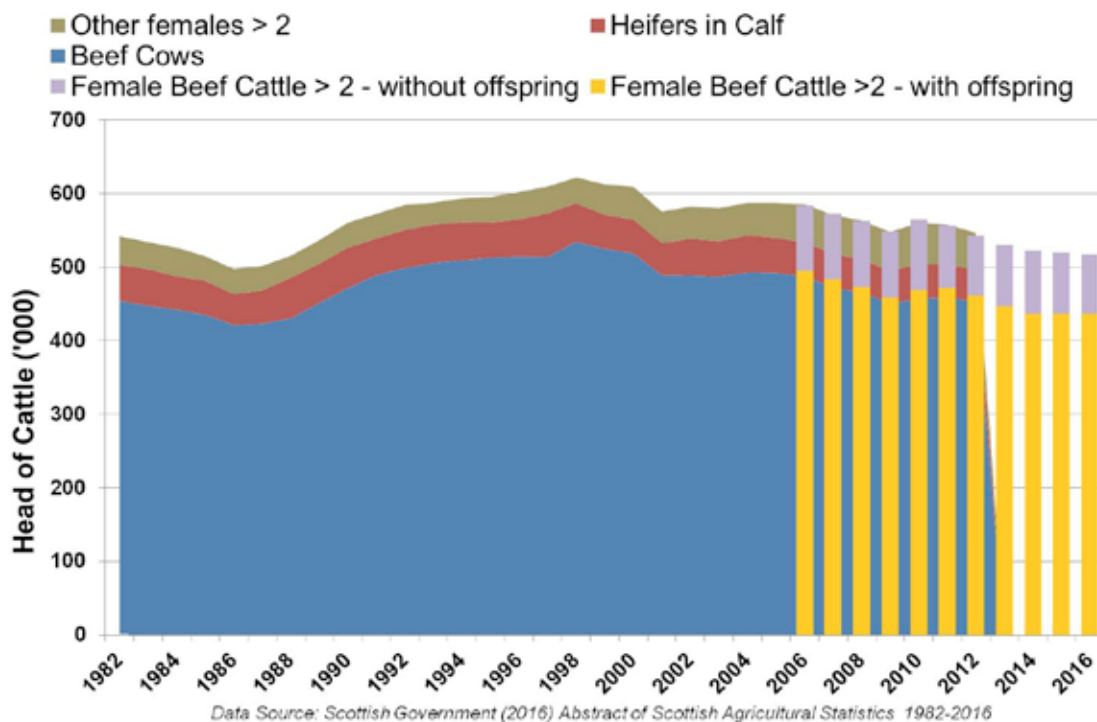
Figure 23: Location, herd size and density of Scottish suckler cows and finishing (male) cattle, 2015



The long term trends in the beef herd are difficult to portray due to a change in the way that cattle statistics are recorded - there was a move from using farmer filled June Census returns to using the Cattle Tracing System data which farmers have a statutory obligation to keep up-to-date. For this reason there is not full compatibility in the long term trends shown in Figure 24, although it provides approximated trends to be shown for the entire period. The impact of CAP “headage” payments is apparent, with increased national herd size in the 1980s and throughout the 1990s. The weakening of Sterling against the Euro⁶¹ in the early 1990s also gave farmers a windfall gain per cow through their support payments. The McSharry CAP reforms slowed the increase in suckler cow numbers through the introduction of entitlement quota and an extensification premium, designed to reduce stocking densities to more environmentally friendly levels.

The beef herd peaked in 1998 before a downturn caused, in part, by poor market prices and a strengthening of Sterling against the Euro effectively reducing CAP payments. The devastating impacts of the 2001 Foot and Mouth disease outbreak are apparent – after which there was a period of stability in numbers until 2006, when some restructuring took place in light of decoupling of CAP support, depressed beef prices, and lifting of the ban on over 30 month old cattle entering the food chain that had been in place because of BSE. As beef prices rose (so did input costs) from 2007 to 2012 there was some stabilisation in the national beef herd before further decline in 2013 and 2014, driven by decreased prices⁶².

Figure 24: Long term trends in Scottish beef cows, 1982 to 2016

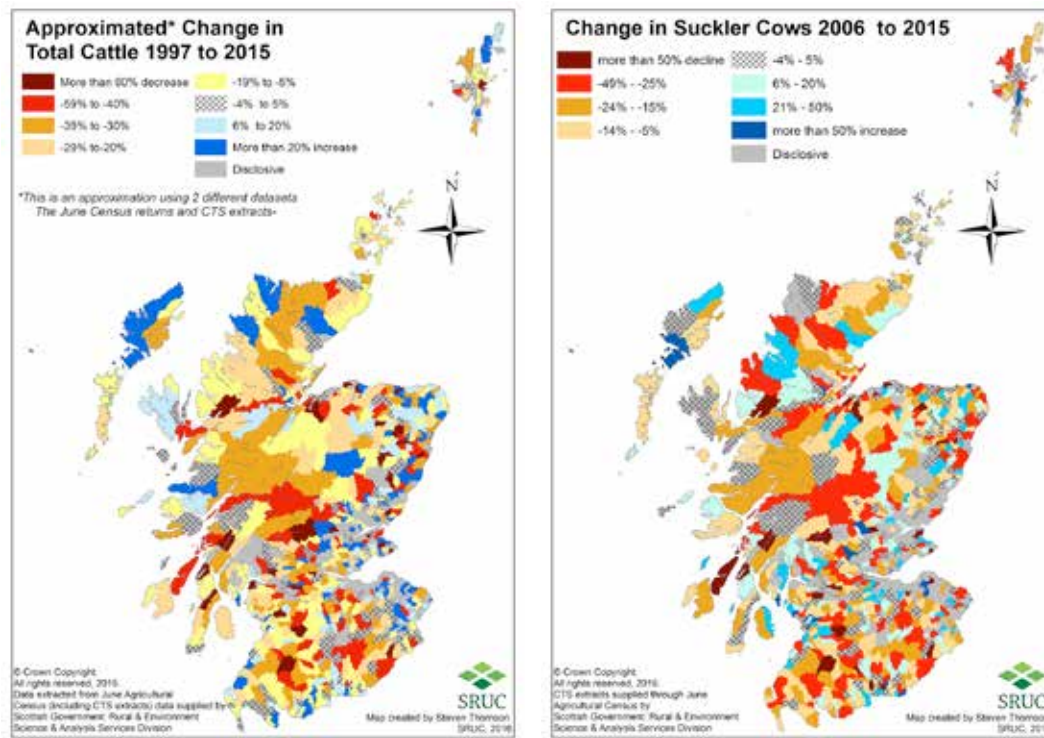


The BSE (Bovine Spongiform Encephalopathy) crisis started in 1988 and culminated in a ban of UK beef exports to Europe, followed by a worldwide ban in 1996, and the introduction of a slaughter scheme for all cattle over 30 months of age (1996). The BSE crisis artificially caused suckler cow numbers to increase throughout the late 1990s as farmers tended to keep their beef cows longer than they traditionally would - until the lifting of the ban on older cattle entering food chain in November 2005. After the ban was lifted there was a widespread disposal of surplus cows that were not performing (cows born pre-1996 were never allowed into the food chain) and herd numbers dropped back to a level they should likely have been at without the BSE restrictions. Scotland has been officially BSE free since 2009⁶³.

Whilst there has been an approximate 15% reduction in the national suckler cow herd since 1998, the decline has not been uniform across Scotland. Figure 25 shows an approximation of changes in total cattle numbers (including the dairy herd) at parish level between 1997 and 2015 alongside changes in the suckler cow herd between 2006 and 2015 (where the Cattle Tracing System (CTS) source is consistent). There appear to have been large decreases in cattle numbers in the central Highlands but also in the south of Scotland and parts of Caithness and Sutherland⁶⁴. A lot of the increases in cattle in the parishes in the north west were likely a result of agri-environmental incentives that encouraged native breeds. However, it is noticeable that cattle numbers have fallen so much despite the presence of LFA support payments that favoured cattle, and coupled support payments for calves. The second map in Figure 25 shows that since 2006 (just after the introduction of the Single Farm Payment and Scottish Beef Calf Scheme) there have been widespread decreases, of more than a quarter (areas in red), in suckler cow numbers in many parts of Scotland. However, despite this there are also a number of areas where the suckler cow herd has increased showing there is no real geo-spatial pattern to the changes.

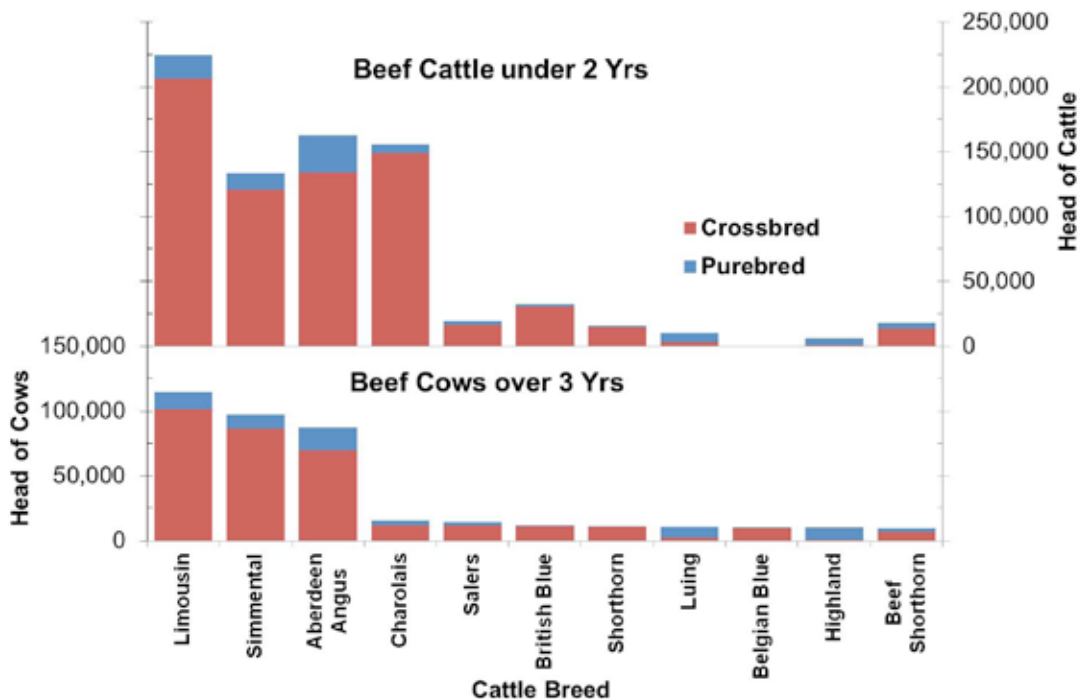


Figure 25: Change in Scottish suckler cow herd, 1997 to 2006 and 2006 to 2015



The Scottish beef industry is dominated by a small number of breeds. Using data extracts from the CTS, operated by the British Cattle Movement Service⁶⁵ (BCMS), Figure 26 shows that Limousin crosses were the most common suckler cow breed in 2016, accounting for 23% of beef cows over three years of age, followed by Simmental crosses (19%) and Aberdeen Angus crosses (15%). Pure breed Limousin, Simmental and Aberdeen Angus cows collectively make up about 9% of the beef breeding herd in Scotland in 2016. Figure 26 also shows the number of beef cattle under two years of age (mostly calves and finishing animals, but also replacement heifers) where Limousins account for 27% of the animals. Aberdeen Angus is the second most common breed of young cattle (19%) followed by Charolais (18%) then Simmental (16%) – with these four breeds accounting for over 80% of younger cattle in 2016. It is noticeable that there is a very low nucleus of Charolais cows compared to calves and this is due to the popularity of cross breeding with Charolais bulls as a terminal sire - a breed known for fast growth and good conformation.

Figure 26: Scottish beef breeding cows over 3 years of age and beef cattle under 2 year old, 2016

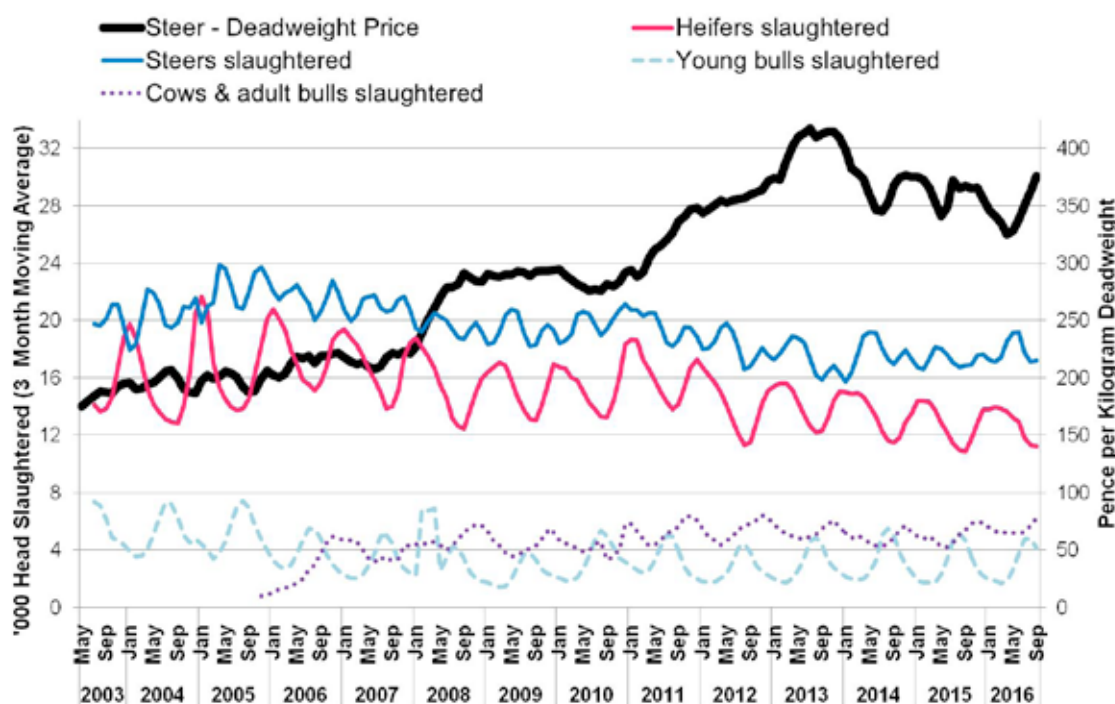


Breed figures published by the Scottish Government⁶⁶ reveal that that whilst Limousins remain the most common cattle breed, their numbers fell by more than 120,000 (27% decrease) between 2006 and 2015. Charolais cattle also fell by 27% moving it from the second most common breed of cattle in Scotland in 2006 to the fifth most common in 2016.

Scotch Beef and Scotch Lamb have been protected by the EU's Protected Geographical Indication status for over 25 years providing consumers with confidence they are buying genuine beef and lamb from quality assured farms that have been reared in Scotland⁶⁷. With this brand in mind, Scottish cattle tends to receive a premium of around 15-20 pence per kilogram (kg) deadweight over beef reared in England, with the result that the vast majority of Scottish beef producers are registered with Quality Meat Scotland's (QMS) quality assurance scheme for beef⁶⁸. In addition there are price premiums often paid for specific breeds, such as Aberdeen Angus – depending on the market.

Following a prolonged period of suppressed beef prices, the market outlook for beef in Scotland has been reasonably positive over the last 8 years. Figure 27 shows the long term average deadweight price for steers moved gradually from about £1.75/kg in 2003 to about £2.20/kg in 2007. Since 2008, tightening of global supplies and increased demand from growing economies (e.g. China, Russia) led to rapid price increases for beef that peaked at over £4/kg in 2013 before falling back before a mini revival in late summer of 2016. Figure 27 also highlights the high degree of seasonality in beef slaughterings, even when shown as three month moving averages. The number of steers and heifers being slaughtered in Scotland has also declined – with 2015 steer slaughterings down 16% on 2004 levels, and heifers 20% down. The increased prices in 2008 slowed the decline, but with the national herd continuing to fall until 2014 there continued to be fewer animals slaughtered.

Figure 27: Monthly beef slaughterings and deadweight steer price, 2003 to 2016

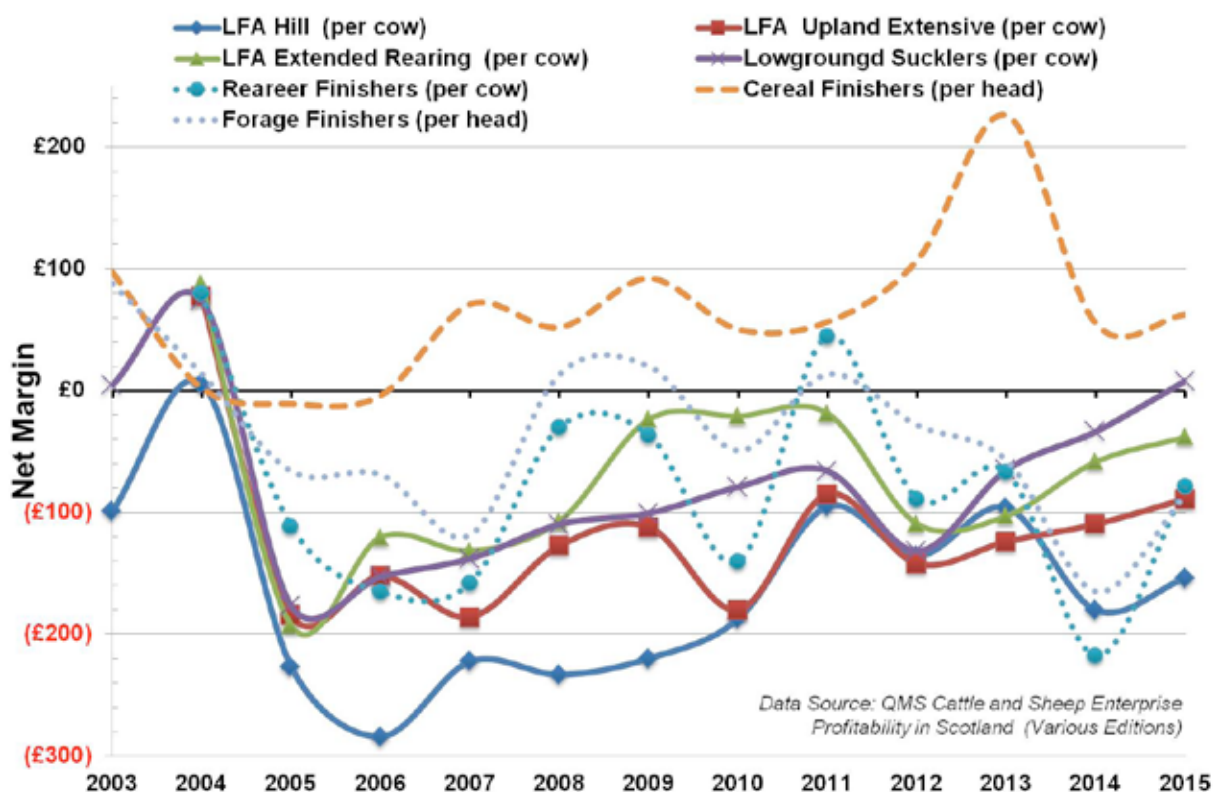


Although there have been fewer animals put forward to slaughter, statistics⁶⁹ show that dressed carcass weights have increased in weight over the period (meaning total meat output is less affected by decreases in the number of animals slaughtered). For example, between 2006 and 2016 the average dressed carcasses weight of a Scottish steer increased 6.5% to 385kg with similar gains shown in heifers. This long term increase is likely to come to a halt as the impact of Scottish abattoirs penalising heavy carcasses takes effect. In 2016 it was announced that farmers delivering animals with a carcass weight of 420kg would be faced with increased price penalties. This move has seen the market react quickly, as finishers are now looking for younger animals so they can control calf growth and weight gain more readily – this means there is need for rapid behavioural change for some store calf producers regarding the timing of selling their store cattle onto finishers.

During the 2007-2013 period of price increase farmers were, however, also faced with significant increases in input costs – particularly feed, fertiliser and energy - thereby negating price increases. The sector is very heavily reliant on CAP support payments to make profits and this is a legacy of over reliance on historic “headage” payments (that amounted to around £400 in 2004) to justify herd expansions – something that decoupling of CAP support in 2005 did not address, in the most part, as farmers were content to use their historically based SFP to subsidise loss making enterprises.

Having these historic coupled payments in mind fully explains the significant reduction in net margin received by Scottish beef producers between 2004 and 2005 as the decoupled SFP did not appear in enterprise accounts for the first time. For the first time in over 50 years farmers did not have to spend their support payments to maintain suckler cow numbers – they had a “freedom to farm” rather being tied to “headage” payments. Figure 28 shows QMS’s beef enterprise figures between 2003 and 2014 and this reveals that all beef rearing systems have needed to cross subsidise their enterprises from SFP (or other sources) to justify their existence, even when prices were rising. These figures, however, take into account depreciation charges, which of course are irrelevant if businesses are taking a short-term view and not reinvesting in buildings, facilities and machinery. Only intensive cereal finishers appear to make profits, and this is in part to do with quicker finishing time and therefore lower operating and overhead costs.

Figure 28: Net profitability of Scottish beef enterprises, 2003 to 2014



As with all sectors of Scottish agriculture, there is wide variation in the performance of individual farms based on motivations, land quality, climate, breed type, etc. Table 7 show that the range in performance between the bottom and top third of performers can be significant (up to £300 per cow). This, therefore, suggests that there is considerable scope for some beef farmers to innovate and make technical performance improvements thereby improving business profitability and reducing reliance on the CAP. Generally, the top performers had better cost control – both variable and fixed – with a tendency for lower concentrate usage. In addition, the top performers generally had higher calf rearing percentages, higher daily liveweight gains, sold heavier calves and tended to get a price premium for their calves over the poorer performing farms.

Table 7: Range of beef enterprise performance, 2014⁷⁰

System	Bottom Third	Average	Top Third	Top - Bottom Difference
LFA Hill	-£297	-£180	-£70	£227
LFA Upland – early weaning	-£178	-£109	£22	£200
LFA Upland – late weaning	-£158	-£58	£155	£313
Lowground suckler	-£180	-£33	-£115	£65
Rearer-finisher	-£293	-£217	£18	£311
Cereal finishing	-£16	£55	£155	£171
Forage Finishing	-£132	-£126	-£89	£43

Data Source: QMS (2015) Cattle and Beef Enterprise Profitability in Scotland

AHDB figures⁷¹ also reveal that whilst 55% of UK prime beef carcasses met target specification in 2015 (up from 42% in 1995) there is significant room for improvement in the delivery of animals to slaughter. They report that 31% of animals were lean but have poor conformation, 9% were too fat and 4% were both too fat and of poor conformation. With such a high proportion of animals missing specification it suggests that the price incentives for meeting (or missing) market specification are not strong enough to incentivise behavioural change. This again suggests scope for driving profitability improvements for farmers by changing behaviours and adopting best practice.

In 2014 a short life industry group developed a vision for the Scottish beef sector: *“A confident market driven grass based cattle industry using leading edge technologies capable of delivering profitably to the home and world market high provenance, quality beef from sustainable production systems.”* The Beef 2020 report⁷² sets out a suite of 23 action points that can help revitalise the sector and drive forward changes that are required in a rapidly changing policy and market environment, including the need to react to climate change. There was recognition that change takes time in the sector (conception to slaughter is usually be 24-30 months). The group called for a number of innovations in the sector to drive efficiencies: an improved payment system based on carcase yield and value; electronic identification to improve data that can be used with other data collections to drive efficiencies and genetic improvements; action to improve health status – particularly around liver fluke and Johne’s disease; improve opportunities for new entrants into the sector; more collaboration across the supply chain regarding pricing and supply of animals to meet specification and develop new market outlets for Scotch Beef; etc.



The Beef Efficiency Scheme⁷³ was introduced in Scotland in 2016 in attempt to try and drive long term improvements in the beef herd that CAP support, to date, has perhaps suppressed. The £45 million scheme focuses on improving cattle genetics and management practices on farms with long term benefits expected through “improved genetic selection in respect of growth rates, feed conversion, maternal behaviour, nutrition practice and disease resistance.” A five year scheme, as part of the SRDP 2014-2020, pays farmers £32 per calf for the first three years to collect and enter data about their herd, as well as giving them access to advice to help them identify and drive efficiency gains.



SAC's Senior Beef Consultant, Gavin Hill, has pointed out a number of opportunities and challenges facing the industry. Gavin believes that there are a number of important drivers of change, and challenges within the beef sector, including:

- A lack of profitability with current systems and current price and cost structures is a major constraint – with around 90% of the beef sector returning negative margins. It is unlikely that there will be major improvements in profitability in the near future so farmers will need to adapt systems in order to improve their bottom line.
- The reduction in direct support is having the greatest impact on the beef sector – due to the historically high coupled payments that amounted to around £400 per cow/calf. Many farmers will be challenged going forward to adopt new innovations, and adapt to this era of reduced support.
- The newly introduced deadweight limits will drive more efficiency and the saying that “weight pays” is no longer correct – 380kg carcasses can give the same return as 450kg carcasses with many leading processors. The majority of finishers want cattle that are approximately 12 to 14 months at the 420 kg plus stage.
- Bull beef demand from major retailers has diminished recently and although it is a technically efficient system it will force many to change to steer production. Well managed steer production systems can finish animals at similar ages to young bulls but they will not have the weight or grade that often provided a price bonus.
- Sterling exchange rates are important and the weakening of Sterling does make Scotch Beef exports more competitive in the world market. However, the downside is that imported feedstuff, fertiliser, etc. have become more expensive for all producers.
- There is a great deal of uncertainty surrounding CAP and Brexit so there has been limited investment in the sector, or expansion of production – this is likely to continue until there is greater clarity over post Brexit trade and agricultural support. Brexit may deliver new opportunities and challenges alike and tariff agreements will be vitally important as the sector is currently protected from cheaper imports.
- It is becoming increasingly difficult for farmers, hauliers and processors to find skilled, dedicated staff that are willing to work in the sector.
- The LFASS scheme helps support a number of beef farmers and any fundamental redistribution of these support payments through the new ANC scheme could have unwanted negative impacts on beef production in many areas.
- It is vital for Scotch Beef to keep its market share in the future as the brand can open up new international market opportunities and maintain the price premium Scottish producers receive for their product.
- The increasing use of sexed semen allows dairy farmers an opportunity to cross more cows with beef sires. This could increase the supply of beef in Scotland thereby having negative impact on traditional suckler cow systems.

Opportunities Going Forward

- Aligned to the AgriTech Innovation Centres (see the end of the chapter) it is important that farmers and the wider agri-food supply chain are empowered to embrace big data and related technology⁷⁴, when confronting sustainable intensification challenges. In addition the development of innovative technologies (such as through Agri-EPI⁷⁵) can help: improve heat detection in cattle – meaning more efficient production; develop live Video Imaging Analysis (VIA) that allows farmers to assess body condition and meat yield of animals in a scientific manner, etc.
- There will continue to be a need for supporting the sector through advice and knowledge exchange programmes to drive management improvements and system changes in the beef herd.
- Farmers need to embrace the opportunity that improved genetic lines developed through the use of genomics can bring, particularly in selection of breeding stock.
- It will be important to continue to develop our understanding of meat eating quality and the factors that affect it, particularly as consumers become more discerning and cheaper forms of protein are readily available.

Farming for a Better Climate

Jim Campbell and Rebecca Audsley, SAC Consulting

The Scottish climate is possibly the major factor that has affected both the success and daily challenges of agriculture in the country since prehistoric times. Any change in the climate, therefore, needs careful consideration and potential long term negative effects on the climate from agricultural activity need to be understood and mitigated against.

SRUC runs the Scottish Government's Farming for a Better Climate (FFBC) initiative which promotes improved farm efficiency as the key to reducing greenhouse gas emissions. Since 2010 the initiative has focused on five key action areas: (1) Using electricity and fuels efficiently; (2) Developing renewable energy; (3) Locking carbon into the farm; (4) Making the best use of nutrients, and (5) Optimising livestock management.

Events and on-farm workshops are run across Scotland featuring specialist speakers in the key action areas. The initiative also works with nine Climate Change Focus Farms across the country where regular discussion group meetings are held demonstrating a range of practical mitigation and adaptation measures. The carbon footprint of host farms is measured at the outset and end of the initiative, using AgRE Calc[®] software, with a variety of steps taken in between to improve carbon efficiency. Those who have completed the programme have had average savings of 10%, worth around £20,000, that were achieved through:

- Efficient use of slurries and manures resulting in financial savings in artificial fertiliser.
- Generating renewable energy on-site and using it efficiently to bring immediate financial benefits.
- Adopting minimum tillage techniques where appropriate, thereby reducing crop establishment costs.
- Improving the efficiency of livestock production resulting in more saleable product for each unit of input.

Focus group members at each farm, and others attending the events, are given the opportunity to benchmark their own businesses against the host and other farmers. The dissemination of knowledge on current best practice and research findings among attendees is augmented by discussion and sharing of experiences between individual farmers and further information can be obtained from the dedicated website (www.farmingforabetterclimate.org) which includes practical guides and case studies.



An arable focus group discuss soil robustness and carbon sequestration during an on-farm meeting.

The FFBC initiative has been an effective forum for raising awareness of climate change issues affecting agriculture and continues to amass a data bank of knowledge which is made freely available to farmers across Scotland. The opportunity it presents for knowledge exchange from farmer to farmer as well as between farmers, specialists and researchers continues to be its main strength. The ability to gain knowledge from the practical experience of their peers is highly valued by the large number of farmers who have so far engaged with the initiative.

Farming
for a Better Climate 

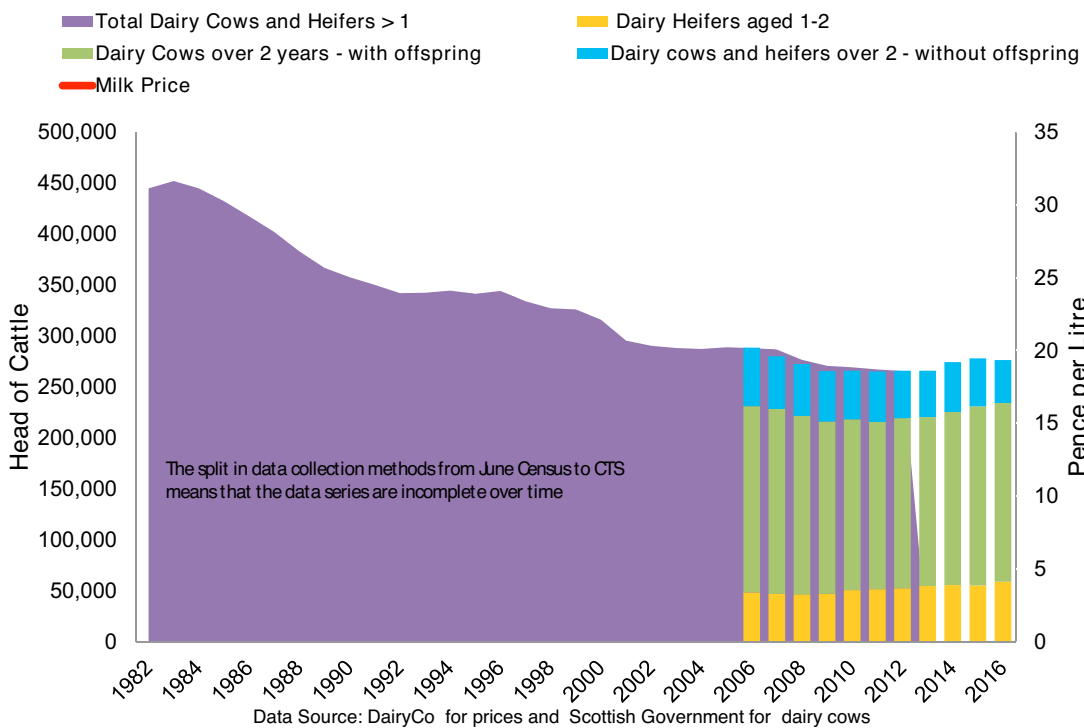
For more information contact rebecca.audsley@sac.co.uk or jim.campbell@sac.co.uk

1.1.8 Scotland's Dairy Sector

The dairy sector is economically important, producing about £365 million output in 2015 and supporting around 2,000 processing jobs.⁷⁶ However, Figure 29 shows that the sector has experienced a long term decrease in the dairy herd, from about 450,000 cows and heifers in 1983 to around 275,000 cows and heifers in 2016. This represents around a 38% decrease. During that time milk yields have also improved, largely through genetic improvements (especially with the use of Artificial Insemination – AI). Dairy Co estimates⁷⁷ suggest that average milk yields in the UK increased from 5,512 litres in 1995 to 7,912 litres per cow in 2016 (a 44% increase).

The figures show that the long term decline in dairy numbers was stopped between 1992 and 1997 as milk prices rose from about 21p per litre to 25p per litre. When milk prices then fell back and didn't recover till until 2007, the long term decline in numbers continued. When the price started rising from 2007 to 2014 it is clear, again, that cattle numbers stabilised and actually started increasing. However the sudden fall in the price in 2015 will have long term consequences in so much that very few dairy cows were Artificially Inseminated (AI) with dairy semen in 2016 meaning the national herd will shrink over the next couple of years – although with market improvements in Autumn 2016 many remaining dairy farmers are looking for stock.

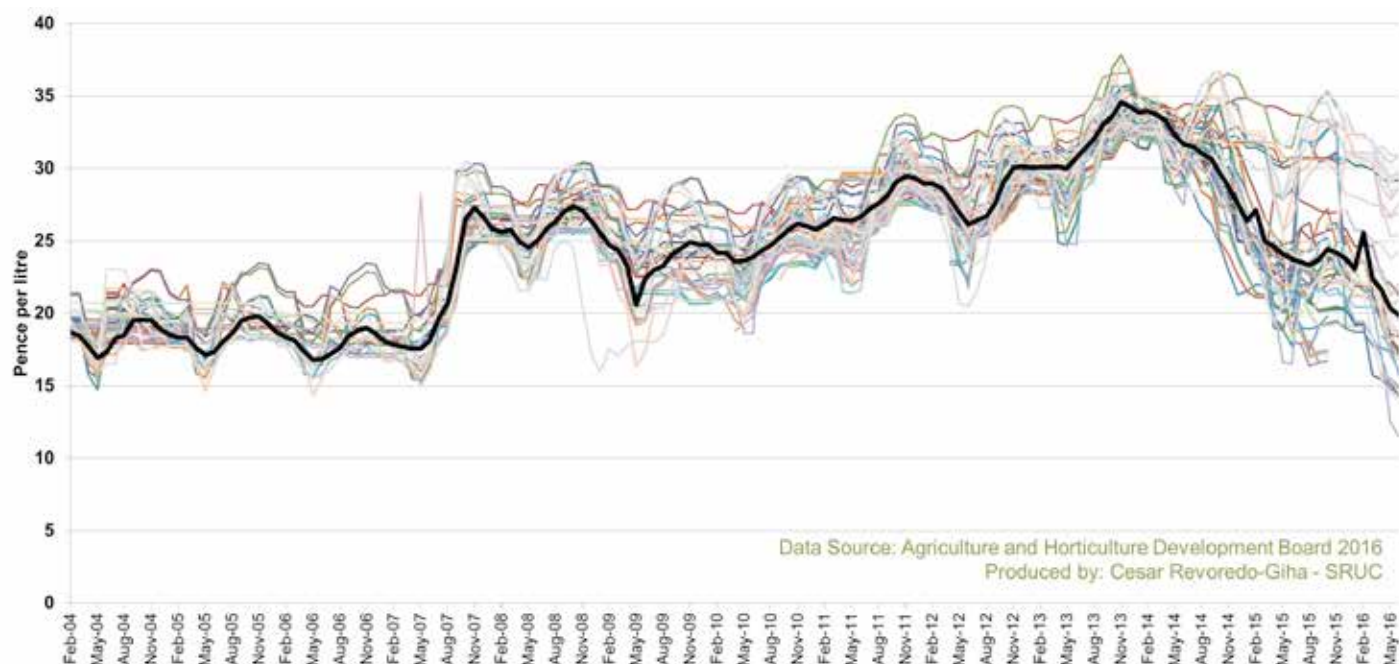
Figure 29: Scottish dairy cow numbers and average UK milk price, 1982 to 2016



It is notable that a number of EU Member States started to ramp up milk production before the abolishment of milk quotas on 1st April 2015, and this has meant that EU supplies of wholesale milk delivered to processors increased by 10% between the year ending August 2013 and the year ending August 2016.⁷⁸ Over that period the UK delivered 12% more milk (there was a 9% increase between 2013 and 2014) but milk production in the Netherlands increased by 19% and in Ireland by 29%. In France and Germany (that account for 37% of the EU 28 deliveries) production only increased by 6% and 8% respectively.

In 2015 world milk prices started to collapse, a reaction to increased global supplies a slowdown of the Chinese economy and an embargo on EU food products by Russia in 2014⁷⁹. SAC Consulting⁸⁰ report that world milk production recently declined in response to the difficult global trading conditions thereby correcting some of the supply and demand imbalance that has existed – leading to a recent uplift in price. They do note that industry expectations are an average milk price of 23- 26 pence per litre for the next 5 -10 years (although the significant reduction in supply (see above) has caused great shortage in the market for liquid and butter, which has increased the milk price more rapidly than expected). A noticeable thing in the UK milk market is the divergence in contract prices farmers receive after process collapsed – with the difference between minimum and maximum prices going from 3.4 pence per litre in February 2004 to 19.5 pence per litre in June 2016. The pattern of these individual contracts and the Defra average milk price (black line) is highlighted in Figure 30, where the sudden down-turn in process, for most contracts, is evident. Some fortunate farmers are on “aligned” contracts with the supermarkets that cover average production costs, and pay above the market rate for milk.

Figure 30: UK milk price by contract, including Defra's average price, 2004 to 2016



Things can change rapidly in farming, as witnessed by the milk price collapse, and that has impacted on the long term vision for the sector. It was only 2012 when export opportunities for the Scottish dairy industry were championed, with a paper⁸¹ highlighting that “*there is a growing world dairy market for dairy products, with good provenance, of the type that Scotland can produce. Branding, market research and investment are required but opportunities for Scottish dairy produce exist in niche, value added and premium markets.*” A strategy for the sector followed in 2013 - *Scottish Dairy Review: Ambition 2025* – that resulted in the establishment of the Scottish Dairy Hub in 2014⁸². This strategy, in a period of growing milk demand and prices, set out a vision to build on Scotland’s strengths in producing high quality milk by increasing production by 50% over a 10-12 year period. In 2015 the Scottish Government launched its detailed Dairy Action Plan⁸³ in reaction to a downturn in prices, aiming to “*improve the resilience of the Scottish dairy sector and provide the right platform to ensure the entire sector can thrive in the context of volatile market prices*”.

The dairy sector has become increasingly specialised since the deregulation of the Milk Market Board. Data from the Scottish Government’s 2015 June Census (See Table 8) shows that there were 786 specialist dairy farms in Scotland with an average of 229 cows over two years old. Some 80% of Scotland’s dairy herd and 76% of its dairy holdings are located in the south west of Scotland with about 9% of cows and 10% of holdings in eastern Scotland. 6% of Scottish dairy holdings carry 22% of Scotland’s dairy cows in large herds of over 500 (where the average herd size is 776 cows). 46% of the national herd is on 37% of the holdings in herds of between 200 and 500 cows. The 17 holdings with an average herd size of three are a statistical anomaly based on the method of assigning farm types⁸⁴.



Table 8: Number of specialist dairy holdings, number of cows and average herd size, 2015

Herd Size	Dairy Cows over 2 years old		
	Number of Holdings	Number Cows	Average Herd
<10	17	59	3
10-50	12	389	32
50-100	85	6,826	80
100 - 200	327	49,254	151
200-500	293	82,785	283
>500	52	40,329	776
Region			
Eastern Scotland	79	17,438	221
Highlands & Islands	74	11,356	153
North Eastern Scotland	28	5,665	202
South Western Scotland	605	145,183	240
Scotland	786	179,642	229

Data extracts from the CTS operated by the British Cattle Movement Service⁸⁵ (BCMS) show that in 2016 the majority of Scottish dairy cows over 30 months of age were Holstein Friesians (57%), followed by Holsteins (14%), British Friesians (10%) and Ayrshires (6%) with Jersey's only accounting for about 2% of the national herd.

In September 2016, as a result of the dairy crisis, the EU opened its voluntary Milk Reduction Scheme⁸⁶ to farmers. The scheme pays compensation (equivalent to about 12 pence per litre) to producers who reduce the amount of milk they produce (there is a minimum of 1,457 litres) over a fixed three-month period, with a maximum eligible reduction of 50%. This scheme may be attractive to those looking to exit the market or those looking to sit back and see if market conditions become more favourable in 2017. The Herald⁸⁷ reported that there had been a "massive" uptake of the scheme with 1,800 UK producers applying in the first application period with around a fifth of Scottish producers signing up to reduce their milk production by about 15 million litres, when compared to the same period in 2015.

SAC's Senior Dairy Consultant - David Keiley - has pointed out a number of opportunities and challenges facing the industry. He points out that the 2016 drop in UK supply (by 7% for cumulative deliveries to October compared to 2015) has led the market into a period of significant volatility. For example, although Yew Tree's price for a litre of milk has doubled from 14 pence in the spring of 2016 to 30 pence in October 2016 the wider market is still lagging behind this. David thinks it is likely that Arla (and possibly Muller) will recruit Scottish farmers in late 2016 or early 2017. Another immediate issue is that stock piles in intervention storage will be released onto the market soon, thereby potentially diluting price gains.

Challenges

- The largest challenge going forward is maintaining the core dairy herd under suppressed milk prices, which are in general considerably below the average cost of production – around 27 pence per litre.
- There is likely going to be further erosion of dairy farmer numbers in 2016 and 2017 as long-term business decisions are made as losses hit balance sheets.
- There will be likely further processor rationalisation in Scotland as the effects of a reduced milk supply hit home and increased milk deliveries are made south of the Border – e.g. to Yew Tree Dairies.
- The major milk price difference between supermarket "aligned" and "non-aligned" producers will likely continue meaning some producers are at much higher financial risk.
- The "cheese price lag" has not yet fully played out, with many cheese processors still supplying supermarkets cheaply due to forward contracts. A number of farmers supplying cheese manufacturers

in south west Scotland have recently resigned in favour of the more lucrative contract offered by Yew Tree Dairies - who now take more than 10% of Scottish milk. Cheese manufacturers have responded by increasing price (e.g. Lactalis to 25 pence per litre by December 2016). The amount of producers resigning from Lactalis will potentially leave the factory with only 50% of its capacity from its own supplier base. This may have significant impact on the overhead costs of operating the factory – placing it at a major strategic disadvantage.

- There is increasing pressure in the dairy industry from milk buyers, retailers and consumers to reduce the use of antibiotics, due to concerns about antibiotic resistance in human medicine. This will be a challenge to traditional practices – but with veterinary and specialist support it should be possible to overcome.

Opportunities

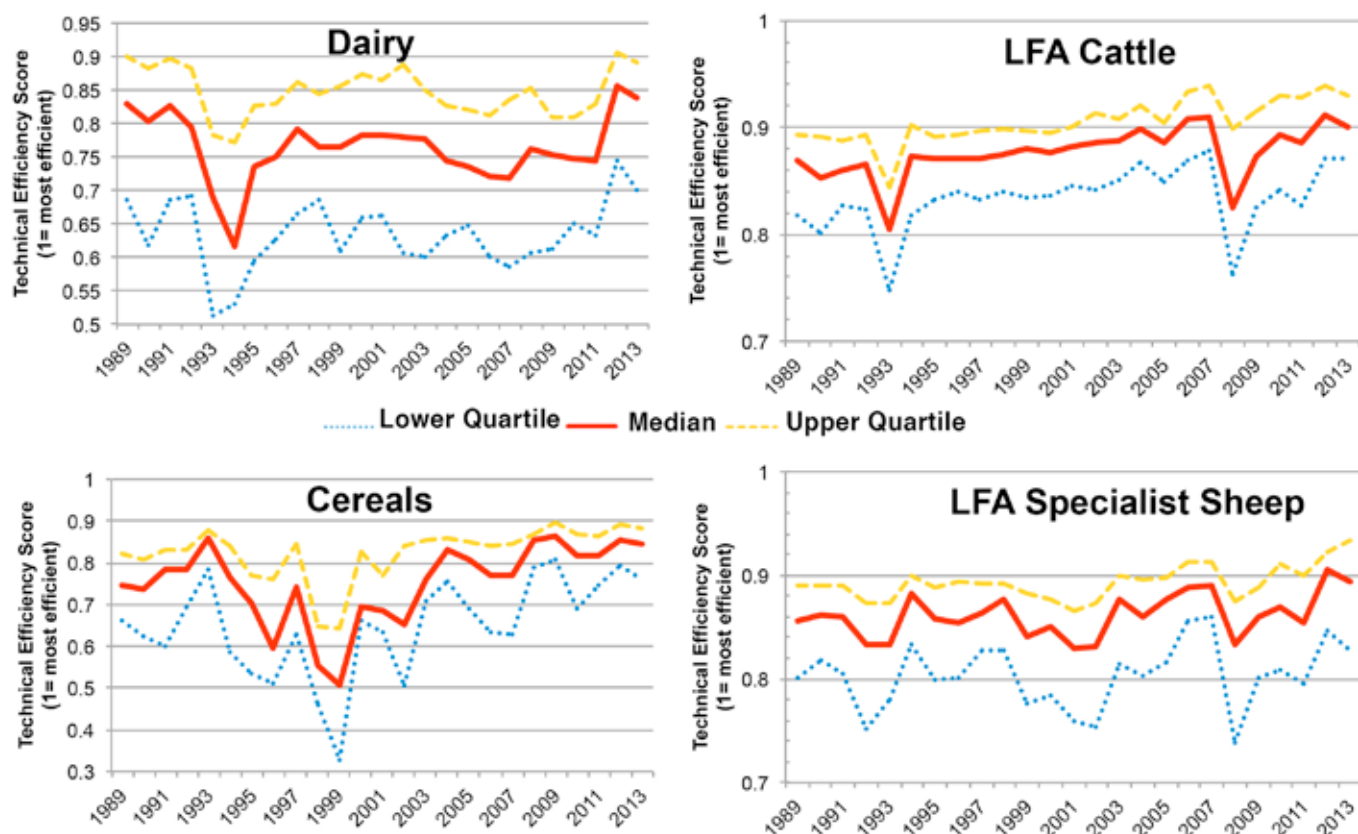
- There will likely be increasing demand for milkfat and protein solids that may provide some producers a uplift in price depending on dairy breeds they have.
- Dairy farms in Scotland will be subject to the same trend as the rest of the EU, with more larger herds. In Scotland given climatic restrictions most producers will opt to intensify their business and develop a housed (confined) system. There will, however, be some polarisation of production systems with some farmers opting for extensive grass-based grazing systems and others opting for intensive concentrate feeding systems.
- There are increasing opportunities to use future markets and provide a degree of future certainty in prices received. Yew Tree Dairies in Lancashire is already offering this and is taking increasing supplies from the south of Scotland.
- Farmers looking to minimise input costs will look to make better use of grass, either as grazed grass or from improved silage quality, to improve efficiency and therefore margin per litre.
- Processor investment, such as Muller at Bellshill, offers some certainty of longer term markets for Scottish producers in their catchment area.



1.1.9 Technical Efficiency Gaps

Work has been on-going by SRUC within the RESAS Strategic Research Programme 2016-2021⁸⁸ examining the technical efficiency of farming sectors using the Farm Accounts Survey, where technically efficient farms are maximising their output compared to their inputs. The most efficient farm within the sample gets a score of 1 and the remainder are scored in comparison to this (i.e. a farm with a score of 0.75 is operating 25% below the most technically efficient farm in the sample). Figure 31 shows the median (red line) alongside the upper and lower quartiles for key sectors. It is noticeable that in most illustrated sectors there is considerable, and consistent, variance between the upper and lower quartile performers, revealing that there is scope to improve technical efficiency through generating greater output per unit of input. It is worth noting that the dairy sector has actually seen some convergence between the upper and lower quartiles over the time period and this is probably due to less efficient dairy farmers exiting the sector.

Figure 31: Technical efficiency of different farming sectors, 1989-2012



The technical efficiency performance of individual farms within the Farm Accounts Survey was tracked between 1989 and 2013. This reveals the probability of farm businesses moving between technical efficiency performance bands over time. Table 9 illustrates that LFA Sheep farmers in the lower quartile in one year have a 64% likelihood of remaining in the lower quartile in the next year; with a 22% chance of them moving up a performance band. Equally, there is a 55% probability that a farm in the upper quartile will remain in the top 25% of performers. This reveals a static level of mobility in technical efficiency performance over the 25-year time-line of this analysis. There does, however, appear to be greater movement between performance brackets with those in the middle (second and third quartiles).

Table 9: LFA specialist sheep farm’s probability of moving between technical efficiency performance quartiles over time, 1989 to 2013

Technical Efficiency Band		Current Period			
		First Quartile	Second Quartile	Third Quartile	Upper Quartile
Previous Period	Lower Quartile	64%	22%	9%	6%
	Second Quartile	22%	42%	24%	12%
	Third Quartile	10%	23%	44%	23%
	Upper Quartile	6%	12%	27%	55%

This analysis reveals that there is considerable scope for the least technically efficient farms to make management changes that would likely improve their economic and carbon-related performance at the same time. A minimum target for the industry going forward would be to aim to narrow the gap between the upper and lower quartile farms through targeted campaigns. However, there is a requirement to improve our understanding of farmer motivations regarding technical efficiency and to recognise that factors other than profitability may be causing lower performance on some farms. In order to make improvements it may take a mind-set change for some farmers but equally there may be barriers that exist that prevent them becoming more efficient and it is important to establish what these are if the desired improvements are to be made.

For the farming sector to improve performance there needs to be clear understanding of the financial and technical performance baselines and future targets in order to gauge the scale of the task of achieving the vision. This would allow progress to be effectively monitored from the baseline and help assess if agriculture has become more profitable and by how much. However, unless farmers regularly benchmark (financial and physical) then there is a high risk that these technical improvements will be unachievable. There appears to be some farmer fear of cost structure transparency through financial benchmarking that may provide retailers with greater market power, without recognition of the role of world commodity markets in price setting decisions. There is still limited uptake of technical performance benchmarking and both industry-led and Scottish Government initiatives demonstrating the benefits of benchmarking could play a significant role in improving the financial performance, resource efficiency and climate change impacts of the sector. Initiatives such as Planning to Succeed, Farming for Profit, QMS Business Improvement Groups⁸⁹, Monitor Farms⁹⁰, etc. have demonstrated the farm level benefits of regular benchmarking. Farmers should be encouraged by industry and the Scottish Government, where appropriate, to undertake benchmarking – for example through the Scottish Government’s new one-to-one and one-to-many Farm Advisory Service⁹¹ funded through the SRDP⁹².

1.1.10 Brexit and The Future of Scottish Agriculture?

Throughout this section the issue of Brexit has largely been avoided on purpose. At the time of writing there is so much uncertainty on the issue that it would be purely speculation as to possible outcomes and impacts that may result. It is highly likely that Brexit will bring changes to our agricultural support system. The UK Treasury and Defra would prefer to reduce direct Pillar 1 type support (that is so important for Scottish farming systems) in preference for more targeted Pillar II (rural development) support mechanisms.

What is certain is that Brexit will cause, and already has caused, uncertainty in the sector. A recent survey conducted of SAC Consulting farmer and crofter clients found a number of interesting facts on Scottish farmer’s thoughts on Brexit (see Table 10):

- A fifth of the sample said they felt that Brexit may increase the likelihood of retirement from farming. This was lowest in those under 54 years of age but a quarter of farmers and crofters that were 55 and over said it may bring forward retirement. The impact on retirement plans was lowest amongst the specialist sectors – horticulture, dairy, pigs and poultry.
- 57% of the sample reported that Brexit has increased business uncertainty – something that inevitably leads to lower on-farm investment, as witnessed during the recent CAP reforms – with inevitable impacts on the wider rural economy. Increased uncertainty was highest in the younger farm and croft population and on mixed farms and the beef and sheep sectors (which have historically been heavily supported by CAP).
- Over half of those surveyed thought that Brexit would increase the challenge of maintaining the farm / croft business. Again this was highest in the younger generations and the beef and sheep sector.
- Overall 37% saw Brexit providing them with increased opportunities for maintaining their business – noticeably higher in the larger farms⁹³, with lower confidence shown in the beef and sheep sectors.



Table 10: What Brexit is likely to mean to Scottish farm businesses

		Sample Size	Increased likelihood of retirement	More uncertain business future	Increased challenges to maintain the business	Increased opportunities for maintaining the business
Age Group	under 40	61	15%	67%	61%	52%
	40-54	184	14%	60%	53%	35%
	55-64	203	25%	57%	54%	40%
	65 and over	259	24%	57%	50%	33%
Business Size	Very Small	206	24%	54%	45%	28%
	Small	201	21%	60%	56%	35%
	Medium	167	18%	56%	59%	40%
	Large	114	11%	59%	50%	49%
Farm Type	Beef & Sheep	434	20%	61%	53%	33%
	Cropping & Horticulture	56	14%	45%	46%	36%
	Dairy / Pigs / Poultry	47	13%	43%	40%	47%
	Forage/Other	84	24%	44%	49%	46%
	Mixed	68	24%	65%	63%	41%
Total Sample		689	20%	57%	52%	37%

Data Source: SAC Customer Satisfaction Survey, 2016

Table 11 also shows that 11% of survey respondents thought that Brexit would lead to downsizing of their business, with 15% thinking it would cause their business to grow. 16% felt that Brexit would lead to them farming less intensively whilst over a fifth felt that as a consequence of Brexit they would increase intensity. Nearly two-thirds felt that Brexit would not affect the mix of crops and livestock that they have, with around 20% thinking it would have some impact. Perhaps the most interesting finding was that nearly a third of the farmers and crofters surveyed believe that Brexit will mean that they will have to increase off-farm income sources or diversify their business.

Table 11: How Brexit may impact on Scottish farm businesses

How Brexit might impact on your?	Sample	Don't know	Decrease	Stay the same	Increase
Business Size	676	17%	11%	57%	15%
Farming Intensity	671	14%	16%	49%	21%
Mix of farm products	670	15%	10%	63%	13%
Diversification & off-farm income	659	12%	13%	42%	32%

Data Source: SAC Customer Satisfaction Survey, 2016

As the implications of Brexit start to unfold it provides Scottish agriculture an opportunity to reflect and take stock of how the sector is supported and regulated in the future. As such, we should all take an opportunity to revisit the work of Brian Pack OBE through his independent *Inquiry Into Future Support For Agriculture In Scotland*⁹⁴ and the *Doing Better Initiative to Reduce Red Tape for Farmers and Rural Land Managers*.⁹⁵ If the shackles of the EU Commission and auditors are indeed broken - providing we adhere to the minimum rules required under any future EU trade deal – then there must be opportunities to design a better agricultural support policy and make farming less stressful and bureaucratic. As such, revisiting the recommendations made by Brian in designing a new support policy that is fit for purpose and in how to reduce the red tape burden on Scottish land managers would surely be a logical place to start.

Additionally, in 2015, the Scottish Government set out a vision for the Future of Scottish Agriculture through their discussion document⁹⁶. This, and the sectoral strategies, is an excellent starting point for thinking about what we would like a post Brexit agricultural sector to look like in Scotland, with many of the responses⁹⁷ (such as SRUC's⁹⁸) helping set out a roadmap for achievement of the vision. As we begin to understand the implications for Brexit it is worth revisiting the useful work that has already been undertaken and help develop a set of support mechanisms that can drive the necessary changes that build on our international reputation for quality food and drink products and will lead to a viable and sustainable industry that best uses Scotland's unique natural resources.

The industry is not alone in driving forward change. Indeed the Scottish Government's commitment to the sector is evident from its significant investment of £32.9m in world leading research in agricultural matters through the Rural Affairs, Food and the Environment Strategic Research Programme⁹⁹. This Programme supports three main Themes of research: Natural Assets; Productive and Sustainable Land Management and Rural Economies; and Food, Health and Wellbeing. £5.5m is being spent on three current Centres of Expertise, forming an important policy-research interface on the issues of water resources, animal disease outbreaks and climate change (with a fourth due on plant health). £8.3m is being invested in Underpinning Capacity ensuring key assets which support the research base are maintained and their long term sustainability secured. £0.8m is being spent on Knowledge Exchange to create a focal point for communications ensuring outputs and outcomes of the research are disseminated effectively to a wide range of stakeholders. A new £0.5m fund encourages innovation funding, leveraging knowledge from the Strategic Research Programme into joint projects with industrial collaborators.

In addition, the UK government has invested in four new Agri-Tech Innovation Centres¹⁰⁰ that aim to collaborate with industry to improve the adoption and exploitation of new technologies in the agri-food sector thereby driving growth in the sector by supporting innovative ideas, helping farmers become more profitable and sustainable. The Centre for Innovation Excellence in Livestock¹⁰¹ (CIEL) received £29.1 million in government investment to create new livestock technology and products to boost the profitability and productivity of livestock farming. The Agricultural Engineering Precision Innovation Centre¹⁰² (Agri-EPI) received £17.7 million in government investment in the new, fast-moving market of precision agriculture to help the UK's agri-food sector develop advanced technologies that will increase productivity and sustainability in UK agriculture. The Centre of Agricultural Informatics and Metrics of Sustainability¹⁰³ (Agrimetrics) received £12 million in government support and aims to be the most reliable and innovative evidence base for the sustainable agri-food system, using data science and modelling to develop tools and information based solutions to drive innovation in farming. The Centre for Crop Health and Protection¹⁰⁴ (CHAP) was awarded £21.3 million in government investment to revolutionise how farmers manage crop threats including pests and disease, both in the UK and overseas.



Farm Advisory Service

Access to the best and most up-to-date advice is essential for the future viability of any farm and croft. To provide this, Scotland's new £20 million integrated Farm Advisory Service (FAS) was launched in September 2016 and will run until the end of December 2020.

The FAS is being delivered by SAC Consulting, part of SRUC, and Ricardo Energy & Environment. It will provide a faster and less complicated entry point for farmers and crofters to a range of relevant practical advice, information and tools from business efficiency and viability to compliance and climate change advice. A FAS website (www.fas.scot) has been established and is supported by a dedicated telephone advice line (0300 323 0161).

At the heart of the website is a calendar of events that will detail all of the workshops, network farm meetings, conferences and training courses that will be planned and delivered as part of the FAS. The advice line operates Monday to Friday, between 9 am and 5 pm. It covers a wide variety of topics including cross compliance, water framework directive requirements, climate change and many other technical issues.

The website hosts the entry point for grant applications for Integrated Land Management Plans (ILMP); Specialist Advice; Mentoring for New Entrants; and Carbon Audits. Application forms can be downloaded from the website which provide access to up to £2,200 grant assistance for ILMP and £500 for carbon audits. The new Crofter & Small Farm Advisory Service also provides discounted subscription and consultancy services for crofters and small farming businesses (under 30 ha) across Scotland.

Changes to agricultural support policies, increases in environmental regulation and ongoing climate change all mean that the need for relevant and accessible advice for all of Scottish agriculture has grown substantially over the last eighteen months. As a result, every active farmer and crofter in Scotland will need to look more closely at what they do and how they do it.

As the FAS approach expands it will address not just business efficiency and viability but also climate change, environment, compliance and greening in an integrated manner through the provision of sustainable and practical advice. The new FAS will enable better coordination of advice and guidance across Scotland and ensure that a wider range of relevant and applied advisory material is made more accessible.

Scotland's Farm Advisory Service is part of the Scottish Rural Development Programme (SRDP) which is co-funded by the EU and Scottish Government.



Section Endnotes

- 1 <http://www.gov.scot/Topics/Statistics/Browse/Agriculture-Fisheries/PubAbstract/AbstractPub>
- 2 <http://www.hutton.ac.uk/learning/exploringscotland/soils-and-sustainability/land-capability-for-agriculture>
- 3 Support for Less Favoured Areas has been in place since 1975 in the EU and is designed to help maintain the countryside in areas where farming activity is more difficult because of natural handicaps and is at risk of abandonment (that may have negative impacts on biodiversity, landscape, etc.) due to the handicaps to farming.
- 4 Named after the then European Commissioner for Agriculture, Ray MacSharry.
- 5 <http://www.gov.scot/Topics/farmingrural/SRDP>
- 6 Royal Society of Edinburgh (2002) Inquiry into Foot and Mouth Disease in Scotland https://www.royalsoced.org.uk/cms/files/advice-papers/inquiry/footmouth/fm_mw.pdf
- 7 <http://www.gov.scot/Topics/farmingrural/Agriculture/grants/Schemes/Crosscompliancesection/ccompliance>
- 8 <https://www.ruralpayments.org/publicsite/futures/topics/inspections/all-inspections/cross-compliance/detailed-guidance/statutory-management-requirements/>
- 9 <https://www.ruralpayments.org/publicsite/futures/topics/inspections/all-inspections/cross-compliance/detailed-guidance/good-agricultural-and-environmental-conditions/>
- 10 For example, see: <http://www.bbc.co.uk/news/uk-scotland-north-east-orkney-shetland-37503895>
- 11 The European Parliament was involved as a decision maker for the first time under these CAP reforms.
- 12 <http://ec.europa.eu/agriculture/cap-post-2013/>
- 13 Pers Comm. Scottish Government – July 2016.
- 14 <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/basic-payment-scheme/basic-payment-scheme-full-guidance/greening---bps/>
- 15 <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/basic-payment-scheme/greening-guidance/greening---crop-diversification/>
- 16 <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/basic-payment-scheme/greening-guidance/efa-ecological-focus-areas/>
- 17 <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/basic-payment-scheme/greening-guidance/greening---permanent-grassland/>
- 18 <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/scottish-suckler-beef-support-scheme/>
- 19 <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/scottish-upland-sheep-support-scheme/>
- 20 In 2007 it was estimated that only 0.6% of British farmland was sold annually – and there is low turnover in agricultural tenancies. See Study on the Functioning of Land Markets in the EU member states under the Influence of Measures applied under the Common Agricultural Policy. http://ec.europa.eu/agriculture/analysis/external/landmarkets/index_en.htm
- 21 Scottish Government (2016). Economic Report on Scottish Agriculture: 2016 Edition. See <http://www.gov.scot/Publications/2016/06/5559>
- 22 Farm Business Income represents the return to all unpaid income and capital invested in the farm business, including land, buildings and machinery. See: <http://www.gov.scot/Topics/Statistics/Browse/Agriculture-Fisheries/Publications/FBI>

- 23 SRUC have recently appointed a PhD candidate to examine aspects of farmer income and wealth.
- 24 <http://news.scotland.gov.uk/News/Increase-in-Bank-Loans-to-Scottish-Farming-2ab3.aspx>
- 25 <http://www.hutton.ac.uk/research/groups/social-economic-and-geographical-sciences/women-agriculture-invited-contribute-new-research>
- 26 http://www.sruc.ac.uk/news/article/1652/new_sruc_video_gives_voice_to_women_in_agriculture
- 27 See <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/new-entrants/young-farmers-and-new-entrants-start-up-grant-schemes/young-farmers-start-up-grant-scheme-full-guidance#49181> for eligibility criteria for young farmers in accordance with EU rules
- 28 http://www.fginsight.com/AcuCustom/Sitename/DAM/033/FG_Insight_intelligence_guide_-_Succession_Planning.pdf
- 29 <http://www.gov.scot/Topics/farmingrural/SRDP/RuralPriorities/Packages/NewEntrantsandYoungFa/SettingUpYoungFarmers>
- 30 <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/new-entrants/>
- 31 <https://www.fas.scot/new-entrants/>
- 32 <http://news.gov.scot/news/new-opportunities-for-farming>
- 33 <http://scotland.forestry.gov.uk/supporting/grants-and-regulations/farm-woodlands/starter-farms>
- 34 Limited Duration Tenancies and Short Limited Duration Tenancies were introduced as part of the Agricultural Holdings (Scotland) Act 2003 – see <http://www.gov.scot/Topics/farmingrural/Agriculture/agricultural-holdings/legislation> for a legislative overview surrounding agricultural tenure.
- 35 <http://rcil.ros.gov.uk/RCIL/default.asp?Category=RCILAT&Service=Search>
- 36 The Agricultural Holdings Legislation Review Group wanted further evidence on seasonal grazing lets to inform their assessment of the importance of grazing lets as a crucial entry point to farming. This report extended the analysis of seasonally let land conducted as part of the Scottish Agricultural Tenure Evidence Review by examining seasonally let land trends from 2005 to 2013 and assessing the characteristics of farms renting in seasonal grazing lets in 2013. See http://www.sruc.ac.uk/download/downloads/id/2394/2015_scottish_agricultural_tenure_evidence_review_-_seasonally_let-in_grazing_land
- 37 Farmers must declare the amount of land that they rent in on a seasonal basis on their IACS forms. However, it is likely that the figures underestimate the seasonally rented cropping area, with many informal arrangements in place, particularly in the field vegetable and potato sectors.
- 38 <http://www.gov.scot/Publications/2016/04/2814/0>
- 39 For example see: <https://www.fginsight.com/news/lochhead-issues-warning-to-landowners-on-seasonal-let-cap-payment-grab-3130>
- 40 To be appointed under the Land Reform (Scotland) Act 2016 – see <http://www.gov.scot/Topics/farmingrural/Agriculture/agricultural-holdings/Tenant-Farming-Adviser>
- 41 <http://www.hutton.ac.uk/news/%C2%A313-million-new-research-could-mean-sweeter-deal-scottish-berry-producers>
- 42 <https://www.gov.uk/government/news/13-million-in-new-research-could-mean-a-sweeter-deal-for-scottish-berry-producers>
- 43 See: <http://www.scotsman.com/news/environment/scottish-strawberries-to-hit-shelves-three-months-early-1-4079745>
- 44 <https://www.thecourier.co.uk/fp/business/farming/farming-news/216799/pigeons-postpone-honeyberry-treat/>
- 45 <http://www.arbuckles.co.uk/honeyberry-gin>
- 46 http://www.britishsummerfruits.co.uk/html/news_polytunnels.htm

- 47 <http://www.britishsummerfruits.co.uk/>
- 48 AHDB Potatoes (2016) GB Potatoes Market intelligence 2015 -2016 http://potatoes.ahdb.org.uk/sites/default/files/publication_upload/GB%20Potatoes%202015-2016.pdf
- 49 <https://www.sasa.gov.uk/seed-ware-potatoes/classification-scheme>
- 50 Scottish Government (2016) Abstract of Scottish Agricultural Statistics 1982-2015.
- 51 <https://www.sasa.gov.uk/sites/default/files/SPCS%20Leaflet%20English%20v13.pdf>
- 52 <https://www.sasa.gov.uk/publications?keys=&tid=326>
- 53 Thomson (2008) Structure of the Scottish Livestock Industry mapped out movements on and off parishes over a year to highlight the dynamic nature of the sheep sector – in particular the large scale movement of sheep out of the Highlands and Islands to the East and South of Scotland, and beyond. <http://www.gov.scot/Publications/2008/06/19154131/0>
- 54 Areas in grey cannot be shown due to non-disclosure requirements set out by the Scottish Government.
- 55 See http://www.qmscotland.co.uk/sites/default/files/qm2783_cattle_sheep_enterprises_aw_1115_issuu.pdf for the 2015 edition
- 56 AHDB Beef and Sheep (2016) UK Yearbook: Sheep <http://beefandlamb.ahdb.org.uk/wp/wp-content/uploads/2016/07/UK-Yearbook-2016-Sheep-050716.pdf>
- 57 Estimated Breeding Values (EBVs) provide a measure of the breeding potential of an animal for a specific trait. They take into account performance data collected on known relatives, the relationships between performance traits (correlations) and the degree to which traits are inherited from one generation to the next (heritabilities).
- 58 See http://www.sruc.ac.uk/info/120580/smarter_livestock_farming/1338/project_electronic_identification_as_a_tool_for_precision_livestock_management for some insights into how EID can be better used on sheep farms.
- 59 <http://www.gov.scot/Topics/farmingrural/Agriculture/Livestock/Meat/Sheep/Sheep>
- 60 See endnote Ixi
- 61 Prior to the launch of the Euro in 1999 the European Monetary System was in place and its Exchange Rate Mechanism and unit of account – the European Currency Unit (ECU) was the fore-runner to the Euro. The ‘Green Pound’ was the exchange rate at which European Union’s farm subsidies set in Brussels were converted to sterling.
- 62 An overview of regional changes in the beef sector are available in SRUC’s Response From the Hills: Business as Usual or a Turning Point. http://www.sruc.ac.uk/info/120484/support_to_agriculture_archive/81/2011_response_from_the_hills
- 63 <http://www.gov.scot/Publications/2016/08/7029>
- 64 It is acknowledged that caution should be taken in reading this data due to changes in data collection approach, particularly for businesses with holdings in more than one location.
- 65 <https://secure.services.defra.gov.uk/wps/portal/ctso>
- 66 <http://www.gov.scot/Publications/2015/10/6201/320420>
- 67 http://www.qmscotland.co.uk/sites/default/files/specc_feature_feb_2016.pdf
- 68 <http://www.qmscotland.co.uk/cattle-sheep-standards>
- 69 See <http://beefandlamb.ahdb.org.uk/markets/industry-reports/uk-statistics/>
- 70 http://www.qmscotland.co.uk/sites/default/files/qm2783_cattle_sheep_enterprises_aw_1115_issuu.pdf

- 71 AHDB Cattle and Sheep (2106) UK Yearbook 2016: Cattle <http://beefandlamb.ahdb.org.uk/wp/wp-content/uploads/2016/07/UK-Yearbook-2016-Cattle-050716.pdf>
- 72 <http://www.scotland.gov.uk/Publications/2014/08/2085>
- 73 <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/beef-efficiency-scheme/>
- 74 See the new Agrimetrics innovation centre <http://www.agrimetrics.co.uk/>
- 75 <https://www.agri-epicentre.com/>
- 76 <http://www.gov.scot/Publications/2015/03/8562>
- 77 <https://dairy.ahdb.org.uk/market-information/farming-data/milk-yield/average-milk-yield/>
- 78 See <https://dairy.ahdb.org.uk/market-information/supply-production/milk-production/eu-milk-deliveries/> for data
- 79 <http://www.fwi.co.uk/business/dairy-farmers-should-forget-about-russia-ban-end.htm>
- 80 SAC Consulting (2016) Milk Manager News – various editions.
- 81 See: <http://www.scotlandfoodanddrink.org/news/article-info/3882/export-opportunities-for-scottish-dairy-industry.aspx> and <http://www.nfus.org.uk/news/2012/august/export-opportunities-scottish-dairy-industry>
- 82 <http://scottishdairyhub.org.uk/>
- 83 <http://www.gov.scot/Publications/2015/03/8562>
- 84 Scottish farm types are based on standard outputs (e.g. a standard value per dairy cow, or per hectare of wheat). A holding is classed as specialist dairy if two-thirds of their standard output coming from dairy. The very small herds are likely minor holdings with very little activity and a single cow may make up more than two-thirds of its standard output.
- 85 <https://secure.services.defra.gov.uk/wps/portal/ctso>
- 86 <https://www.gov.uk/guidance/milk-production-reduction-scheme-how-to-apply#how-and-when-to-apply>
- 87 http://www.heraldscotland.com/business/farming/14770421.Massive_uptake_for_EU_milk_production_reduction_scheme/
- 88 <http://www.gov.scot/Topics/Research/About/EBAR/StrategicResearch>
- 89 <http://www.qmscotland.co.uk/business-improvement-groups-big>
- 90 <http://www.gov.scot/Topics/farmingrural/Rural/business/monitor>
- 91 <https://www.fas.scot/>
- 92 <http://www.gov.scot/Topics/farmingrural/SRDP>
- 93 Where size is based on standard labour requirements (i.e. labour needs from cropping and stocking) rather than hectares.
- 94 See <http://www.gov.scot/Publications/2010/11/03095445/0>
- 95 <http://www.gov.scot/Topics/farmingrural/Agriculture/doingbetter>
- 96 <http://www.gov.scot/Topics/farmingrural/Agriculture/The-Future-of-Scottish-Agriculture>
- 97 See <http://www.gov.scot/Resource/0050/00508589.docx>
- 98 http://www.sruc.ac.uk/info/120167/consultation_responses
- 99 <http://www.gov.scot/Topics/Research/About/EBAR/StrategicResearch/strategicresearch2016-21>

- 100 <https://agritech.blog.gov.uk/2016/02/11/centres-for-agricultural-innovation-launching-in-2016/>
and <https://agritech.blog.gov.uk/>
- 101 <http://www.cielivestock.co.uk/>
- 102 <https://www.agri-epicentre.com/>
- 103 <http://www.agrimetrics.co.uk/>
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Socio-economic and environmental outcomes from different landownership models in rural Scotland

Dr Rob McMorran

Section 1:2



KEY POINTS

- Recent policy shifts have placed increasing pressure on all landowners to deliver increased public benefits and involve communities in land use decision-making processes.
- Despite the continued dominance of private landownership, some diversification has occurred in recent decades, including ownership by public, NGO and community bodies.
- Private estate owners often emphasise long term estate viability and deliver significant local economic impacts, contributing an estimated £127/ha to the economy and over 8000 jobs.
- Private owners also provide housing, although the extent of community engagement and emphasis on community development varies widely between estates.
- NGO landowners play a key role in conservation and deliver social outcomes through maintaining paths, interpretative/educational initiatives and partnerships with communities.
- Conservation NGOs also employ 1355 people and spend £64M annually, including £37M (£181 per/ha) on site management, with site visitors spending over £100M annually.
- Community landownership can facilitate the development of a framework for development, in combination with enhanced participatory governance and rebuilding of community capacity and confidence through access to assets. Specific outcomes include increased employment, business development, housing, inward investment and community retention.
- All landowners face challenges, including financial pressures, public and political perceptions and expectations, long term uncertainty and conflicts within communities, between landowners or between landowners, communities and wider stakeholders.
- Diversification opportunities for addressing challenges include renewable energy, adding value to products, nature-tourism in conjunction with conservation and development of new markets and incentives for key ecosystem services (e.g. carbon).
- ‘New’ landownership models (e.g. NGO, community) offer considerable potential for enhancing rural resilience. Nevertheless, a pro-active approach by private landowners, incorporating regular structured community engagement and increased community-estate partnership working, also offers potential for enhancing community outcomes.



1.2.1 Background

Scotland has one of the most concentrated patterns of private landownership in the world, with the current dominance of large private estates a legacy of the longevity of feudal tenure¹. This legacy, combined with the fact that the relationship between the land and the people is recognised as “*fundamental to the wellbeing, economic success, environmental sustainability and social justice of the country*”², has led to landownership becoming one of the most contentious and politicised topics in Scotland. Scotland’s private estates represent local power bases, which historically have had considerable influence on rural communities and economies³. Private landowners through their control of land have been recognised as the de facto rural planners in many areas.⁴ However, despite their potentially central role, private estates have often been criticised for restricting rural development and excluding communities from estate decision-making processes⁵. Land management on sporting estates has also been questioned in relation to environmental impacts⁶. However, the positive role of some private estates has been increasingly highlighted, with long-term family owners and some new (environmentally oriented) landowners in particular, recognised for their contributions to habitat conservation, community resilience and economic development⁷.

While private landownership continues to dominate rural Scotland in terms of land area, a gradual diversification of land ownership and management patterns has occurred, driven in the first half of the 20th Century by state acquisitions of land and from the 1970s and 80s onwards through acquisitions by conservation NGOs and community bodies⁸. Although these alternative landownership models have made only limited impact upon wider landownership patterns, they are expected to continue to expand over time⁹.

Landowners of all kinds have a variety of aims and deliver a range of different public and private benefits. Generalising about landownership ‘types’ is therefore difficult; however, approximate comparisons are useful in broadly assessing the differing outcomes, opportunities and challenges associated with different ownership models. Community landownership has been much lauded in Scotland as a successful model of asset-based community development¹⁰ and NGO landowners are often viewed as representing exemplary models of conservation management¹¹. Nevertheless, comparative assessments of the socio-economic and environmental impacts of different models are limited. This chapter attempts to compare and contrast key models of large-scale rural landownership in Scotland, with a specific focus on private estates, community trusts and conservation NGOs. Public landownership is quantified; however, the main focus is on these three models, due to their specific relevance to land reform and the availability of relevant up to date information in each case. Following an overview of the policy context, the extent, current trends and drivers of different landownership models are reviewed. This is followed by an assessment of the socio-economic and environmental outcomes from different models based on findings from key sources referred to at the beginning of each sub-section. The chapter finishes with a discussion of key challenges, opportunities and solutions for different landownership models in relation to delivering on key Scottish Government policy objectives.

1.2.2 Landownership Policy Context

All Scottish landowners are affected by a broad range of policy frameworks and instruments (e.g. subsidies, taxes, regulation), some of which are determined at European level, some at UK level and some within Scotland. One area which has had a considerable impact is the European Common Agricultural Policy (CAP). Reform of the CAP since 2000 resulted in a move away from direct support for production, in favour of an area-based approach and greater support for rural development objectives, including agricultural modernisation, agri-environmental improvements and community development. Together with increased regulatory constraints (e.g. through the Water Framework Directive), this has placed increasing pressure on landowners to respond to shifting societal demands for non-market goods and services as well as become more market-orientated in terms of commodity production. Financial pressures and regulatory burdens have increased for landowners over time, with further change anticipated. Nevertheless, currently demand for farmland and estates remains high, and values are at record levels, reflecting both a desire amongst existing farmers to expand and external interests seeking tax-efficient and/or lifestyle investments (e.g. sporting estates). Promotion of renewable energy has introduced a further dimension to rural landownership, with onshore windfarms and hydroelectric schemes in particular representing opportunities for some owners.

Contemporary land reform policy

The Land Reform Policy Group (LRPG) was established by the Scottish Office in 1997 “to identify and assess proposals for land reform in rural Scotland”¹². A year later the LRPG concluded that the existing system of landownership in Scotland was inhibiting development in rural communities and causing degradation of the natural heritage as a result of poor land management. This led to the adoption of the main objective of Scottish land reform policy: “to remove the land-based barriers to the sustainable development of rural communities” that could “only” be achieved through: i) increasing diversity in land ownership – between private, public, partnership, not-for-profit and community sectors; and ii) increasing community involvement in local decision-making about how land is owned and managed¹³. The first key step in the contemporary land reform process was the Abolition of Feudal Tenure etc. (Scotland) Act 2000 which removed the centuries-old system of feudal tenure¹⁴.

Linked to this wider political momentum, the community land movement emerged, with a number of community ‘buyouts’ occurring in the late 1990s. The establishment of the Community Land Unit (CLU) in 1998 and the Scottish Land Fund in 2001 (to support community land purchases) signalled increasing support for community landownership¹⁵. The Land Reform (Scotland) Act (2003) further legitimised buyouts through introducing the ‘community (pre-emptive) right to buy’ (Part 2) granting communities first right of purchase where properties are put on the market, and the crofting community (absolute) right to buy (Part 3), which empowers crofting communities with the right to pre-emptive purchase; as well as statutory non-motorised rights of responsible access over most land (and inland water) for all (Part 1). Further acquisitions followed and in 2013 the Scottish Government announced their ambition for 1 million acres of land to be in community ownership by 2020¹⁶.

In March 2016 the Land Reform (Scotland) Act¹⁷ was passed by the Scottish Parliament. The Act represents a landmark achievement for the land reform agenda and includes a broad suite of measures designed to respond to the recommendations of the Land Reform Review Group established by the Scottish Government in 2012¹⁸. As well as provisions related to tenanted agricultural holdings, the Act includes provision for development of a land rights and responsibilities statement by the Scottish Government, the establishment of a Scottish Land Commission and the development of regulations on access to, and provision of, information about owners and controllers of land. These measures reflect an emphasis on increasing transparency around landownership and the placing of greater responsibility on landowners to manage their land sustainably.



Building on the 2003 Act, the 2016 Act should impact further on ownership change, particularly in relation to specific provisions for tenants to buy land from their landlords where the landlord is in breach of a court order, and measures providing a right of acquisition of land by communities where sustainable development is being inhibited. The Act also incorporates provisions on engaging communities in land use decision-making and specific provisions to reinstate non-domestic rates for sporting land uses and develop further measures relating to deer management and access rights. The act is wide ranging and is likely to impact on landowners, tenants and wider society further over time, as supplementary legislation emerges.

Wider Policy Measures

A growing emphasis on community engagement and empowerment in land management decision-making is further enshrined in the Community Empowerment (Scotland) Act 2015¹⁹ and Scotland's (revised) Land Use Strategy²⁰. The Community Empowerment Act provides a strategic framework for *'empowering community bodies through the ownership of land and buildings and strengthening their voices in the decisions that matter to them'*. The Act also introduced an absolute community right to buy land if the land is abandoned or neglected.

The Scottish Government's Land Use Strategy (LUS) has as its vision: "A Scotland where we fully recognise, understand and value the importance of our land resources, and where our plans and decisions about land use deliver improved and enduring benefits, enhancing the wellbeing of our nation". The LUS contains specific objectives to better connect urban and rural communities with the land and to *'Identify and publicise effective ways for communities to contribute to land use debates and decision-making.'*

Collectively, these measures (including Land Reform) have placed increasing pressure on landowners (of all kinds) to deliver a wider range of public benefits, to ensure their land is effectively and efficiently managed and to involve and empower communities with respect to land use decision-making processes. Landownership is therefore under increasing scrutiny and land reform is likely to remain firmly on the political agenda for the foreseeable future.



1.2.3 Current Landownership Models – Extent, Drivers and Trends

Public landownership

Public landownership accounts for some 11% of rural Scotland (914,000 ha), with this group including the Crown Estate, the Scottish Government and Scotland's 32 Local Authorities²¹. The Scottish Government and various non-departmental public bodies (NDPBs) own and manage land to deliver on a range of different aspects of government policy (Table 1). The largest component of public land is the national forest estate, established through government acquisitions of land following the establishment of the UK Forestry Commission in 1919 (and subsequently transferred to Scottish Ministers following devolution). These acquisitions constitute the single biggest change to the balance of landownership in Scotland over the last 100 years. Nevertheless, relative to many countries public landownership represents a comparatively small proportion of Scotland²².

Crown Estate holdings are managed by the Crown Estate Commission (CEC) under the Crown Estate Act (1961), with Crown property in Scotland belonging to Scotland. Crown Estate holdings in Scotland represent a relatively small component (35,500ha across four rural estates) of rural land, although significantly the Crown Estate also holds the rights to Scotland's territorial seabed and half of Scotland's foreshore. Crown Estate property is managed with the aim of returning revenue to the UK Government. The Scotland Act (2016) includes specific measures relating to the transfer of CEC rights and revenues in Scotland to the Scottish Parliament, with a Scottish Government consultation undertaken in 2016 to help shape interim arrangements for the devolved management of CEC holdings in Scotland. Local Authorities in Scotland hold a wide range of landholdings (in rural and urban Scotland) managed for a variety of purposes, accounting for an estimated 33,000ha (Table 1).

Table 1: Public landownership in Scotland and area of land managed by different public bodies²³

Public body	Resource (Hectares)
Crown Estate	35,500
National Forest Estate	651,300
Crofting Estates	95,200
Scottish Natural Heritage	35,700
Scottish Water	24,300
Highlands & Islands Enterprise	4,000
Estimated Other	10,000
Local Government	33,000 (estimate)
UK Ministry of Defence	25,000
Total	914,000 (889,000 excl. MOD)

Conservation NGOs

From the 1980s onwards increasing societal environmental awareness and a growing willingness to contribute financially towards conservation began to translate into a substantial increase in the memberships of conservation NGOs in the UK, giving these organisations greater political weight²⁴. As their resources increased, a number of NGOs purchased or otherwise acquired sites across Scotland²⁵. This included the acquisition of eight properties by the John Muir Trust (JMT) since 1983 and the purchase by NTS of the 29,380ha Mar Lodge Estate in 1995. The Scottish Wildlife Trust (SWT), Woodland Trust Scotland (WTS) and RSPB also expanded their landholdings considerably during this period, with the RSPB increasing their landholdings by over 30% since 2000 alone²⁶. Commonly, land acquisitions by these organisations have occurred with the aim of permanently protecting high value natural heritage and landscape features and/or in direct response to perceived threats from inappropriate development²⁷. Conservation ownership provides a degree of continuity and creates opportunities for practical demonstration and implementation of innovative approaches to land use and management to influence wider land management practices²⁸.

Table 2: Land owned and/or managed by conservation organisations²⁹

Organisation and year established	No. of sites	Owned land (ha)	Land under agreement ⁱ (ha)	Total area (ha)	% of NGO-owned land
National Trust for Scotland (1931)	128 ⁱⁱ	77,206	3.40	77,209	37%
Royal Society for Protection of Birds (1889)	74	53,389	17,725	71,114	34%
John Muir Trust (1983)	9	24,461	-	24,461	12%
Scottish Wildlife Trust (1964)	121	12,125	7,698	19,823	10%
Woodland Trust Scotland (1984)	57	8,643	-	8,643	4.9%
Borders Forest Trust (1996)	5	1,324	-	1,324	0.6%
Plantlife (1989)	1	1,261	-	1,261	0.6%
Trees for Life (1989)	1	4,028	-	4,028	2%
Totals	396	182,438	25,426	207,865	100%

ⁱ 'Land under agreement' includes land leased to the organisation and/or land managed by agreement.

ⁱⁱ This figure includes NTS 'built and countryside properties'.

Land currently owned and managed by conservation NGOs accounts for over 180,000 hectares (Table 2). Land under conservation NGO ownership in Scotland is generally managed with habitat and ecosystem restoration and the enhancement of public access and recreational opportunities as key objectives. NGO owned land includes a wide range of iconic landscapes, such as the mountains of Glencoe (NTS), Ben Nevis (JMT) and the Central Cairngorms (NTS), high value semi-natural habitats, such as the Caledonian pine woodlands of Abernethy (RSPB) and sites of considerable cultural significance, such as the NTS-owned islands of Iona and St Kilda. NGOs continue to acquire land in Scotland, through direct purchase, gifts, legacies or other means; however, a general decline in the number of acquisitions is evident in recent years.

Community landownership

Ownership of land by communities has become an established model of landownership in Scotland over the last 20 years. The foundations of the current Scottish community land movement were laid by the crofting community and particularly influenced by the purchase of the 21,300 ha North Lochinver Estate by the Assynt Crofters Trust in 1993, which was followed by a number of smaller-scale buyouts by crofting collectives and community buyouts on the Isle of Eigg (1997) and in Knoydart (1999), both of which occurred as a response to perceived irresponsible private landownership³⁰. Inspired by these pioneers and the passage of the Land Reform Act (2003), further buyouts followed, including Gigha (2001), North Harris (2003) and South Uist (2006).



The emergence of community buyouts is often linked to community insecurity and feelings of disempowerment. Acquiring the land and with it the development rights, is viewed as a mechanism to facilitate employment creation, reverse out-migration, build community capacity and stimulate inward investment³¹. Specific drivers and contextual factors for buyouts vary, although the aims of community buyouts generally centre on long term socio-economic development and sustainable resource management.

Currently some 196,415 ha of Scotland is community owned, ranging from large estates to smaller assets, including community owned shops, industrial units and lighthouses³². This represents less than 3% of rural Scotland, with the majority held by 19 rural estates. While some buyouts have occurred directly under the provisions of the Land Reform Act (2003), many have occurred without utilising the Act's provisions and in fact some loss of momentum in buyouts was apparent post-2003³³. Momentum has increased in recent years, due to the re-establishment of the Scottish Land Fund in 2012.

Private landownership

Landownership in Scotland continues to be dominated by private owners who own some 83% of Scotland, with just over 400 owners (0.008% of the population) estimated to account for 50% of privately-owned land, resulting in a pattern of private ownership more concentrated than in any other country³⁴. The degree of concentration of landownership increased from the 17th Century, due to feudal tenure and increased interest in sporting estate ownership, with some reduction in private ownership from the 1920s onwards due to farm sales and increased public landownership³⁵. Nevertheless, the overall number of private landowners has not increased substantially and some re-concentration has also occurred in recent decades due to re-amalgamation of farm units and some new landowners expanding their holdings³⁶. Some changes are apparent in relation to the types of landowners acquiring land, with increasing overseas ownership and ownership by corporate bodies, partly due the attractiveness of Scottish land as an investment. Analysis carried out by SRUC³⁷ provided an estimate of the size of the sector, with an estimated 1,125 estates covering 4.14 million ha. As 83% of rural land is privately owned these 1,125 owners control some 70% of all privately owned land.

Landowners acquire or retain their land for a range of reasons, including managing a land based rural business, delivering conservation outcomes or engaging in field sports. Drivers vary between owners; however, for most owners ensuring family members inherited a financially sustainable estate was a core motivation.³⁸ A survey of 84 private estates in 2013 showed that 91% of respondents, regardless of whether they had inherited or purchased their estates, wished to pass the estate to their heir³⁹. Research on

motivations of private estate owners in 2010-13⁴⁰ also identified economic factors (and succession planning) as a primary motivator, with revenue focused estates often having a resident landowner and a mixture of land uses. Field sports remain a common motivation for many existing and new owners, with less diversified sporting focused estates often supported by private off-estate income. Environmental considerations were often an important secondary motivation, subject to financial positioning, with conservation management often linked to sporting interests and landscape and asset enhancement, with a number of new conservation focused landowners evident in recent years. Social motivations (i.e. community development) were more apparent where a long-term family link was apparent and a history of the estate playing a role in 'place shaping' (Figure 1).

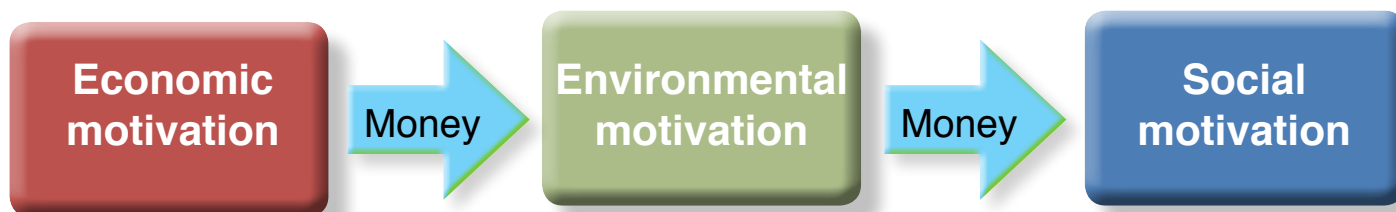


Figure 1: Generalised order of key estate motivations on private estates in Scotland⁴¹

Table 3: Number of national estate survey respondents in different estate categories

Type of Estate	Nos.	%
Mixed	143	57%
Agricultural	40	16%
Forestry	8	3%
Residential	12	5%
Commercial	6	2%
Sporting	26	10%
Conservation	12	5%
Other	6	2%



Based on the 2013 survey of estates in Scotland (with a respondent sample of 263 estates), private estates can be characterised according to a number of key factors:

- Estate ownership exhibits a high degree of continuity; on average estates have been in the same ownership for 122 years, 35% for over 100 years and 5% for over 500 years.
- The majority (143) self-categorised themselves as 'traditional mixed estates', with 40 self-categorising as 'agricultural estates' and 26 as 'sporting estates' (Table 3). Many mixed estates also placed considerable emphasis on sporting activities, set within a wider land use mix, including forestry, agriculture, housing provision and tourism.
- In terms of size (Table 4) medium sized estates dominated, with estate sizes remaining relative stable over the last 10 years. The 16 largest estates accounted for 42% of the total represented land area, with larger estates managing less land in-hand than smaller estates.
- A total of 26% of all land covered by the sample estates was under tenanted farms, with most estates generally dominated by low productivity or unproductive land.



Table 4: Number of estate survey respondents and % in different estate size categories

Size Category	No.	% Sample	Hectares	% Area
Very Small (<100ha)	27	10%	1,238	0%
Small (100-1000ha)	88	33%	35,652	3%
Medium (1000-10,000ha)	112	43%	417,896	33%
Large (10,000-20,000ha)	20	8%	265,770	21%
Very Large (20,000ha+)	16	6%	530,956	42%
Total	263		1,251,512	

1.2.4 Outcomes from key landownership models Scotland

Private Estates

Unless otherwise stated the findings in this section are based on two landowner surveys carried out in 2013; the Cairngorms Landowner Survey⁴² and National Landowner Survey⁴³. The national survey received 277 responses from landowners that collectively manage 1.25M hectares of land.

Economic Outcomes

Private estates have a number of economic impacts, including job creation, direct spend in the local economy and indirect economic impacts. Estates generate direct income from a variety of sources (Figure 2), with agricultural income accounting for the highest proportion (34.9%), followed by residential accommodation (12.6%), agricultural tenancies (9.3%), forestry (7.9), sporting land uses (7.7%), heritage (5.2%) and tourism accommodation (4.3%). Income from public support payments and grants is an important component for some sectors, accounting for 28% of agricultural income and 80% of conservation income. Total direct income across the national survey sample amounted to nearly £162M or an average per/ha income of £129 (Table 5). Per/ha income varies by size, with smaller landholdings generating much higher per/ha incomes, partly due to smaller landholdings often occurring in areas with more productive land (Table 5).

Table 5: Direct income (£) generated by activities on (263) private estates shown by size groupings

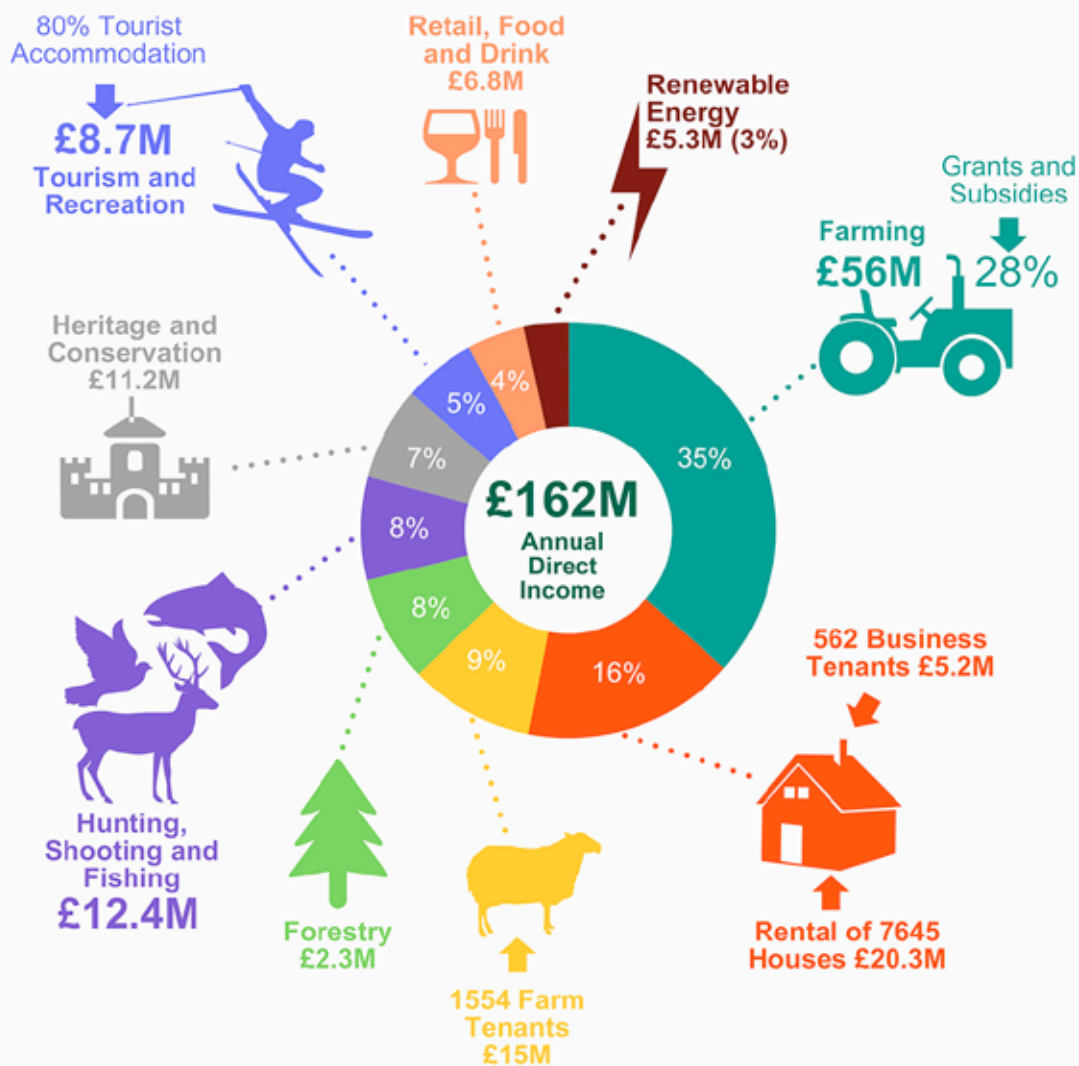
Business Sector	Very Small	Small	Medium	Large	Very Large	Total	Sectoral importance
Agriculture	636,201	15,677,545	18,137,009	13,185,323	8,864,906	56,500,985	34.9%
Residential Accommodation	195,160	2,737,114	7,774,572	5,203,996	4,474,412	20,385,254	12.6%
Ag Tenancy	51,355	845,795	5,079,590	4,624,435	4,409,397	15,010,572	9.3%
Forestry	76,000	1,060,323	4,987,454	2,709,178	3,989,841	12,822,795	7.9%
Sporting	4,275	899,172	4,843,719	1,813,465	4,859,985	12,420,616	7.7%
Heritage		3,237,300	1,354,868	980,500	2,780,920	8,353,588	5.2%
Tourism Accommodation	64,488	731,120	2,163,255	921,500	3,115,291	6,995,654	4.3%
Renewables	84,500	649,550	2,381,972	1,373,477	857,000	5,346,499	3.3%
Business	75,900	964,810	2,431,618	1,038,574	669,520	5,180,422	3.2%
Retail	-	92,000	1,311,410	827,000	2,551,000	4,781,410	3.0%
Minerals & Quarrying	-	653,000	678,686	1,269,269	718,550	3,319,505	2.0%
Conservation		471,468	833,895	524,199	994,900	2,824,462	1.7%
Food & Beverage	-	746,000	611,000	340,500	352,000	2,049,500	1.3%
Sports & Recreation		155,180	705,815	162,384	693,950	1,717,329	1.1%
Other Activities*		656,590	1,940,336	585,000	871,391	4,268,827	2.7%
Total £	1,282,879	29,487,967	55,538,199	35,331,300	40,337,073	161,977,418	
Total £ per hectare	1,036	827	133	133	76	129	

*Income sources in the 'other' category include fish farms, professional services, manufacturing, added value and horticulture.

Direct expenditure on estates in the national survey sample was recorded by sector and separated into four broad categories (inputs, investment, marketing and staff costs). Agriculture represented the most substantial area of spend (£42M), with just under £17M spent on both accommodation and sporting, followed by heritage, forestry and agricultural tenancies (Table 6). Traditional land uses (agriculture, sporting, forestry) required the highest spending on inputs, with accommodation requiring the greatest investment (nearly £12M) and the highest staffing costs occurring in agriculture (£12.5M), heritage (£9.9M) and sporting (£7.4M). Direct expenditure across all sectors (including staffing) totalled over £145M, the majority of which occurred in the local area. Specific sectoral impacts vary regionally, with agricultural productivity higher in the East and South-East and sporting activities, such as grouse shooting, more dominant in specific areas (see Case Study 1). Estate owners were generally confident that income and spend would be maintained, with the majority indicating investment levels would remain similar or increase in the future.



How Private Estates in Scotland Generate Income



On Average Landowners Generate **£129** Of Income Per Hectare

Data shown here is based on direct income data from a sample of 263 estates. Additional income not shown here accounted for a further £7.4M of direct income (from a variety of additional less common income sources).

Figure 2: Key income sources on private estates in Scotland⁴⁴

Employment on estates in the national survey accounted for 1,965 FTE jobs, with the largest number (522) in tourism, followed by administration (394) and sporting land uses (366) (Figure 3). The use of Scottish Government employment multipliers estimated that this direct estate employment maintains an additional 1,147 FTE jobs in the wider economy.

Direct estate expenditure also has indirect economic impacts (Figure 3). Using multipliers the direct expenditure (excluding staffing costs) by estates in the national survey sample was estimated to contribute an additional £79M to the Scottish economy through supply chain induced effects, giving a total economic impact of (non-staff) spending by estates in the national survey sample of £171M. Additionally, the £54.8M million direct expenditure on staffing by the survey sample estates was estimated to have contributed an additional £89.9M to the Scottish economy. Similarly to estate income, per/ha expenditure impacts were higher on smaller landholdings, with very large estates generating an impact of £37 per/ha, relative to £806 and £369 per/ha on very small and small landholdings.

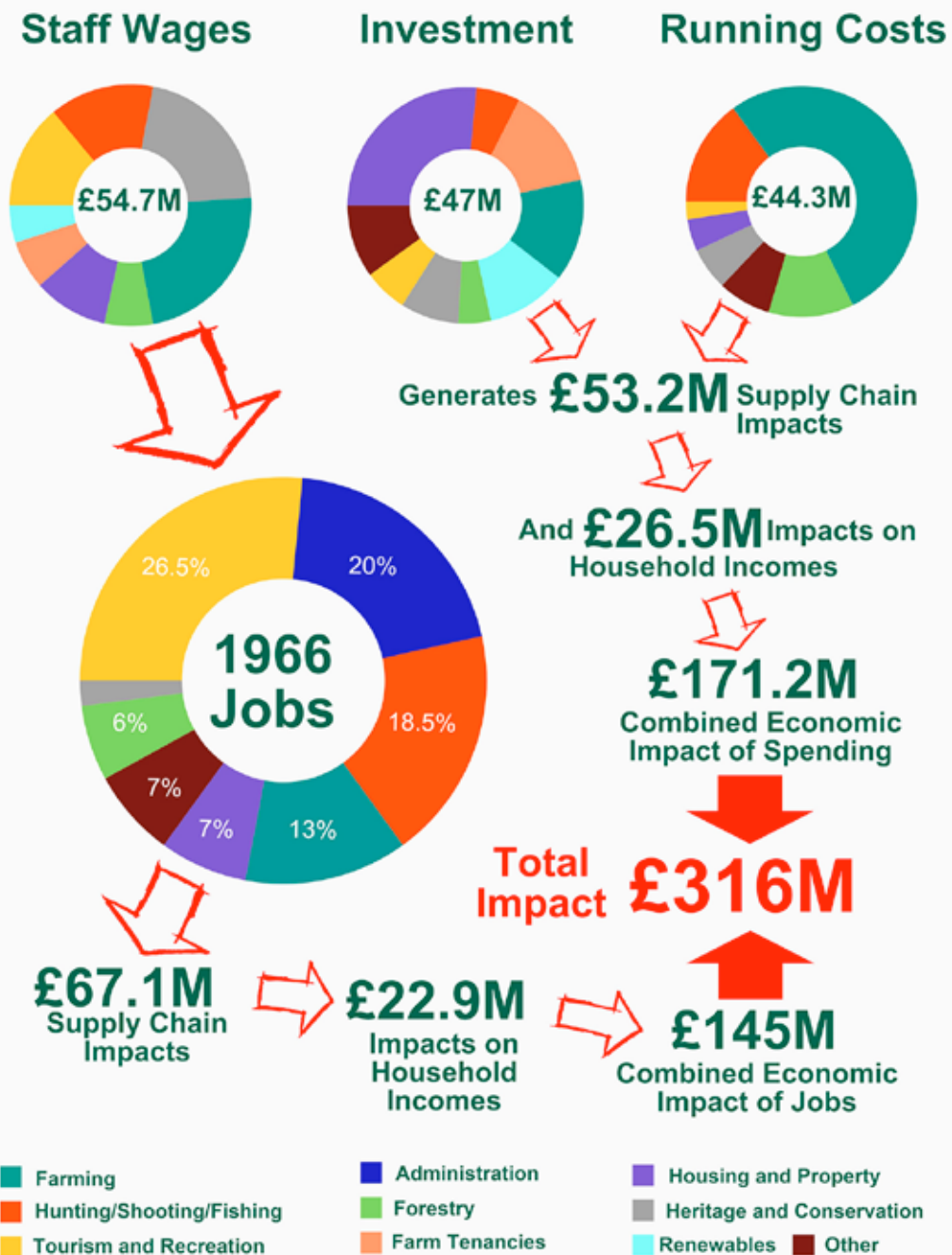


Table 6: Direct expenditure (£) by sector and spending category on private estates (263 estates)

Business Sector	Inputs	Investment and Repairs	Sales and Marketing	Staff Costs	Total Expenditure
Agriculture	22,231,328	6,642,259	1,120,076	12,547,346	42,541,009
Residential Accom	994,270	11,700,232	218,561	4,053,379	16,966,442
Sporting	6,201,822	2,954,003	298,153	7,429,426	16,883,404
Heritage		3,083,211	694,779	9,872,469	13,650,459
Forestry	4,995,358	2,159,649	177,064	3,547,956	10,880,027
Ag Tenancy		6,675,619		3,552,440	10,228,059
Other activities	3,388,589	4,474,472		170,921	8,033,982
Renewables		4,976,636		2,637,196	7,613,832
Tourism Ac		1,916,933	421,055	3,697,522	6,035,510
Sports & Recreation		903,375	714,660	3,966,381	5,584,416
Conservation	2,068,951	504,500		1,635,473	4,208,924
Business		814,123	802,224	1,645,440	3,261,787
Totals	39,880,318	46,805,012	4,446,572	54,755,949	145,887,851

Scaling the financial sample results to the landowning membership of Scottish Land and Estates (SLE, a large proportion of the total population of estates in Scotland) estimated combined direct and indirect (non-staff) estate expenditure contributed £290M (£127/ha) to the Scottish economy. Additionally, SLE members spent a further £99.7M directly on staff, which was estimated as contributed £248M (£109/ha) to the Scottish economy. Aggregating employment figures estimated that 5,232 FTE jobs are directly reliant on the landowning membership of SLE. Once indirect and induced impacts were accounted for it was estimated that 8,114 FTE jobs across the Scottish economy were dependent on the land area of the SLE membership.

Where Private Estates Spend Money And How It Impacts The Economy



Information in this infographic is based on data gathered for the Cairngorms Landowner Survey conducted in 2013 by Scotland's Rural College and the Centre for Mountain Studies, UHI. For further information contact: rob.mcmorran@sruc.ac.uk

Figure 3: Direct and indirect expenditure impacts on a sample of Scottish private estates

Case Study 1: Economic impacts and perceptions of grouse shooting in two rural communities⁴⁵

This case study presents findings from a study of community perceptions and economic impacts of grouse shooting, based on a community survey (266 respondents), estates survey (26 estates covering 116,000 ha) and interviews, in the Monadhliath and the Angus Glens in 2014-2015.

A majority of community survey respondents (70% in Angus and 53% in the Monadhliath) perceived community-level benefits from grouse shooting, with employment and estate spending the most commonly identified benefits. This is reflected in the estates survey, with 186 (FTE) jobs provided on estates (130 in Angus and 56 in the Monadhliath), some 60% of which relate to sporting activities.

Due to lower numbers of estates and less commercial activity, sporting revenues and expenditure were lower in the Monadhliath (Table 7). Expenditure was higher than revenue in both areas; sporting activities ran at a net cost in 2014 of £3.4M in Angus and £1.2M in the Monadhliath. Considerable investment on grouse moors was evident in both areas (Figure 4). Wider economic impacts included use of accommodation and local businesses, particularly in Angus.



Table 7: Sporting expenditure figures for estates in both areas and extrapolated per/ha spend

	Angus	Monadhliath	Combined
Sporting costs (and no. of estates providing data)	£6M (12)	£1.7M (8)	£7.8M (20)
Costs per/ha of grouse moor	£108.87	£61.13	£92.56

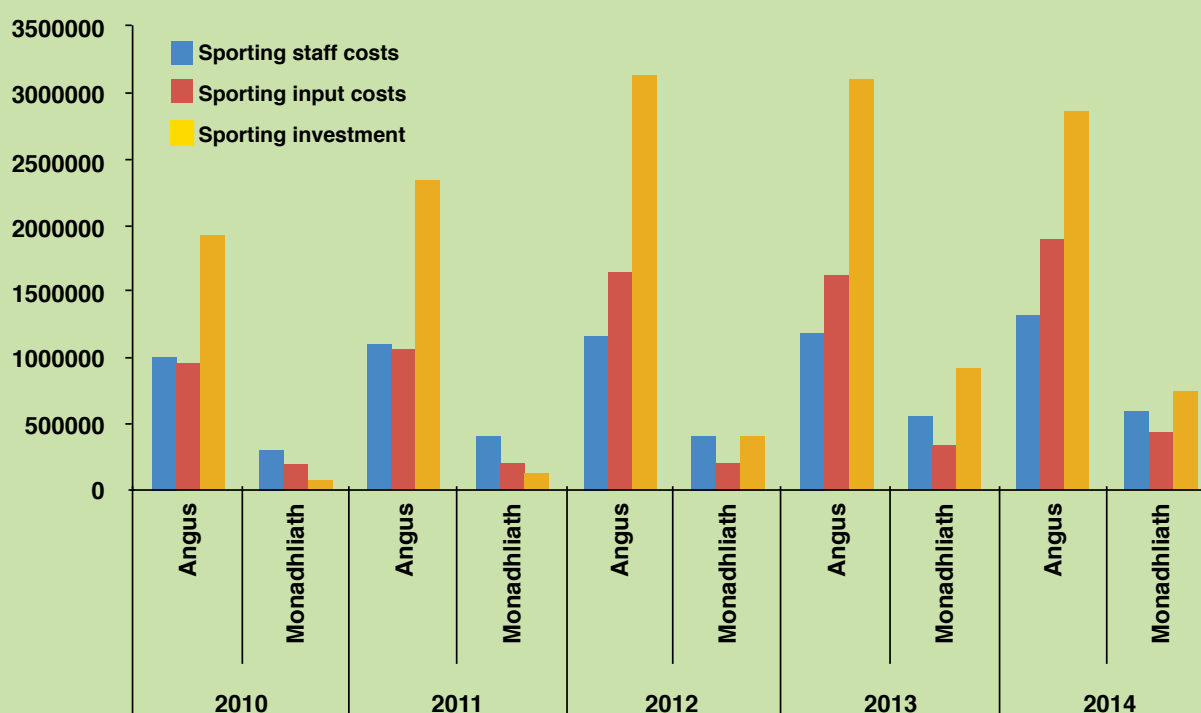


Figure 4: Total annual expenditure on sporting activities on respondent estates in both study areas for 2010-2014 divided by staff, inputs and investment costs

Community engagement

More respondents in Angus were satisfied (48%) with the level of communication between estates and communities than unsatisfied (20%), with opinion more divided in the Monadhliath (31% satisfied, 35% unsatisfied). A degree of perceived 'disconnect', between estates and communities was evident in both areas. A majority of community respondents (74%) were supportive of the continuation or expansion of grouse shooting in Angus, with a smaller supportive majority (52%) in the Monadhliath, with a minority (5% in Angus, 16% in the Monadhliath) unsupportive. Lower support reflects lower socio-economic benefits and differing community demographics.



Grouse shooting and the environment

The majority of community respondents in both areas viewed grouse moors as attractive or extremely attractive (75% in Angus and 60% in the Monadhliath). Perceptions of environmental damage from grouse moor management varied, with a higher proportion perceiving environmental damage (30%) in the Monadhliath than in Angus (13%).

Key points

- Grouse shooting and moorland management can have significant local socio-economic impacts in areas with concentrated activity and limited alternative economic activity.
- Opportunities for enhancing community involvement and engagement exist, including i) engagement with local schools; ii) estate 'demonstration days'; iii) estate engagement with community councils; and iv) recruitment of seasonal staff from local communities.

Social Outcomes

Private estates also generate community-level impacts, particularly through the provision of housing, access and interpretation, community facilities and contributing to community context. Within the national estates survey sample residential property and letting occurred on 235 Estates, with estates maintaining 7645 houses. Residential properties represented the largest sector of investment spending, with expenditure on housing surpassing income on larger estates. Estates in the Cairngorms National Park provided 15% of total housing stock in the park, with estates also playing a role in relation to facilitating new housing through plot sales.

The Cairngorms landowner survey identified a number of activities on estates in the park relating to community outcomes, including:

- Access and interpretation initiatives, including path development and restoration (22), car parks development (19), heritage interpretation (15) and ranger staff (11);
- Estates (16) owned or ran community facilities and provided land for community events (23);
- Estates (37) regularly communicated with the local community, although wide variability occurred in terms of the emphasis on engagement, which often involved 'ad-hoc' communication, with 21 attending community council meetings.

Community-landholding partnerships were evident on estates in the national and CNP survey, but were limited. Twelve estates in the national sample reported that they had supported community energy projects and 39 that their energy installations provided community benefits. Community development was not always an explicit objective although landowners recognized their role in maintaining the context for tourism and land-based employment. Direct formal community engagement occurred (see Case Study 2), but was more common on larger estates. Research on family owned private estates at SRUC⁴⁶ identified wide variability in the extent to which private estates become involved in community development, while recognising how pro-active, resident, family estates can contribute to the on-going vibrancy of rural communities on or near the estate, through employment and services provision and by developing shared local plans.

Case Study 2: Finzean – Community development and engagement on a private estate⁴⁷

The 4000 hectare Finzean Estate in Royal Deeside has been owned by the resident Farquharson family since 1580. The estate is managed by a family partnership with the aim of maintaining a diversified, financially viable business for future generations. Land management includes in-hand and tenanted farming, grouse shooting and deer stalking, salmon fishing and woodland management. Finzean has a long history of linking estate activities to community development. This builds on a cohesive local community. Key community-oriented practices, resulting community outcomes and lessons learned by the estate include:

- Release of land/assets for community use where a need emerges and this reflects estate aims. This has included: i) transfer of Finzean hall to Finzean Community Association; ii) release of land to the football club, for community and charitable events; iii) donation of land to extend Finzean Church; iv) donation of land for a graveyard, developed by local volunteers.
- An emphasis since the 1970s of supporting housing development and selling off housing plots at reduced cost to locally born young people. This has resulted in nearly 30 homes being facilitated (with further housing planned), which contributed to increasing the school roll, from twenty in the 1970s to sixty currently. Additionally the first rural sheltered housing scheme (9 cottages) in the North east was established on Finzean in 1983.
- Development of a farm shop in 2006, which acts as a community hub and outlet for game and beef from the estate and products from other local producers. The establishment of the shop included a survey to incorporate community input. The shop employs 24 (18 part-time), with 8 employed elsewhere on the estate and 14 jobs on tenant farms and leased businesses.
- Finzean, together with other estates, supported the formation of BCT in 1998 for the benefit of the inhabitants of the old Parish of Birse, through the transfer of land rights of forested areas, two water mills and land surrounding a war memorial to the community.
- Community woodlands facilitated by the estate include: i) a School Wood developed in partnership with the Royal Scottish Forestry Society in 1973 (recently extended); and ii) a community woodland walk around in 1993, leased to Birse Community Trust (BCT).
- In partnership with BCT, the estate developed a pathway linking the school to the village to enable children to walk or cycle to school in safety off the public road.
- Liaising with key local groups including Finzean Community Council, Community Association and Birse Community Trust and an emphasis on encouraging public access (including opening Finzean House to the public), which results in a wide range of sporting, community and charitable events.



Lessons learned

- Regular and formal estate-community communication is key to fostering shared aims.
- The community represents the strongest asset of the estate and estate-community working increases community and estate viability.
- Provision of housing is key to addressing out-migration and building a resilient community.
- Community 'hubs' are important for building community spirit and fostering development.
- Well designed path networks are important for spatial community-estate integration.



Environmental Outcomes

Private estates in the national survey sample indicated that conservation management occurred on over 260,000 hectares of their land, with the largest areas relating to moorland, peatland, and native woodland. Of the estates that carried out forestry management, over 40% indicated that habitat management and creation was of high importance. The majority of estates expressed an interest in increasing conservation activities on their land. The CNP landowner sample provided detail on specific measures occurring on CNP landholdings (number of estates in brackets) including:

- Control of invasive species (22), protecting native species (21), and expansion/restoration of native woods (34), wetlands (14), riparian woods (19), montane scrub (12) and peatlands (7).
- Almost all landholdings manage deer, including for sporting objectives, habitat management, and protection of trees and crops with most represented on Deer Management Groups.
- Access and interpretation, including path restoration (22), new paths (12) and car parks development (19), heritage interpretation (15) and employing rangers (11).

While landowner interest in renewable energy often relates to income potential, renewable energy developments also indicate progress towards Scottish Government climate change targets. Within the national estates sample renewable energy developments had occurred on 106 Estates. These Estates have invested in 123 installations operated for their own use or as an Estate business and host 30 installations for third party renewables businesses on which they collect rent.

NGO Landownership Outcomes

Unless otherwise stated, the findings in this section are based on a 2013 review of NGO landowners⁴⁸. The review was focused on conservation NGOs, which constitute the bulk of charity landownership in Scotland.

Economic Outcomes

Scotland's landowning conservation NGOs collectively employ 1,355 (FTE) personnel, of which 742 (55%) are employed in posts relating to site management (Table 8). Not all NGO-owned sites have on-site staff and the numbers employed in site management as a proportion of total organisational employment varies considerably (Table 8). Conservation NGOs employ considerable numbers of staff on a per/ha basis (1 FTE per 134 ha), even after removing non site-related employment (as most NGOs have centralised headquarters some employment is outwith rural areas).

Table 8: Number of full-time equivalents (FTEs) employed by conservation NGOs in 2011/2012

NGO	Number of sites	FTEs in site management	Total FTEs (in organisation)	% FTEs in site management
JMT	24	7.08	35.3	20%
NTS	128 ⁱ	582.77	793	74%
RSPB	74	113.2	368	30%
SWT	121	26	112	23%
WTS	57	7	24	29%
BFT	1	6	9.63	62%
TFL	1	Not available	14	Not available
Totals	406	742.05	1,355.93	54.7%

ⁱ This figure includes NTS 'built and countryside properties'

Total expenditure across the seven main landowning conservation NGOs for 2011-2012 totalled nearly £64 million, of which £37 million (54.3%) was on site management (Table 9). Using the lower figure (£37m), this equates to an average spend of £181 per hectare, or £83 per hectare if NTS is excluded from this calculation (as a number of NTS site-related jobs are linked to historical site management, rather than land management).

Case Study 3 The RSPB's Abernethy Forest Reserve

The RSPB's Abernethy Reserve covers 13,714 ha and includes the Loch Garten osprey site. The reserve is managed to conserve its ecosystems and promote forest regeneration. On-site employment accounts for 12.2 FTEs (compared to 1.5 under the previous private owner) and direct site-related annual spend is over £500,000. Employees include wardens/stalkers, researchers, shop and hospitality/interpretation staff and forestry workers. Other employment impacts include jobs for contractors on the site; jobs supported by the local spending of staff and contractors and buying supplies; and impacts for local timber and venison dealers. Woodland management activities are shared between reserve staff, locals employed on winter contracts, and larger forestry companies, provided they can guarantee to use local contractors. In order to diversify income to the local economy, the reserve produces, processes and markets goods, including forestry products and venison and emphasises the use of locally-based businesses wherever possible.

The reserve, and particularly the Osprey Centre, attracts 30,000 visitors annually, who spend money locally. Based on an average day visitor spend in the park of £26.48⁴⁹, this equates to a total local spend of over £790,000 (not including accommodation). A series of way-marked walks are well-used by visitors and locals, and an additional 100 km of access tracks are maintained. The reserve is used regularly as a venue for seminars and training courses with delegates using local accommodation. Visitor expenditure in the area is estimated to support 69 FTE jobs locally.



Table 9: Expenditure on sites owned and managed by conservation NGOs in 2011-2012

NGO	No. sites	Total (Ha)	Direct spend on sites (£) ⁱ	Total organisational spend (£)	% spend on sites	Direct spend per site (£)	Direct spend per Ha (£)
JMT	24	24,461	821,142	1,595,937	51.5%	91,238	33.57
NTS	128 ⁱⁱ	77,209	28,530,000	42,116,000	67.7%	222,891	369.51
	74	71,114	5,151,000	12,590,000	40.9%	69,608	72.43
SWT	121	19,823	1,017,315	5,201,355	19.6%	8,408	51.32
WTS	57	8,643	1,046,500	1,181,500	88.6%	12,746	84.05
BFT	1	1,324	567,925	680,117	83.5%	113,585	428.9
TFL	1	4,028	160,000	560,000	28.6%	160,000	39.72
Total	389	206,604		£63,924,909	54.34%		

ⁱ These figures include land-related staff costs.

ⁱⁱ This figure includes NTS 'built and countryside properties'

The figures in Table 9 do not account for indirect impacts, which are potentially considerable, particularly on flagship sites, which often employ a range of staff and attract high visitor numbers (Case Study 3). A minimum of four million people were found to have visited sites owned by conservation NGOs in Scotland in 2011-2012: JMT (236,450 visits); NTS (2M visits); RSPB (494,794 visits); SWT (265,000 visits); WTS (1m visits)⁵⁰. Based on a daily visitor spend estimate of £26.48 per day⁵¹ (not including accommodation), the approximate cumulative annual economic impact of these visits can be estimated at £105.8 million.

Social Outcomes

In relation to social impacts NGOs play a specific role in improving visitor access, particularly by maintaining and/or constructing footpaths. The JMT, for example, raised over £800,000 to fund path restoration work on Schiehallion in Perthshire between 1999 and 2003⁵² and is currently carrying out path repairs on Skye (2015-2017) at a cost of £200,000, with path works also planned for Suilven in 2017 in partnership with a community body⁵³. The NTS, which maintains 82 high level paths established the Mountain Heritage programme in 2003, resulting in £1.9 million being spent on footpath repairs from 2003 to 2009⁵⁴. Their 'Mountains for People'



programme ran from 2009-2013

and cost £1.25 million, with the NTS raising £149,000 for path works in 2015⁵⁵.



On many sites volunteers undertake a range of activities, often in work parties, including: interpretation; wildlife protection; litter picking; footpath maintenance; removal of invasive plants and ecological monitoring. Some 5,000 volunteers are active on NGO-owned land in Scotland, contributing over 290,000 hours annually. Based on the current minimum hourly wage (£6.70), this equates to approximately £1.94 million in equivalent staffing costs (or £2.9M if based on a wage of £10.00 per hour). Volunteering has a range of impacts in relation to public health and well-being and the development of social capital⁵⁶.

Conservation NGOs also often employ staff and volunteers to manage access and interpret the natural heritage (e.g. rangers). Many NGO-owned sites have

also developed interpretative facilities, including wildlife watching infrastructure, such as the capercaillie and osprey watching hides at the RSPB's Abernethy Reserve. Conservation NGOs engage directly in educational initiatives, with most having developed educational materials linked to the National Curriculum, as well as arranging more informal educational events and groups for children, such as SWT's Wildlife Watch groups. The John Muir Award, run by the JMT, also develops awareness and responsibility for the environment through direct experience, with over 100,000 awards having been made since 1997.

Most conservation NGOs have set up local or regional groups to increase local engagement, although often such groups are only open to NGO memberships. NGOs have also become directly involved in partnerships with communities pursuing community landownership. The JMT is involved in partnerships with four community land trusts, having provided these bodies with funding and/or advice before, during and after land acquisition. The Scottish Wildlife Trust played a similar role during the community buyout of the Isle of Eigg⁵⁷.

Environmental Outcomes

GIS analysis⁵⁸ of the extent of land designated for conservation and landscape values under NGO landownership demonstrated that 47% of the land owned by conservation NGOs is designated as Site of Special Scientific Interest (SSSI) or Special Protection Area (SPA) (or both), with over 30% designated as Special Area of Conservation (SAC), and over 19% designated as National Nature Reserve (NNR). Conservation NGO landownership is considerably more prevalent on designated sites than elsewhere, particularly in the case of NNRs, with 31.5% of all NNR designated land owned by conservation NGOs. Over 48% of land owned and managed by conservation NGOs is also designated as National Scenic Area (NSA). Conservation NGOs therefore own and manage a disproportionate amount of land with high natural heritage and landscape values, highlighting the role these bodies play in conservation in Scotland. Conservation NGOs also undertake a wide range of habitat and species conservation initiatives on their land. The most active area of restoration activity relates to the re-establishment and expansion of native woodland ecosystems, which is occurring on a range of NGO owned sites across Scotland. The development of strategic partnerships between conservation NGOs, other organisations and other landowners, has increased in importance in delivering integrated landscape-scale approaches to conservation and land management. For example, the Coigach and Assynt Living Landscape project represents a partnership between NGOs, private landowners and community groups⁵⁹.



Community landownership

Unless otherwise stated findings in this section are based on research conducted on community landholdings as part of the Sustainable Estates project⁶⁰ (2007-2012), an SRUC review of community land⁶¹ in 2011 and a 2014 Community Land Scotland (CLS) review of community landholdings⁶².

Economic Outcomes

Case study based research has highlighted how community ownership can impact on the long-term process of rural development within a locality, through facilitating the development of a framework for economic development, in combination with enhanced participatory governance and rebuilding of community capacity⁶³. This is further evidenced by findings from the 2014 CLS review, which identified key economic impacts occurring since acquisition on 12 community landholdings. The community bodies had all owned their land for more than 5 years and collectively accounted for some 75% of community land in Scotland. Since acquisition the total turnover across the 12 landholdings had increased from £1.7M to £6.1M, with staffing increasing from 22 to 103 over the same period, with £2.5M spent on staffing and local contractors in the 2012-2013 financial year (a fourfold increase since acquisition). Capital investment since acquisition on the 12 landholdings totalled £34M, with this investment resulting in significant local spending, with the 12 landholdings awarding contracts worth over £900,000 to local contractors in 2012. Investment spending has occurred across multiple areas, with renewable energy (£16M), housing (£4.5M) and communications infrastructure (£4.7M) key (Table 10, Case Study 4), with approximately half of this sourced from grants and the remainder provided by the community bodies.

Case study 4: Investment on community landholdings; Scotland's largest community windfarm

Storas Uibhist secured funding (£2.4M from the European Regional Development Fund, £1M in grant and loan funding from Social Investment Scotland and £8M in loans from the Co-op Bank) and planning permission to install three 2.3MW wind turbines on Lochdar Hill Common Grazings at Lochcarnon. The turbines generate 6.9MW, with a net income to Storas Uibhist of £1.5M per annum.

Approximately two thirds of this will be used for loan repayments in the first 10-12 years, with total income available after this period. Income is being utilised to support community development and the establishment of new businesses locally, with direct community involvement in deciding spending priorities.

The project proposal received considerable community support, with 77% of the total community and 95% of the common grazings holders near the site in favour of the proposal.



Wider investment in infrastructure in buyout communities has also occurred, due to the increased confidence of public bodies (e.g. Local Authorities) as a result of the newfound security of tenure and the associated resurgence of community activity. The resulting initiatives include the (£6M) refurbishment of the Knoydart Ferry Terminal and the ongoing (£9M) Lochboisdale Port of Entry development. The development of new business hubs (to foster private business development) by community land bodies has also occurred on some community holdings (e.g. North and West Harris Trusts). Business development has generally increased post-buyout, with the total number of private enterprises on the 12 CLS surveyed landholdings having increased from 83 to 185 since the time of acquisition.

Table 10: Cumulative and planned investment since point of acquisition on 12 community landholdings owned for at least five years⁶⁴

Sector of Investment	Cumulative Investment (£)	Planned Investment (£)
Housing	4,505,627	2,126,000
Renewable Energy	16,486,000	10,030,000
Land Management	1,334,401	620,000
Tourism and Recreation Infrastructure	1,136,700	6,525,000
Business Development	1,252,694	865,000
Communication Infrastructure	4,873,101	5,003,000
Community Facilities	205,000	22,000
Training/Skills	20,550	3,000
Total	34,428,073	25,194,000

Social Outcomes

Social outcomes are fundamental to community landowners, with recent evidence suggesting that out-migration has reduced on community landholdings, with populations either steady or having increased since community acquisition⁶⁵. Community retention is linked to business development, employment creation and affordable housing provision. Since acquisition the 12 surveyed community landowners have upgraded 151 houses, with a further 33 new houses built in partnership with public bodies (e.g. Case Study 5) and 141 house plots sold or released through shared ownership.

Case Study 5: Working together for affordable housing in North Harris

Through consultations and discussions with local crofters the North Harris Trust identified an opportunity to develop an affordable housing initiative in Bunavoneader. Land was leased from Ardhasaig Common Grazings and a partnership established between Hebridean Housing Partnership (HHP), Tighean Innse Gall (TIG), North Harris Trust and Ardhasaig Grazings. Construction was completed in Spring 2011, with 8 affordable homes established for rent and 3 fully serviced plots also available for purchase next to the housing development.



Table 11: Key outputs since acquisition on 12 community landholdings owned for at least five years⁶⁶

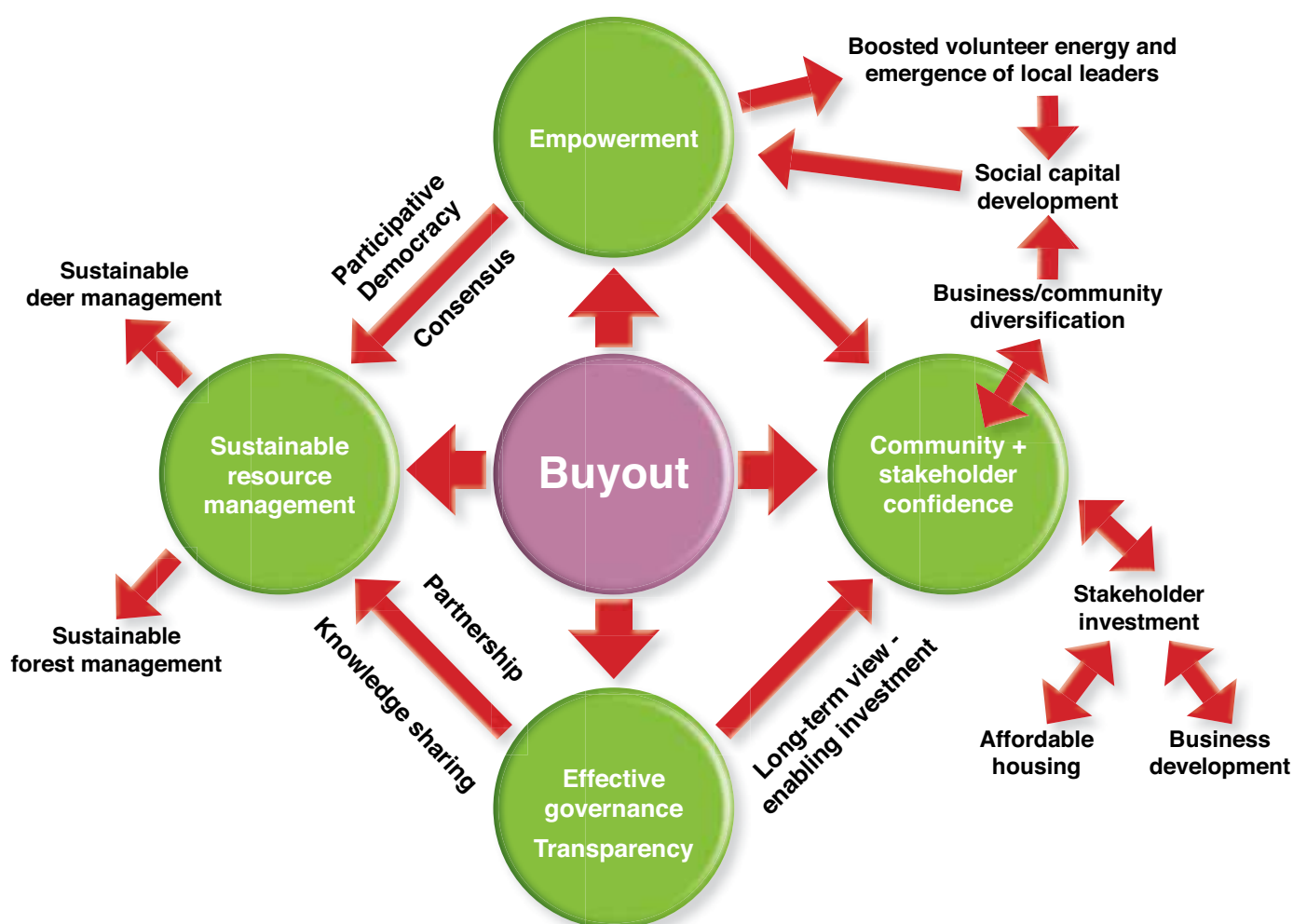
Key Outputs	Count
No. of houses upgraded	151
No. of other buildings upgraded	20
No. of houses built new in partnership	33
No. of house plots sold/released through shared ownership	141
No. of visitor facilities upgraded	13
No. of visitor facilities built new	9
No. of commercial facilities provided	24
No. of people supported through training	124
No. of community facilities upgraded	9
No. of community facilities built new	5



Case studies have also highlighted the importance of less-tangible impacts, with the increased individual and community confidence associated with security of tenure enhancing community capacity and motivation over the longer term⁶⁷. The experience gained by community members through involvement in buyouts (e.g. by acting as trustees and engaging in training) can have a direct impact on community energy and the degree to which community members feel empowered in relation to local community decision-making processes⁶⁸. Wide community involvement is critical, with the 2014 CLS study estimating that the 12 surveyed community land bodies depend on over 900 days of volunteer input annually.

Figure 5 illustrates key process related outcomes linked to community landownership. The freedom to utilise the asset-base and the collective increase in confidence, both within the local community and among wider stakeholders, increases both funding availability for infrastructural and housing initiatives and the levels of in-migration and entrepreneurial activity. These factors, combined with direct community involvement in the community bodies, increase local capacity and collective energy and lead to the gradual emergence of local leaders. This further empowers the community, resulting in an on-going cycle of community interest and involvement. The establishment of transparent and accountable local decision-making processes further secures the support of wider stakeholders and releases opportunities for knowledge sharing and developing strategic partnerships, thereby delivering more resilient natural resource management. A cascade effect is apparent which impacts at multiple levels on the processes of rural development. Specific impacts occur at social, economic and environmental levels, which are in effect enhancing community resilience.

Figure 5: The sustainability ‘cascade’ effect as evident on community owned landholdings based on case study analysis⁶⁹



Environmental Outcomes

Case study analysis suggests that community landownership has the capacity to re-configure resource management away from passive approaches towards more proactive, community-centred approaches incorporating the re-working of traditional land uses and the reconnection of communities with the land and environment⁷⁰.

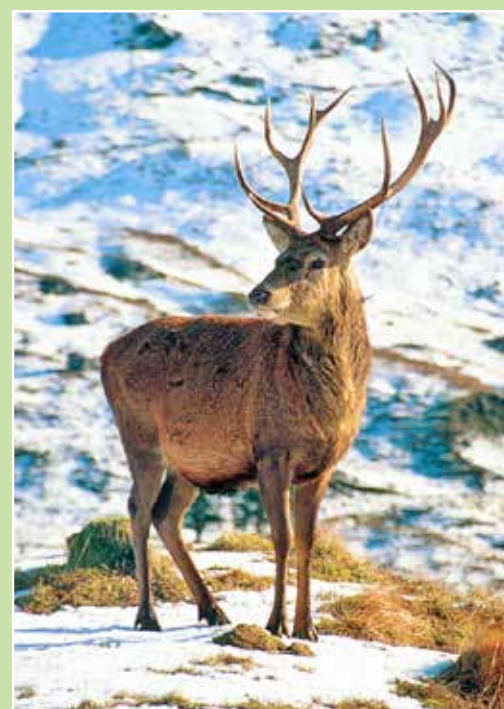
Specific examples of shifts in approaches evident on community landholdings include:

- An emphasis on renewable energy development and increased energy efficiency;
- Changing emphasis in deer management; increased culling, deer counts, habitat monitoring, local venison marketing and deer management planning;
- Developing opportunities for new entrants to crofting and provision of advice to crofters;
- Restructuring of conifer plantations, native woodland planting and biomass plantings.

Significant environmental change and shifts in land management are long-term processes. Nevertheless, the 2014 CLS review specifically identified that 17 new crofts had been developed on community landholdings, with 12 additional small-holdings created, as well as 16 allotments. Novel approaches to natural resource management are evident in some cases, including the development of a community stalking group on North Harris (Case Study 6).

Case Study 6: Community based deer management on North Harris⁷¹

An example of the changing dynamic between communities and natural resources on community land is evident on North Harris, where the responsibility for deer management was passed to the community. As part of the buyout agreement, the fishing rights and the rights to stalk 30 stags were purchased separately by a private individual; the remaining stalking rights (primarily hinds) were obtained by the community. A community stalking club was established to manage hinds cost-effectively. The club has instigated processes to professionalise their approach and now has 26 members and is open for membership (for a £5 annual fee and a payment of £10 per hind)



and certain outlying areas (to ensure sufficient numbers and to include certain crofting groups with firearms experience). All members are required to have a level 1 Deer Stalking Certificate, a firearms certificate, insurance and a game licence. The group carries out deer population counts, agrees cull targets and carries out culling. This is proving to be a cost-effective approach, with no specific cost associations for the Trust as it negates the need to employ a deer manager, as well as acting as a barrier to illegal stalking and limiting the potential for future conflicts.

1.2.5 Challenges, opportunities and solutions

Existing landownership patterns and ownership diversification

Generalising outcomes by ownership model is challenging, due to the variability evident within landowner groups linked to location, scale, length of time of owner involvement and the preferences of individual owners/landowning bodies. Nevertheless, the existing dominance of private landownership, combined with the recognition of diverse positive outcomes of NGO and community landownership, suggests continued diversification of landownership (by type) offers considerable potential for increasing rural resilience.



Nevertheless, predicting specific outcomes of landownership change is challenging. Recent research on the impacts of diversification of scale of landownership on rural communities⁷² (i.e. fragmentation of large landholdings into smaller parcels), concluded that, while landownership fragmentation may result in greater economic returns, due to the complexity of wider factors (e.g. policy, demographic change, economics) it is unclear how important landownership scale is to long term community development.

An increasing emphasis on delivering public and private benefits from land management has increased pressure on all landowners to adapt their approaches, with private estates in particular commonly linked to restricting development opportunities for rural communities⁷³. New landownership models offer the potential for expanding the delivery of public benefits in rural areas. However, a stewardship-led approach by proactive private landowners also offers considerable potential to address evolving policy agendas and deliver community outcomes⁷⁴.

Financial pressures and income diversification

Financial pressures and limitations on income potential is a key challenge for all landowners. Despite the increasing importance of tourism and newer activities (e.g. renewables), traditional land uses remain core to many landowners, particularly private estates; however, declining subsidies represent a threat to these activities longer term. Nevertheless, examples of new estate owners re-establishing grouse moors or carrying out extensive habitat restoration⁷⁵ highlight the potential of private investment to deliver economic and environmental outcomes.

The beneficial outcomes from NGO and community landowners are clear; however, NGO acquisitions have slowed in recent years, with these organisations faced with the challenge of balancing organisational development against funding new land acquisitions. Community landownership offers significant potential to positively transform rural communities. Nevertheless, it remains a relatively new model of landownership, which is often heavily dependent on public support in the acquisition and subsequent establishment phases⁷⁶. Community landowning bodies face challenging agendas (e.g. housing provision and reversal of out-migration) and the outcomes of buyouts can vary considerably, dependant on: the income potential of the asset base, the length of time since purchase, community capacity and the existence of strong partnerships with stakeholders. Assets incur liabilities and the income generation potential of assets may be insufficient to deliver long term financial self-sufficiency for some communities⁷⁷. Community landownership therefore requires a long-term commitment of public support to achieve its full potential, particularly where existing income potential is limited.



Renewable energy has provided a key source of income for landowners in Scotland in recent years. While onshore wind has dominated thus far in terms of income provision, recent changes to the subsidy regime and Feed In Tariff (FIT) have decreased the attractiveness of this sector, with Hydroelectric, biomass and solar of increasing interest longer term. Addressing food security concerns and adding value to estate products through processing and direct marketing (e.g. farm shops) also offers diversification potential. Landscape scale woodland regeneration is increasingly being linked with nature-tourism and high quality accommodation provision (particularly on private landholdings). Rewilding (i.e. species reintroductions and landscape scale habitat restoration) therefore offers opportunities to

contribute to community development, as well as enhancing ecosystem services⁷⁸. Such approaches have also been linked to the potential development of new commercial sporting opportunities, such as hunting wild boar⁷⁹. Critically, the approach all landowners of all kinds take to fostering private business development can have potentially major impacts on local economic development.

The policy and regulatory context

The expansion of the Scottish land reform agenda in 2016 and potential changes to the tax regime around sporting land uses and changes to farm tenancy arrangements, are widely perceived by private estate owners⁸⁰ as a major threat. The wider regulatory and planning context for land management has also been identified as a constraint on development and investment by private landowners⁸¹. Public financial support is critical to both NGO and community landowners. However, the political context can also present challenges; community landowners face high public expectations, with outcomes often expected over relatively short timescales. More broadly, declining subsidies and the impending withdrawal of the UK from the EU has increased uncertainty around funding long term. The development of new markets for key ecosystem services (e.g. carbon) is therefore of key importance going forward. Payments for ecosystem services offer potential benefits to all landowners of all kinds. In particular, regional targeted grant schemes offer potential to reward landowners for delivering strategic objectives for landscape scale ecosystem management.

Conflict, capacity building and partnerships

Private landowners can play a key role in contributing to building community resilience⁸². In practice, the emphasis on 'community' on private estates varies widely, despite estate-community engagement increasingly highlighted as playing a key role in perceptions of estate activities⁸³. As a result, a disjuncture can occur between resident communities and estate owners, with specific concerns including the inaccessibility of landowners, access-related conflicts and a perceived weak emphasis on development by some landowners.

Environmental NGOs have also been criticised by some for prioritising wildlife and landscape protection above traditional land uses and rural livelihoods⁸⁴. The 'community' involved on NGO-owned sites represents a community of interest, as opposed to purely one of place, with the memberships of NGOs often not resident on the land in question. Management decision-making relating to NGO-owned land can appear remote; decisions are made in organisational headquarters with varying weight being given to local concerns relative to conservation priorities⁸⁵.

Community landowners also experience conflicts, both within communities and between the community and wider stakeholders. Challenging demographics and a limited pool of staff, volunteers and local expertise, can affect the degree of community cohesion on community landholdings⁸⁶. The dispersed and diverse nature of some buyout communities, which can include factions vested in the previous system of ownership, can result in challenging local conflicts⁸⁷. In this respect, 'conflict' arguably represents a natural component of local democracy and community empowerment. Nevertheless, in a private estate context, community-estate conflicts can indicate community dis-empowerment and a lack of engagement.

Community landownership demonstrates the role localised decision making processes play in building social capital and generating win-wins. Lessons exist for all landownership models, with increased engagement and emphasis on community development on private estates potentially contributing to both estate and community sustainability (Case Study 2). Thriving engaged communities provide estates with a ready market for products, a supply of tenants and potential support for estate initiatives. In contrast, a lack of emphasis on community and weak engagement can lead to community decline and reduced estate sustainability.



In practice, challenges exist for engagement across all landownership models, including community apathy, staffing and resource limitations, managing strong personalities and ensuring the approach and timing of engagement is suitable. A pro-active, structured approach (e.g. community workshops, surveys) by landowners and effective visible estate representation is therefore key⁸⁸. These processes can decrease estate-community disconnect, release community capacity, knowledge and entrepreneurial energy, open access to new resources, reconnect people with the land and ensure robust decision-making⁸⁹. Increasing capacity also relates to skillsets, and training of land managers and landowners (and community members) in community-estate working and conflict management. As well as structured learning around engagement, training offers the potential for sharing of experiences and good practice.

Engagement and empowerment of communities can occur across a range of scales from simple estate communication to co-management and estate-community partnerships⁹⁰. Empowering participants requires the development of beneficial land-people interactions, including, for example, community deer stalking groups, community woodlands, affordable housing partnerships and landowner-community renewables initiatives.

The potential of landscape scale approaches for delivering environmental outcomes is being increasingly recognised and examples occur across all landownership models (e.g. landscape scale ecological restoration, catchment management planning and deer management groups). Such approaches face challenges, including balancing individual landowner or organisational goals against the delivery of shared goals. The development of conflict management and dialogue skills therefore has applications at multiple scales, with collaborative governance processes of increasing importance to all landownership models. Partnership working, in addition to wider landownership diversification, represents an opportunity to build on the collective strengths of partners and deliver a wide array of public and private benefits, thereby reflecting a number of key policy aims relating to land in Scotland.



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What future for woodland and forestry in Scotland?

Professor Davy McCracken

Section 1:3



KEY POINTS

- The Scottish Government has a stated aim to increase woodland cover in Scotland from its current level of 18% to 25% by 2050.
- To achieve this the proportion of woodland and forest under private ownership will need to increase from the current level of two-thirds of the total cover.
- There is currently a tension between ensuring the Scottish forestry sector continues to be productive and also ensuring woodlands and forests contribute to social and environmental outcomes.
- But if existing and new productive forests were restructured or designed to be much more resilient to climate change, many of these environmental and social objectives would flow from them naturally.
- And if more native woodlands were managed more appropriately, or even just managed at all, they could also become more 'productive' from the economic, environmental and social perspectives.
- There are a range of practical and climate change associated challenges to meeting the 2050 target, but information and guidance are available about how many of these can be overcome.
- Nevertheless, existing planting targets of 10,000 ha of new woodland and forest each year between 2012 and 2022 are currently falling short of the target.
- Many foresters still do not see the need to increase the resilience of their woodlands and forests now and into the future.
- Many farmers and landowners still do not see the need to integrate woodland much more into their farms and estates to increase economic viability and long term sustainability of their businesses.
- Leadership is needed to change attitudes and perceptions on the ground towards woodland and forest management and creation.
- To provide this leadership, the Scottish Government and its Divisions and agencies will need to work even more in partnership with forestry and wider rural land use representatives in the future.



1.3.1 The current situation

In March 2016, Scotland's forests and woodlands covered 1.44 million ha¹ or 18% of the total land area. Forestry Commission Scotland owns or manages 470,000 ha (33%) with the remainder either privately owned or owned and managed by local authorities.

Forests are regarded as being large areas dominated by trees, while woodlands are often considered to consist of smaller elements in a landscape where open space is dominant or at least is equal to tree cover. Plantation is a term used to describe woodland planted to a particular design, usually with rather narrow management production objectives. Plantations can be established using conifers or broadleaves, and the main tree species can be non-native or native. Typically, plantations have less variety of tree species, tree sizes, dead wood, ground vegetation, and open spaces than mature semi-natural woodlands².

Native woodlands are defined as woods in which over 50% of the canopy is made up of tree species native to the region, and can be semi-natural (self-sown) or planted. The Native Woodland Survey of Scotland (NWSS)³ published in 2014 provided for the first time a national overview of the extent and condition of Scotland's native woodlands. The survey indicated that the area of native woodlands in Scotland was 311,153 ha, or just over one-fifth of the total woodland area (at March 2011) and 4.0% of the land area of Scotland.

The map in Figure 1 shows the distribution of native and other (mainly plantation) woodland across Scotland. Although there has been additional creation of native woodland since 2011 the vast majority of Scotland's woodland cover is still in the form of plantation forestry.

The NWSS found that native woodland condition was moderate overall with only 46% of the total area in satisfactory condition for biodiversity. Most of the other 54% was identified as needing a single key threat to be addressed in order to achieve satisfactory biodiversity health, with the most widespread threat being browsing and grazing by herbivores such as deer and sheep.

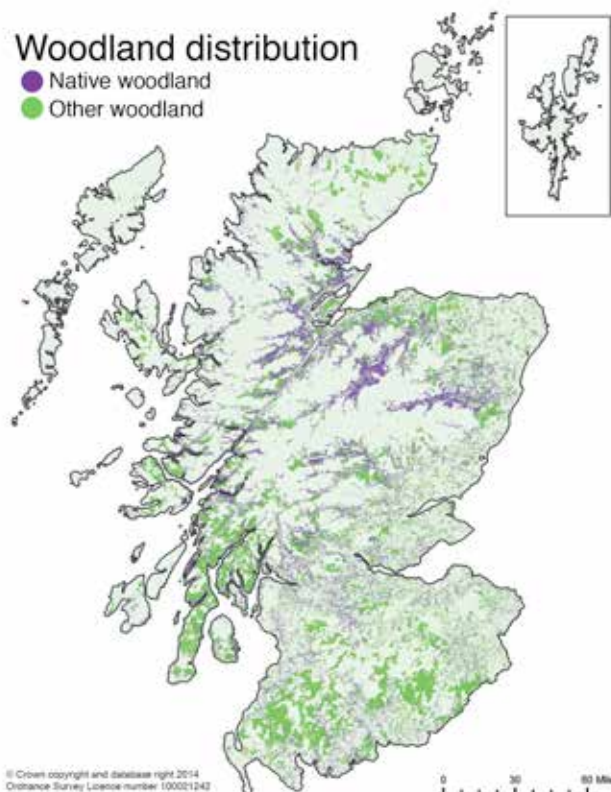


Figure 1: Woodland distribution across Scotland⁴

Native woodlands are generally considered as having a high value for biodiversity. However, the actual value of any woodland for biodiversity depends on its condition, tree and shrub species composition and whether or not it is being actively managed, with some low intensity form of management usually considered to increase opportunities for a wider range of plants, insects, birds and mammals to occur within the woodland.

An assessment in 2011 estimated that actually 41% of Scotland's woodland was considered to be of High Nature Value (see the Case Study box), indicating that a relatively high proportion of plantation woodlands also contained a diverse structure and range of plant species.

Woodland cover in Scotland increased, primarily driven by the increase in plantation forestry, relatively slowly from 7% (0.51 million ha) in 1947 to 8% (0.66 million ha) in 1965 and then increased more rapidly to 12% (0.92 million ha) in 1980 and 16% (1.28 million ha) by the late 1990s⁵.

Proportion of woodland in Scotland under High Nature Value Forestry

High Nature Value forestry (HNV forestry) refers to forestry systems important for the environmental benefits they provide, including support for a range of habitats and species (such as butterflies and birds) considered to be of high nature conservation importance.

Woodland supports a large number of plant and animal species and is an extremely important habitat for priority species listed in the UK Biodiversity Action Plan. There is considerable concern over the potential impact of climate change on forest biodiversity; the Scottish crossbill and capercaillie are among species likely to be adversely affected.

The HNV forestry indicator (along with that for HNV farming) was developed by the Scottish Government to help in monitoring the Scottish Rural Development Programme and other strategies, e.g. the Land Use Strategy. Native and ancient woodlands and planted woodlands that have a diverse structure and range of plant species are all defined as HNV forestry systems. This definition of HNV forestry derives from European Commission guidance for the Rural Development Programme and includes the following sub-categories:

- HNV Forestry Type A: semi-natural woodland features and low intensity managed woodland.
- HNV Forestry Type B: diversity of features and low intensity managed woodland.

The overall extent of woodland and forestry in Scotland rose from 1,296,000 ha in 2010 to 1,410,00 ha in 2013. There was no significant change in the estimated percentage of forestry that was HNV between 2010 and 2013. The area of HNV forestry increased slightly (from 529,000 ha to 575,000 ha) but the percentage of total woodland area estimated to be HNV forestry remained the same at 41%. Of that 41% of woodland that was HNV forestry, the percentages of HNV Forestry Type A (52%) and Type B (42%) remained the same in both years.

In the future, the Scottish Government will seek to understand emerging trends in HNV forestry by identifying the influence of key drivers of change such as woodland creation and loss and other land use changes, and changes in woodland design and composition. They will use case studies to illustrate changes in forestry practices that are known to be important in terms of impact on biodiversity and will also cross-check trends in HNV forestry against other critical indicators such as relevant Scottish Biodiversity Strategy indicators.

The indicator classifies forestry management systems which are HNV rather than specific sites on the ground that are HNV. As such, the indicator is not intended to be used to inform site specific management decisions but rather to monitor how rural development measures are impacting upon the extent of HNV forestry as a whole.

Source: ClimateXChange Indicators and Trends For more detail see:

http://www.climateexchange.org.uk/files/4314/7206/2907/NF3_HNV_forestry.pdf



Through the 1960s to early 1980s many concerns were raised about such non-native species dominated plantations, from their adverse impact on biodiversity, through blanket afforestation of inappropriate areas such as the Flow Country, to the commercial planting of entire hill farms removing livestock and people from many upland glens.

However, over the last 30 years there has been a marked change in the approach to designing new woodlands in Scotland, with a strong emphasis on providing multiple benefits⁶. At the same time, an approach to managing existing plantations has been developed that uses the opportunities created by timber harvesting to transform plantations more quickly into forests by diversifying tree species, age structure and the proportion of open spaces. This process, known as restructuring, is now routinely applied in Scotland to develop forests that are increasingly valuable as wildlife habitats as well as a timber resource⁷.

In recent years, it has also been recognised that forestry is now an extremely valuable part of Scotland's rural economy. The report on *The economic contribution of forestry in Scotland*⁸ published in November 2015 highlighted that the contribution of forestry to Scotland's economy had increased to £954 million GVA (Gross Value Added) from the 2008 figure of £670 million GVA.

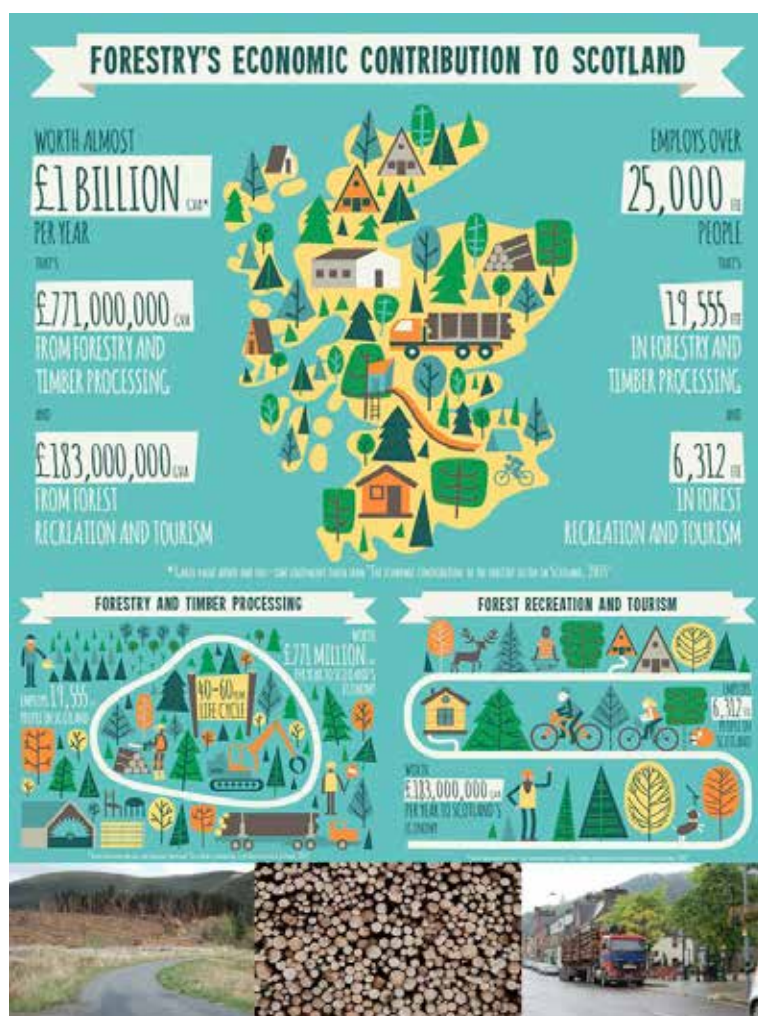


Figure 2: The importance of forestry to the Scottish economy

Figure 2 highlights that of this £954 million, £771 million comes from forestry and timber processing and £183 million comes from forest recreation and tourism. Employment levels have also increased with over 25,000 FTE (Full Time Equivalent) people now working in the sector.

1.3.2 Future aspirations and expectations

Scotland's woodlands and forests are clearly bringing large direct economic benefits. But it is also recognised that a wide range of other benefits to society arise from appropriately sited and managed woodlands and forests⁹.

Health and well-being

Human health and well-being benefits arise from people having access to wooded areas for relaxation and recreation. And it has long been recognised that ensuring woodlands are welcoming and accessible does not just apply in the countryside, but is also vitally important in and around urban areas where the vast majority of Scotland's population live and work. Scotland has one of the greatest health challenges of Europe's developed nations. Forestry Commission Scotland (FCS) is committed to ensuring that the whole forest sector can contribute positively to improving the nation's health¹⁰.



For example, since 2007 FCS have been running courses for groups of adults with long-term mental health conditions¹¹. *Branching Out* is an innovative development for adults who use mental health services in Scotland. For each client, the service consists of around three hours of activities per week in a woodland setting, over 12 weeks. The course content was developed by green exercise and health training consultants in collaboration with FCS staff, healthcare organisations (NHS Health Scotland and the Scottish Association for Mental Health) and with reference to other similar courses in Australia and Canada¹².

Climate change mitigation

To help to mitigate the effects of climate change, Scotland has set the ambitious target of achieving an 80% reduction in greenhouse gas emissions by 2050¹³. Woodlands and forests have an important role to play in helping achieve that target. They can particularly contribute through locking up carbon in actively growing trees in existing and new woodlands, but wood fuel is also a much more sustainable and renewable energy than fossil fuels¹⁴.



Forestry Commission Scotland also has an ambitious target to extend woodland cover in Scotland by an additional 100,000 ha over the period 2012-2022. This would make a significant contribution to Scotland's overall emission reduction targets by locking up around 4 million tonnes of extra carbon dioxide by 2027, whilst also providing a range of other environmental, economic and social benefits¹⁵.

Ongoing climate change in Scotland is resulting in more regular and extreme flooding events, which can have devastating effects on local communities and cause damage to businesses, agricultural land and transport infrastructure. Sustainable flood risk management requires the integration of traditional hard engineering with techniques that work with natural features and characteristics. This approach is often referred to as Natural Flood Management (NFM)¹⁶.

NFM seeks to store or slow down flood waters through measures such as the planting of woodlands, wetland creation, river restoration, or the creation of intertidal habitats. In addition to flooding benefits, NFM measures can also provide benefits to biodiversity, water quality and recreation. The role that different types of woodland can play is recognised in SEPA's *Natural Flood Management Handbook*¹⁷.

For example, floodplain woodland is thought to offer the greatest potential for downstream flood mitigation, although its value as an NFM measure depends on the size and positioning of the woodland in relation to the size of the floodplain. A number of small blocks spread across the floodplain could be as effective as one large block spanning its entirety.

Woodland expansion

The wide range of benefits that can be achieved from woodland and forests have underpinned the vision stated in the Scottish Forestry Strategy¹⁸ to increase woodland cover in Scotland from its current level of 18% to 25% by 2050.

This ambitious target will require the creation of between 10,000 ha and 15,000 ha of new woodland per year, including 2,000 ha on the national forest estate. Scottish Natural heritage (SNH) also intend that at least 4,500 ha of native woodland will be created - or restored from woodland planted with non-native species - per year, to help meet biodiversity targets and develop habitat networks¹⁹.

The importance of woodlands and forests to the Scottish economy also means that there is an industry need for more woodland expansion to ensure a constant supply of timber over the decades to come. This will require a balance to be struck between the proportion of native and more productive conifer woodlands that are created.



It will also require finding ways to integrate new woodlands and forests into and around existing valued agricultural land, open space and wetlands, or society accepting that there are trade offs and compromises associated with any major land management practice or land use change.

It is accepted that most of this expansion will have to occur on privately owned land. Therefore landowners objectives and aspirations for the use of that woodland will also need to be taken into account when decisions are taken on what type of woodland goes where and at what scale. Nevertheless, the Scottish Government does seek to influence how and where this happens by providing incentives to encourage the development of woodland in ways most beneficial to society²⁰.

These can help ensure woodland is created on the most suitable soils and support designs that improve landscapes on degraded urban fringes, provide habitats for wildlife or mitigate diffuse pollution in watercourses. Spatial planning tools are available to help landowners and their adviser consider how best they can develop woodland in order to maximise benefits for wildlife through improving habitat connectivity²¹.

Encouraging the Scottish forestry sector

Forestry and timber in Scotland is a £1 billion industry, and employment has grown by 50% since 2008. Scotland's sawmills and processors use 7.5 million tonnes of Scottish timber every year, and this is set to continue to grow for the next 20 years. The success of the sector was illustrated in January 2016 when Norbord announced a new investment of close to £100 million in its panel-board factory near Inverness. However, continued investment needs a constant supply of new timber; that means planting more trees, but at the moment Scotland is struggling to meet its planting targets.

In her speech to The World Forum on Natural Capital, at the EICC in Edinburgh in November 2015, First Minister Nicola Sturgeon said: "Trees help to absorb carbon dioxide and store it as carbon. In recent years, Scotland has been responsible for almost three quarters of the UK's new tree planting. We are committed to increase planting rates even further so that we plant 100,000 hectares of trees in the decade to 2022."

Matthew Bell, CEO of the Climate Change Committee speaking to the Scottish Parliament's Environment, Climate Change & Land Reform Committee in September 2016, restated their advice that if Scotland is to reach its commitments on CO₂ then we should actually be planting 16,000 ha of new woodland every year.

I believe that there are three key requirements to encourage the Scottish forestry sector:

- **PLANT MORE PRODUCTIVE WOODLANDS** Scotland needs to meet The First Minister's pledge to secure the future of the sector and deliver a wide range of economic, environmental and social benefits.
- **IMPROVE THE FORESTRY APPLICATION SYSTEM** A straightforward, efficient application system is crucial to meeting new planting targets. However, an over-complex process is delaying and discouraging applications.
- **STIMULATE MARKETS FOR WOOD AND TIMBER** Wood is by far the best building material for the environment. A tonne of brick requires more than four times the energy to produce than a tonne of sawn softwood. Concrete requires five times more energy than wood and steel 24 times more.

There is a balance required between native and conifer woodlands, between traditional agriculture, valuable open space and wetlands, and new forests. Approximately 80% of all the timber produced in Scotland comes from forests that are certified by the global sustainability schemes, FSC and PEFC using the independent UK Woodland Assurance Standard. UKWAS is developed by a steering group which includes RSPB, Woodland Trust, CLA and representatives from industry.

The future of rural Scotland post Brexit will remain uncertain for several years to come. What is clear is that there will be a continued and growing demand for the products and services from our forests and woodlands. These products and services are not just timber, but also carbon sequestration, flood mitigation, recreation and many others; by planting more trees we can continue to support rural employment and begin to mitigate the uncertainty of climate change.

Andrew Heald
Technical Director
Confor



1.3.3 Practical challenges to overcome

There are, however, a wide range of challenges that will need to be overcome if the overall extent of woodland and forest cover in Scotland is to reach anything like 25% by 2050.



The Crichton Institute highlighted a number of these when it was considering the role of forests and woodlands to the economic development of the south of Scotland²²: policy ambiguities including competing targets and vague implementation plans; multiple competing land uses and a need for appropriate land management arrangements with clear implementation plans; insufficient levels of investment in the sector; workforce skills and supply challenges; road network infrastructure challenges; impact of climate change and tree disease; new planting and replanting; competition for softwood; global timber market fluctuations.

All of these challenges are relevant across the whole of Scotland, but only a few are currently being addressed quickly enough to make a difference now and into the future:

- The continued growth of the forestry industry has led to increased mechanisation and technological enhancements in equipment and machines. This means that forest workers at all levels need appropriate training and education. SRUC's Barony Campus²³ in the south of Scotland and UHI's School of Forestry²⁴ in the north are ensuring that appropriate training for new entrants and existing foresters is in place.
- Harvesting of timber is putting pressure on many minor and unclassified public roads, especially as large part of the rural roads infrastructure is not suitable for large vehicles. This is because not all the existing planting considered how the timber would be accessed when harvested. FCS recognise this as a constraint and are committed to supporting timber haulage best practice. In support of this they have established the Strategic Timber Transport Fund²⁵ which facilitate the sustainable transport of timber in rural areas of Scotland and the Timberlink Service²⁶ which moves timber by sea on the west coast of Scotland, removing nearly one million lorry miles a year from Scottish roads.

However, major issues still remain to be addressed, particularly with regard to maintaining a consistent supply of timber for the future and ensuring that new and existing woodlands and forests are resilient to the challenges posed by climate change.

Maintaining a consistent supply of timber

Until recently, the Forestry Commission has produced 25-year forecasts of softwood timber availability - even though the life cycle of a softwood tree is more like 35-50 years. In response to calls from Confor, the leading industry trade body, of the need for more information to help the industry plan for the future, a 50-year report – together with a 100-year projection – was published earlier this year²⁷.

The report shows that Scotland's forestry industry has a very strong short-term future, with a significant increase in availability of timber to the mid-2030s. However, the subsequent drop-off in supply (see Figure 3) to 2050 and well beyond is causing major concerns within the industry²⁸.

While this projection covers the whole of Great Britain, Scotland dominates in both the provision and consumption of the softwood resource and hence Scottish projected softwood availability will track very closely the 100-year British projection.



Confor has recently called on the Scottish Government to do two things to prevent this damaging trough in supply, which could otherwise seriously damage investment, reduce jobs and undermine Scotland's world-leading climate change targets²⁹:

- Ensure that the existing planting targets of 6,000 ha of productive forestry each year between 2012 and 2022 are met, as it currently looks likely to fall short of the target
- Extend the 6,000 ha of annual productive planting for another 20 years through to 2042

By doing this, and filling the 'trough', Confor has estimated that an additional 55 million tonnes of carbon could be sequestered. They have highlighted that without a commitment to plant 6,000 ha a year, this carbon would not be 'saved' and would have a detrimental impact on Scotland's climate change targets. In addition, Confor believes that more than 1,000 long-term jobs in the primary processing industry could be secured if the target of 6,000 ha of productive planting was maintained through to 2042.

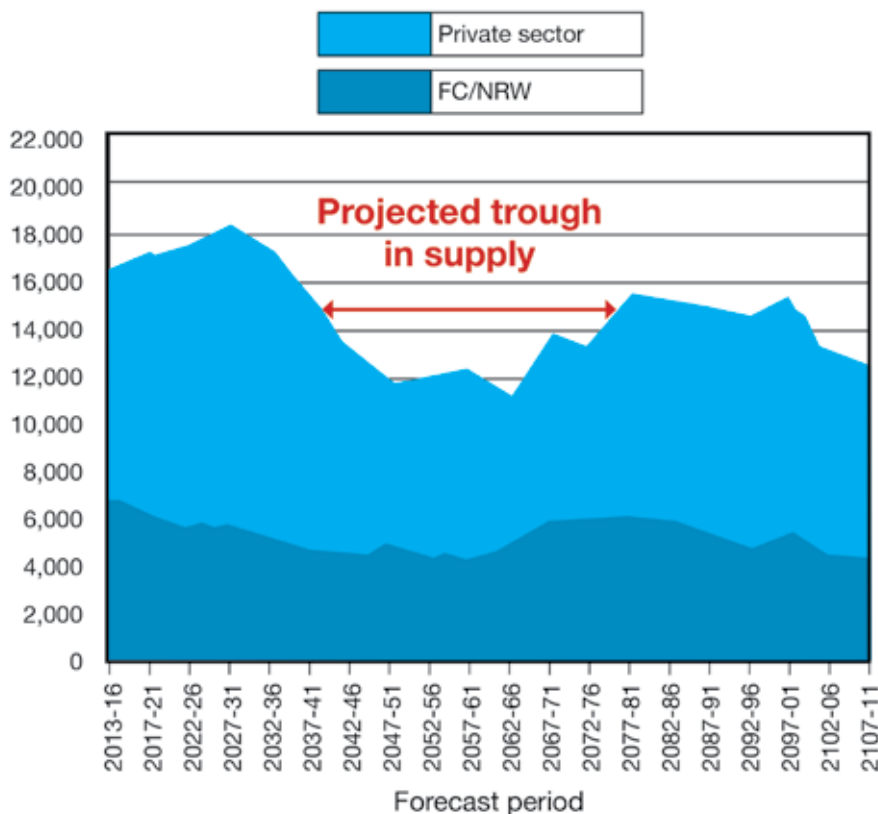


Figure 3: The projected future trough in softwood availability

The scale of the action required to fill the projected 'trough' has also been emphasised by the publication this autumn of preliminary estimates of the changes in canopy cover in British woodlands between 2006 and 2015³⁰. Although there are lots of caveats associated with the data (especially the fact that satellite observations cannot easily distinguish very young trees from clearfell), the preliminary data suggests that harvesting of timber is outstripping the replanting of harvested areas.

For example, the average rate of clearfell across Britain between 2006 and 2015 was 20,900 ha per annum (of which 15,000 ha per annum was within Scotland), but the report highlights that the amount of restocking reported through grant aid over that period was an average of only around 14,800 ha per annum (of which 8,800 ha were in Scotland).

The challenge facing Scotland in the future is therefore not only to encourage new planting of woodland and forests but also to encourage restocking of existing ones once they have been harvested.

Only then will there be any chance of reaching the 25% woodland and forest cover target by 2050. This will require not only continued engagement with those landowners who have historically been amenable to woodland planting but will also require increasing engagement with the wider farming sector who historically have shown less interest in tree planting.



This increased engagement does, however, have to recognise that there is a tension between expanding woodland and forest cover and maintaining productive agriculture, which is important in terms of food security and employment, and between using land for onshore wind farms and for forests.

With finite land assets it will be challenging to meet different objectives and targets. It is therefore essential to ensure that forestry and woodland developments are discussed in wider strategies associated with land use and that all relevant stakeholders are consulted to identify the best use of land³¹.

The Sheep and Trees Initiative

The *Sheep and Trees Initiative* is a national campaign to encourage Scottish upland and hill sheep farmers to grow more trees. It reflects the fact that basic agricultural area payments in Scotland can now continue to be obtained from eligible farmed land afforested under the new Forestry Grant Scheme. There are therefore opportunities for farmers and landowners to consider planting trees to assist with farm management and income generation whilst still maintaining the same number of sheep on the holding.

There is recognition of a history of conflict between hill farming and forestry. Blanket afforestation and the commercial planting of entire hill farms in the past has meant that many upland and hill farmers do not currently think of woodland and forestry as something that can be integrated into their farming systems. But if planned carefully and strategically then farm productivity and profitability could be improved through increased tree planting on the farm.

The *Initiative* highlights that planting trees on between 5% and 10% of upland and hill farms could help improve sheep productivity by providing shelter, make flock management and movement on the hill easier through the establishment of new fencing and make areas less suited to sheep grazing more profitable to the farm business. The fact that there are good processing facilities in Scotland and a strong commercial market means that there will be a continued demand for timber in the future.

Following an awareness raising launch event at Teviothead in the Borders in March 2016, a series of on-farm events across Scotland are taking place through late 2016 and early 2017 to highlight the possibilities and opportunities that the integration of sheep and trees can bring to hill sheep farmers.

Sheep and Trees is an initiative supported by National Sheep Association (Scotland), National Farmers Union Scotland, Forestry Commission Scotland and Scottish Government.



The *Sheep and Trees Initiative* (see the Case Study box) launched in spring 2016 is a new national campaign to encourage Scottish upland and hill sheep farmers to grow more trees. It recognises that there is a history of conflict between hill farming and forestry, but seeks to highlight that, if planned carefully and strategically, farm productivity and profitability could be improved through integrating woodland management onto the farm.

To-date the Initiative, which is in its early stages of development, has been asking farmers to consider planting between 5% and 10% of their farms and, because of economies of scale with regard to the fencing costs, to consider creating blocks of woodland that are 40 ha in size or larger. However, there needs to be more of a recognition by this Initiative, and the others that are needed to engage with other types of farmer, that woodland creation and management is something that is alien to many upland and hill farmers.

This shouldn't be taken to suggest that they are not interested in engaging, but rather that woodland creation operates over a different timescale than they are used to and many won't feel confident that they know what type of management will be required at different stages or that they themselves are competent to get that management 'right'. This is likely to mean that many will not be comfortable with creating such large blocks as are being talked about at the moment without additional guidance and advice being available.

SRUC's Hill and Mountain Research Centre has long recognised the need for woodland to be integrated much more into upland and hill farming systems³², but the question remains as to how best to achieve this in practice.



Indeed, there is currently a tendency within Scotland to translate the 10,000 ha per annum planting target as meaning that large blocks of primarily productive conifer are all that can deliver towards that target. As indicated above, there is a need for more such woodland and forest to maintain a timber supply into the future. But the rationale behind the desire to have more trees on the ground in Scotland was also to help sequester carbon and mitigate climate change.

In that respect, increasing the number of trees in hedgerows, establishing more riparian woodland next to watercourses and

creating shelter belts on farmland all have a role to play in meeting the 10,000 ha target. Encouraging upland and hill farmers to do more of these sorts of tree planting may encourage more to dip their toe into woodland creation and management on their farms in the first instance.

The mention of management is also important. Many of Scotland's native woodlands are not being actively managed to maintain them for the future³³. This is not only reducing their usefulness from a wildlife perspective but also limiting the economic gain being obtained from them. The UK currently consumes over 0.5 million cubic metres of hardwood each year, much of which comes from tree species grown in the UK, but less than 10% of this is obtained from UK sources.

Recent research by *Grown in Britain* has suggested that a 20% increase in UK hardwood production is quite possible in the short term, with a 100% plus increase possible over the medium term³⁴. They estimate that 400,000 cubic metres could be available every single year for 40 years, without reducing the overall stock still standing in the woods, if there was increased recognition by both landowners and the construction industry of the value and availability of home grown hardwood.

But as colleagues in Confor and SAC Consulting Solutions (see Case Study boxes) highlight, probably the greatest issue is that current incentive levels outwith central Scotland are not high enough to stimulate much new woodland creation of any scale, or the restocking of many harvested woodlands. Increased bureaucracy associated with the current Forestry Grant Scheme is also markedly increasing the time to process applications and acting as a disincentive to potential applicants.

Developing a straightforward, efficient application system is therefore crucial to meeting new planting targets and ensuring landowners are incentivised to consider planting trees at any scale on their land.

Woodland and forestry creation on Scottish farms and estates

Opportunities

Scottish Government woodland planting targets of 10,000 ha per annum have created a strong policy pull for more woodland creation to help tackle a range of environmental issues, support rural and community development, enhance urban areas and improve landscapes.

There is also a strong and growing interest in the use of wood biomass for heat and renewable energy production and an increasing demand within the construction industry for timber products, such as I-joists, for use in green buildings. To help meet this demand for a consistent and reliable timber supply for timber processing and wood fuel investments now and in the future, wood processors across Scotland have invested £50 million per annum over the last 5-10 years.

Land owners are showing an increased interest in woodlands across Scotland. Many traditional estates are restructuring their businesses and, with uncertainty in the financial markets, are seeing forestry investment as a safer option. An increasing number of farmers are also being attracted to woodland from an on-farm diversification perspective, succession planning or simply as an investment in a retirement fund.

Challenges

There is now a high demand, with associated high prices being paid, for any established woodlands that come on the market in Scotland. However, there has been limited interest in woodland creation in Scotland over the past couple of decades, leading to concerns about future timber availability.

Some of this is driven by practical difficulties in creating new woodland. The occurrence of large areas of bracken and high deer populations are a major constraint to woodland establishment, requiring high costs to ensure successful establishment. Lack of investment by local authorities in the rural road network is also seen as an added constraint on future timber haulage logistics. Land owner attitudes towards the permanence of the change in land use can also be a sticking point.

Probably the greatest issue though is that current incentive levels outwith central Scotland are not high enough to stimulate much new woodland creation, or the restocking of many harvested woodlands. Increased bureaucracy associated with the current Forestry Grant Scheme is also markedly increasing the time to process applications and acting as a disincentive to potential applicants.

Solutions

Increasing woodland cover across Scotland from the current 18% to the targeted 25% by 2050 is feasible in principle. But it will require an increased awareness of the current funding available and of the multiple benefits delivered by forestry, as well as a marked increase in grants available, or the reestablishment of tax incentives to encourage new planting and restocking, and the establishment of markets to reward woodland owners for carbon sequestration and offsetting.

Brexit will certainly pose a major challenge to the wider Scottish economy. But it also provides an opportunity to stimulate an informed discussion in Scotland about how best we can achieve the amount of woodland and forestry growth we require to provide for all wider society needs in the future.

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Climate change challenges

At whatever scale new woodlands and forests are created, it will be essential to ensure that they are resilient to the challenges posed by climate change. As highlighted by ClimateXChange³⁵, Scotland's centre of expertise connecting climate research and policy, climate change is expected to bring both risks and opportunities to Scotland's productive forestry.

The projected warmer climate will increase tree growth generally across the country (though there will be significant regional variability) with a resulting increase in productivity in areas not limited by water and available nutrients.

Whilst a wider selection of species will be able to grow, particularly favouring high quality broadleaved trees in the South, the climatic changes will also alter the suitability of sites for species of trees already growing commercially in Scotland - which could impact both positively and negatively on the productivity and sustainability of the forestry sector. Changes in the seasonal distribution of rainfall are also projected to increase the risk of drought in summer with a resulting decrease in suitability for species more sensitive to water limitations, such as Sitka spruce³⁶.

An increase in periods of drought will heighten the threat to Scotland's forests from wildfires. Though typically in Scotland the main damage from such events is to the understorey, even if tree mortality does not occur, fire damaged surviving trees are more susceptible to subsequent attack by pathogens or other stressors. Wind throw can also cause significant damage through uprooting and snapping of stems.

Though there is still a high degree of uncertainty surrounding the projected impact of climate change on high winds and storm events in Scotland, it is known that forest stands in wetter soils are at greater risk from high winds³⁷. Furthermore, the projected increase in growth rate may mean forest stands reaching a height which puts them more at risk at a younger age.

Milder winters and warmer wetter springs are likely to favour the abundance and distribution of over-wintering pests and diseases, and damage or stress resulting from drought, temperature extremes or storm damage will increase susceptibility to these pathogens³⁸. Two of the most significant risks come from:

- *Phytophthora ramorum*- a fungus-like pathogen whose distribution and prevalence is to a large extent determined by climatic factors (Figure 4). It poses a particular threat to larch, one of Scotland's most important timber species, causing significant damage and mortality to infected plants³⁹. Latest figures indicate that 10,341 ha of larch (Japanese, European and Hybrid) in the FCS's National Forest Estate lies within the current *P. ramorum* Risk Zone 1 (which encompasses the general area of higher climatic risk where infection has been, or is considered most likely to be, found on larch). This represents 41% of the total larch stock within the whole of the FCS National Forest Estate. For Japanese larch alone this figure is slightly higher at 45% (6,386 ha).
- *Dothistroma* needle blight- which has become the most significant disease affecting coniferous trees in the UK and poses a particular threat not only to Scotland's commercial forestry⁴⁰ but also to native Caledonian pinewoods⁴¹. It is believed that an increase in intense rainfall episodes coupled with warmer springs may have optimised conditions for spore dispersal. Latest figures indicate that 60.7% (55,402 ha) of total (high forest) pine woodland on FCS's National Forest Estate and 9% (1,614 ha) of total (core) Caledonian Pinewood are within 1km of known outbreak of needle blight.

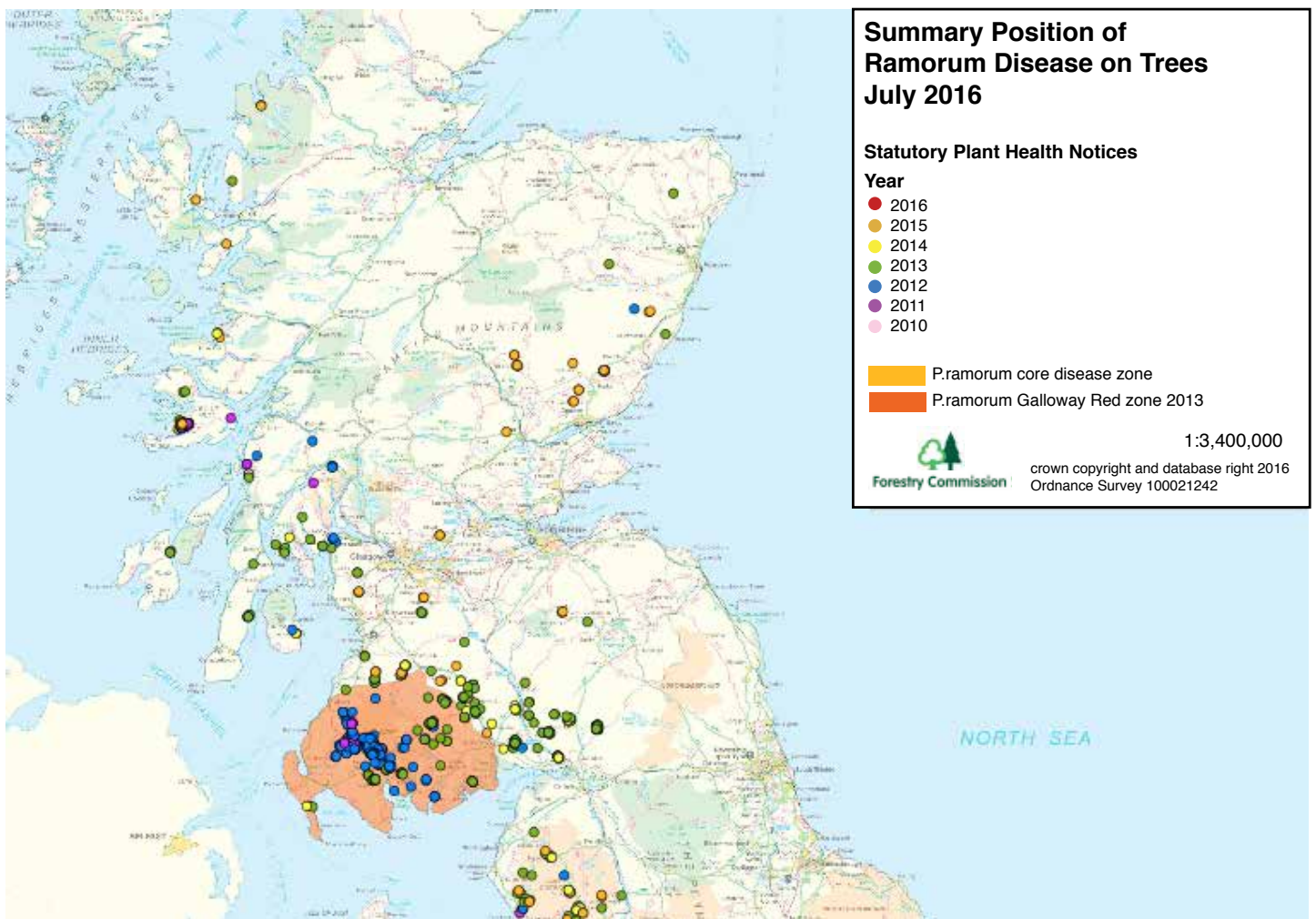


Figure 4: Summary position of *P. ramorum* disease on trees July 2016⁴²

To reduce potential risks to all the above climate change challenges, rather than relying on single species future new planting needs to develop diverse woodlands with increased tree resilience. Despite there being many uncertainties about the future, a lot is already known about how to build forest resilience⁴³. What is clear is that there is no 'silver bullet' that will protect forests, but applying existing best practice in the following areas should help to increase long-term resilience⁴⁴:

- Selecting the most suitable species and genotypes for the sites, to create thriving forests which are likely to cope with future stresses (rather than necessarily defaulting to what has gone before). To do this involves going back to basics – ensuring an accurate knowledge of the soils and site types present in the forest or woodland, to allow those parts most at risk from the impacts of climate change to be identified. To help choose the most appropriate species for the next rotation, Forest Research has an *Ecological Site Classification* tool that can match the suitability of over 50 species to site and soil type (Figure 5).
- Reducing other pressures on forests – to give the forests the best chance to thrive, whatever the climate does. This includes using the information available on best practice for deer management⁴⁵; managing and controlling *Rhododendron ponticum*⁴⁶ (an aggressive coloniser which reduces woodland biodiversity, prevents regeneration and acts as a host for *Phytophthora ramorum*); and building wildfire resilience into forest management planning⁴⁷.
- Maintaining or adding diversity in structure and species. A practical guide to *Achieving diversity in Scotland's forest landscapes*⁴⁸ explains how to do this, and is aimed primarily at the managers of productive conifer forests. Species diversity can be introduced at restocking and tools such as Forest Research's *Ecological Site Classification* can help show what other species would be suitable. The use of natural regeneration to restock woodlands can also help to increase the genetic variation among the trees which, as well as giving opportunities to create forests well-suited to the site, may reveal some trees that are less susceptible to pests and diseases.

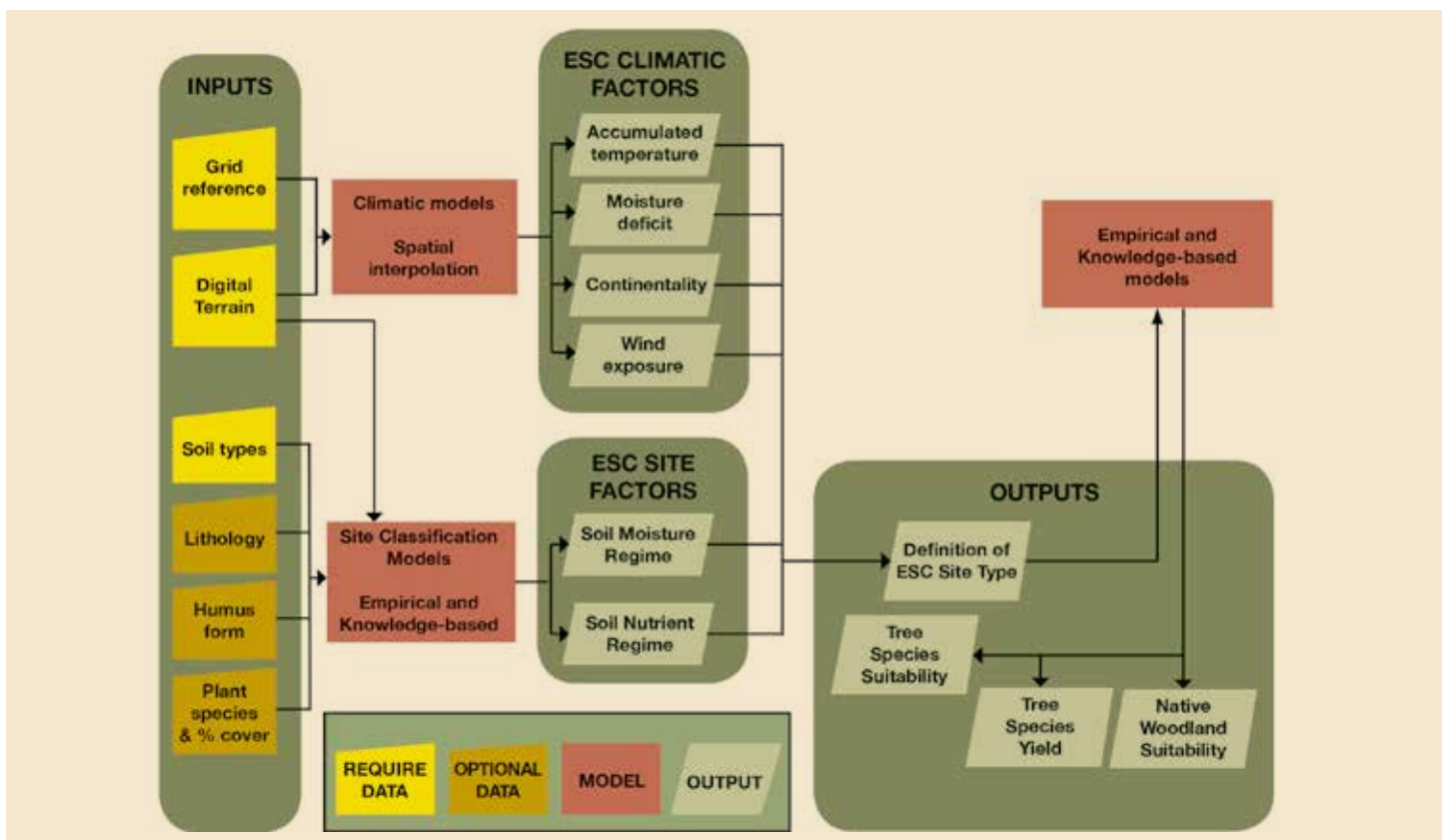


Figure 5: Ecological Site Classification inputs and outputs⁴⁹

Resilience doesn't mean 'resistance to change' since change is inevitable. Rather it means that the woodland or forest can recover from unforeseen events and continue to provide the benefits required from it, even as the climate changes. This will likely mean that it has to be a different woodland or forest in its composition and structure, but nevertheless still does what it was planted for in the first place, e.g. to provide a habitat, produce timber or look attractive in the landscape.

FCS have a wide range of information, guidance and resources available to help inform woodland and forest owners and managers how best to build resilience into their new and existing woodlands and forests⁵⁰. The jury is, however, still out with regard to how much the need to take account of resilience is actually being put into practice⁵¹.

1.3.4 The need for leadership

There is currently a tension within Scotland between ensuring that the Scottish forestry sector continues to be productive, and thereby continues to make a major contribution to the rural economy in the future, and also ensuring that woodlands and forests contribute to a wide range of social and environmental outcomes, including climate change mitigation, biodiversity, natural flood management, recreation and people's health and wellbeing.

However, in reality these production, environmental and social objectives are not always mutually exclusive. Indeed, if existing and new productive forests were restructured or designed to make them much more resilient to climate change challenges, many of these other environmental and social objectives would flow from them naturally. Similarly, if more native woodlands were managed more appropriately, or even just managed at all, they could also become more 'productive' from the economic, environmental and social perspectives.

This section was originally going to be entitled "The need for discussion and debate". There is clearly a need for more engagement with owners and managers of existing woodlands and forests to encourage more active management in native woodlands and more restructuring of forests to make them more resilient. There is also clearly a need for greater engagement with a wider range of landowners to encourage new planting, at a variety of scales, to meet woodland expansion targets. And clearly there is a need for some more discussion about what suite of incentives (such as grant-aid, tax incentives or establishing markets for carbon sequestration and offsetting) need to be put in place to allow this to happen in practice.

But we do not need more debate over why we should manage existing woodlands and forests better or whether we should aspire to increase woodland and forest cover in Scotland. As the preceding sections highlight, the economic, environmental and social benefits to be gained from more woodland and forest are clear. There are a range of practical and climate change associated challenges, but there is also lots of information and guidance available about how many of these can be overcome. And the work of the Woodland Expansion Advisory Group⁵² has considered in great detail what type of woodland or forests would be most practical or appropriate to create where (in terms of types of land) and at what range of scales.

What is needed is leadership to change attitudes and perceptions and ensure the behavioural change that is needed on the ground in order to make progress. There is still too much of a "business as usual" approach, not only among foresters, where many still do not see the need to increase the resilience of their woodlands and forests now and into the future, but also among farmers and other landowners, where many still do not see the need to integrate woodland much more into their farms and estates to increase economic viability and long term sustainability of their businesses⁵³.

At the time of writing, the Scottish Government are consulting over proposals to move the functions currently performed by FCS into the Scottish Government as a dedicated Forestry Division and to turn Forest Enterprise Scotland into an Executive Agency of Scottish Government, to be called Forestry and Land Scotland and be responsible for the development and management of the Scottish Ministers' National Forest Estate⁵⁴.

Although the Scottish Ministers currently determine strategy and policy for forestry in Scotland, the management of forestry - including of the National Forest Estate - has remained with the Forestry Commissioners, which is a UK Non-Ministerial Department and, since devolution, a cross-border public authority. These proposals are primarily about completing the devolution of forestry to make the management of forestry directly accountable to Scottish Ministers.

Increasing woodland cover across Scotland from the current 18% to the targeted 25% by 2050 is feasible in principle. It is not yet known whether or not these new governance arrangements in Scotland will help stimulate more action on the ground to manage, restock and create woodlands and forests. But what is known is that if the 2050 woodland cover target is to be achieved, then the proportion of woodland and forest under private ownership will need to increase markedly from the current two-thirds level.



The Scottish Government and its Divisions and agencies will therefore need to work even more in partnership with forestry and wider rural land use representatives in the future, in order to provide the leadership that is needed to change attitudes and perceptions on the ground towards woodland and forest management and creation.

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A photograph of a town street with people walking, overlaid with a green geometric design. The image shows a paved sidewalk with several people walking away from the camera. On the left, there are parked cars and buildings. On the right, there are more buildings, including one with a sign that says "WILLIAM LOCKIE". The overall scene is a typical town street.

Scotland's rural economies – looking beyond the land-based sector Section 2

Scotland's rural economies – looking beyond the land-based sector

Jane Atterton

Section 2

KEY POINTS

- Rural areas make up 98% of the landmass of Scotland. They are home to one fifth of Scotland's population and one third of its registered small and medium-sized enterprises (SMEs, fewer than 250 employees), some 51,000 businesses. This proportion rises to 42% (72,000) when enterprises in small towns are considered too.
- We know much about traditional rural sectors, and particularly land- and marine-based activities, but the evidence relating to other economic activities in rural Scotland - including manufacturing, construction and professional and creative services - is much more limited.
- This lack of evidence has contributed to two false assumptions: 1) that the rural economy = agriculture and 2) that cities are the only engines of growth with rural areas dependent on them and able to generate only limited – if any – growth.
- In order to fulfil the Scottish Government's purpose of building a dynamic, inclusive and sustainable economy across Scotland, we need to fully understand the characteristics, needs and contributions of all of Scotland's businesses.
- The evidence base demonstrating the breadth of rural economic activity in Scotland is improving. This is highlighting the ways in which businesses in rural areas are different to those in urban areas, for example in terms of size, ownership structure and growth plans, and may therefore require different types of support.
- However, evidence gaps remain, including in relation to: the productivity of rural businesses; the numbers of unregistered businesses (data will be available on both these issues shortly); the routes that individuals take into setting up a business and their growth plans, motivations and aspirations; disaggregated spatial and sectoral patterns; business size and ownership structure and how these impact on relationships with other local actors; and innovation.
- Filling these evidence gaps will ensure that better data is available to inform the shape and focus of future policies and programmes and to fully measure the contributions of rural businesses to Scotland's sustainable economic growth.
- Improving this evidence base is now more important than ever, given a range of current issues including: Brexit and the need to understand the impacts of the UK leaving the EU on its business base; the role of LEADER groups in delivering rural enterprise support alongside other providers; changing financial powers for Scotland; announcements of new funding and support in the 2016-17 Programme for Government; and the potential for even greater diversity amongst rural businesses in future.

2.1 Introduction

Rural areas make up 98% of the landmass of Scotland. They are home to just under one fifth of Scotland's population and approximately one third of its registered small and medium-sized enterprises (SMEs, with up to 249 employees), some 51,000 businesses. This proportion rises to 42% (just over 72,000 businesses) when firms in Scotland's small towns (up to 10,000 population) are included. These businesses operate in a diverse range of sectors, from traditional land management activities such as agriculture and forestry (the focus of Section 1 of this report) through to tourism, the manufacture of high-tech niche products, and creative services such as photography and web and graphic design. In recent years, SME growth in rural and small town Scotland, particularly in accessible rural areas, has been driven by service sector activities¹.



The traditional image of rural economies and the businesses that operate there is one dominated by farming and other land- or marine-based activities such as forestry and fishing. Tourist-focused activities are also important in this image, including walking, cycling and other outdoor pursuits. However, there are many other businesses operating in rural Scotland that do not feature in this traditional image. What are they doing? How significant are they to economic growth and employment regionally and nationally? Are they well served by Scotland's economic and rural policies and support programmes so that they can maximise their contribution? This section of the report starts to answer these questions and highlights where gaps still remain in the data.

In 2015, in remote rural Scotland, one third of businesses are operating in the agriculture, forestry and fishing sector (7,200 businesses), while this sector accounts for one quarter of businesses in accessible rural Scotland (7,560 businesses). Thus, in remote rural Scotland, two-thirds of businesses (approximately

13,800) operate outside the primary sector, and in accessible rural Scotland, this is the case for three quarters of businesses (approximately 23,000). This amounts to a significant number of businesses - 37,000 in total². However, in comparison to the research and policy attention given to Scotland's land-based activities, particularly agriculture, we know relatively little about them.

This relative lack of information and analysis has contributed to a situation where the rural economy is often equated with agriculture. However, as these headline figures demonstrate, there is much more to rural economies than agriculture and related activities. Moreover, in future, as broadband provision improves³, new knowledge-based activities become more important alongside other new economic activities based around energy generation and biomaterials, and more people choose to work from home in rural Scotland, this diversity will continue to increase. The lack of evidence on the contribution of these businesses has also led to a second false and somewhat outdated assumption that cities are the only engines of growth with rural areas dependent on them for 'trickle down' effects, unable to generate their own growth. In this scenario, the contribution of rural areas is hugely undervalued⁴.



Manufacturing or knowledge-based, creative businesses are perhaps not the traditional enterprises that people might think of when they picture a rural business. However, often the owners of these businesses have chosen to live in and run their business from a rural location - usually for quality of life reasons - though they could be located anywhere. They may not be high growth or have large numbers of employees, but they may be critical to the functioning, and indeed the survival, of a rural community and its services, including schools and shops. This section of Rural Scotland in Focus 2016 argues that in order to fulfil the Scottish Government's purpose of building a dynamic, sustainable and inclusive economy, policy-makers and politicians need to fully understand the characteristics, contributions, aspirations, needs and growth and succession plans of all Scotland's businesses. Only with this understanding can: 1) the contribution of rural Scotland to national economic growth be fully acknowledged; and 2) the Scottish Government fulfil its commitment to support all businesses by ensuring that support programmes and policies are appropriately tailored to all existing and potential businesses, not just land-based activities in rural Scotland, not just businesses operating in Scotland's urban areas, and not just high growth businesses. This is arguably particularly important given the increased uncertainty arising from the result of the EU referendum in June and which will no doubt remain as negotiations progress for the UK to leave the EU. However, regardless of the political landscape, it is clear that in order to grow rural businesses and take advantage of all of the opportunities that rural Scotland can offer, we need to fully understand the characteristics and needs of all of its businesses.

The remainder of this section is divided into five key sub-sections. Section 2.2 explores the policy context for Scotland's rural businesses and Section 2.3 briefly describes the infrastructure that exists to support these businesses. Section 2.4 reviews existing evidence about the characteristics of rural businesses, drawing on a range of sources, and highlighting new data that has been made available recently by the Scottish Government. Section 2.5 discusses gaps that remain in the data available and how filling these gaps would significantly improve our understanding of Scotland's rural economies and contribute to shaping enterprise policies and programmes that acknowledge and are fully supportive of the breadth of activities present in rural Scotland. Section 2.6 concludes the section with a discussion of key trends that are likely to shape Scotland's rural economies in future and how policies and business support programmes and evidence gathering may need to respond to these transformations.

2.2 What is the policy context for Scotland's rural enterprises?

2.2.1 The National Performance Framework and Economic Strategy

The starting point for reviewing all Scottish Government policies is the **National Performance Framework (NPF)**⁵ and the Government's overarching Purpose *"To focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth"* which has been in place since 2007. The NPF applies across Scotland so the high level targets of *"Growth"* and *"Productivity"*, for example, and indicators such as *"Increase the number of businesses"*, apply equally across rural and urban areas.

The Scottish Government's Economic Strategy (first published in 2007 and refreshed in 2011 and 2015⁶) is critical to delivering the outcomes in the NPF. This sets out the Government's broad priorities and overall approach to supporting sustainable and inclusive economic growth and achieving the ambition of Scotland ranking in the top quartile of OECD nations for productivity and wellbeing. The approach is based around two mutually supportive goals of increasing competitiveness and tackling inequality. For example, the document emphasises the need to *"Realise opportunities across Scotland's cities, towns and rural areas, capitalising upon local knowledge and resources to deliver more equal growth across the country"* and to consider *"the dynamic of Scotland's cities, wider regions, and rural areas, to encourage success and opportunity shared across the whole of Scotland"*. It recognises the particular challenges facing rural businesses, including connectivity and accessibility, but also the strength of some communities in grasping the opportunities offered by the community ownership agenda. It acknowledges the need for additional Government support in some instances where the market does not deliver all that is required, for example, in terms of superfast broadband.





Despite recognising the need for inclusive and fair growth across Scotland, and acknowledging the vital role that rural Scotland has to play in the “*nation’s heritage, identity and economy*”, when describing the potential contributions of rural areas, the document focuses on traditional land-based activities, particularly tourism, farming, fishing, food and drink and renewables. There is no doubt that these sectors are important to the rural communities in which they are situated, and indeed they have been some of the fastest growing sectors in Scotland in recent years. However, the document does not acknowledge the broader range of business activities in rural Scotland and the relative importance of sectors such as manufacturing, construction or business services. This paints a rather limited picture of the characteristics of Scotland’s rural areas, which, as argued earlier, contributes to a tendency to simply equate the rural economy with land-based activities, and undervalue its contribution to national and regional growth.

Moreover, the document states: “*The rural economy is heavily interlinked with our cities, providing vital natural resources and skilled people which help other sectors of the economy to flourish*”. This paints a somewhat outdated view of rural areas as being one way providers of resources to support growth in urban Scotland.

2.2.2 The Programme for Government 2016-17

The Scottish Government’s Programme for Government 2016-17⁷ published in September 2016 is set very much in the context of uncertainty caused by the result of the EU referendum in June. The Programme again places emphasis on building a “*dynamic, sustainable and inclusive economy*”, and, specifically in terms of rural Scotland, states: “*Building growth across all areas of rural Scotland is a priority for this Government*”. Under the “*Growing the economy*” theme, there is a specific sub-section on “*Supporting our rural economy*” which recognises that rural Scotland “*hosts some of the country’s most important economic sectors⁸ and is particularly vulnerable to the uncertainty caused by the EU referendum vote*”. The section goes on: “*As part of building the rural economy, we will hold a series of summits from autumn 2016 through to spring 2017 with key sectors and interests to explore how best to deliver investment, sustainable growth, jobs and opportunities in rural and island communities. We will also develop a Scottish Rural Infrastructure Plan in 2017 to better coordinate existing and planned expenditure and resources through improved collaboration*”. It will be interesting to see which sectors the summits focus on (as of early October 2016, summits have been held on the forestry and shellfish sectors) and whether there is recognition of the importance of sectors such as manufacturing and construction in rural Scotland. As demonstrated later in this section, these broad sectors account for the same proportion of SMEs in rural and urban Scotland; indeed the proportion of SMEs in the construction sector is slightly higher in rural than urban Scotland (13% and 12% respectively⁹).

The Programme for Government also acknowledges the importance of the Scottish Rural Development Programme (2014-20), including the LEADER approach, in responding to uncertainty caused by the EU referendum and in stimulating sustainable economic activity, and the Government’s support for the Scottish Rural Parliament, which held its second meeting in Brechin in early October 2016. A central element of the Programme for Government is the launch of a new £500 million Scottish Growth Scheme focused on “*new and early-stage, high growth potential companies, with clear export plans, particularly in technology-intensive firms and businesses in emerging markets such as Fintech*”¹⁰. A number of other business-related initiatives are announced or referred to in the document, including a new Post-Referendum Business Network to provide information and support to businesses affected by the EU referendum, the commitment to deliver 100% superfast broadband coverage by 2021, £65 million of European Regional Development Fund (ERDF) and partner funding for SMEs, offering one-to-one support to SMEs with growth potential, and an expansion of the Small Business Bonus Scheme from 2017, removing the burden of business rates entirely from 100,000 premises. While these are all to be welcomed - although the detail is yet to be explored - the focus of the £500 million fund and the one-to-one support for SMEs on companies which are “*high growth potential*” suggests that rural businesses, which tend not to be high growth (although there are exceptions), may be disadvantaged.



Further detail on support for businesses within the ‘Capital stimulus’ part of the Programme¹¹ was provided on 26th September 2016, with Minister for Business, Innovation and Energy, Paul Wheelhouse MSP, announcing four areas (Hawick, Irvine, Clackmannanshire and Fife) which will share £10 million of funding for boosting local economic development through a range of business infrastructure projects. Hawick will receive the largest share of the funding - £3.625 million, in recognition of the loss of more than 100 local jobs in the knitwear industry - and this will be used to encourage start-ups and retain growing businesses in the town, including through developing business accommodation and an enterprise centre. In Clackmannanshire and Fife, the money will be used to support a range of projects, including the creation of business units and community enterprise hubs¹². Targeted funding of this type is to be welcomed, especially given that previous research has shown that a lack of premises is often cited by rural firms as being a constraint on their growth¹³.

Finally, it is important to acknowledge the role of Business Improvement Districts in Scotland (BIDS). BIDS involve businesses working together and investing collectively in local improvements, in addition to those delivered by statutory authorities. These will be of benefit to the businesses involved whilst contributing to the wider aspirations of the local residential community and growing the local economy. Grant funding is available to assist BIDS to form, and they are encouraged beyond town and city centres, including in **rural areas, business parks, tourism and visitor areas**, and **single business sectors**¹⁴.



2.2.3 What do rural strategy documents say about rural economies?

The section turns now to review how rural economies have been described and supported in rural policies and strategies in Scotland. Going back over twenty years to 1995, the Scottish Rural White Paper (**People, Prospects, Partnership**) acknowledged the need for diversification in Scotland’s rural economies. The document noted that the then Scottish Executive would work in partnership to enable rural Scotland to be “*economically prosperous, with a range of job opportunities which will enable those who live in rural communities, native or newcomer, to enjoy worthwhile ways of life*”. The document included guidance for rural development and for business, employment and community issues and a commitment to review taxation on rural business units to encourage diversification.



Rural Scotland – A New Approach in 2000 set out the then Scottish Executive’s vision of a rural Scotland “*integral to Scotland’s success, dynamic in harnessing its traditional strengths, and with an appetite for change*”. Amongst other things, the document emphasised the need for more collaborative and outcome-oriented policies focusing on diversifying and growing the rural economy, as well as increasing wages, improving access to and delivering better services, making the most of our heritage, and delivering thriving rural communities. This strategic focus was continued in the 2003 stock-take¹⁵ and then the Scottish Government’s 2007 document, **Rural Scotland: Better Still Naturally**¹⁶, which identified four key policy targets: to diversify and grow the rural economy; to make the most of the natural, built and cultural heritage; to improve and sustain key services; and to promote and support rural communities. The document and its targets were not taken forward, however, following the change of Government in 2007.



In 2008, the **OECD conducted a review of rural policy in Scotland** and found that Scotland’s approach to rural policy was innovative and rapidly evolving, but that it was still a fairly centralised approach lacking bottom-up involvement and still had a sector-by-sector rather than a territorial focus. This was measured against the OECD’s own ‘New Rural Paradigm’¹⁷ which emphasised focusing on places rather than sectors (such as agriculture), on investments rather than subsidies to achieve long-term benefits, and on devolving power and resources to communities to determine their needs and realise opportunities.

The OECD was particularly concerned with the high proportion of Scotland Rural Development Programme (SRDP) spend on activities which were largely agricultural in nature (particularly Axis 2 and the Less Favoured Areas Support Scheme, LFASS), despite the apparent comprehensiveness of the Programme document that took into consideration the wider concerns of rural areas. The OECD noted that, in the 2007-2013 period, territorial interventions for the diversification of the rural economy (addressed in the third axis of the SRDP and aimed at the whole rural population), would account for 16% of the total rural budget, but were still partially aimed at farmers. The OECD review team argued that the original motivation for adopting a sector-by-sector approach at national level might have been justified when all rural policy was considered as coinciding essentially with agricultural-related needs. However, as a result of changes to Scotland’s rural areas and to the over-arching EU framework, the review team argued that the lack of integration between agriculture/ environmental policies and all the other socio-economic policies for rural areas was the main weakness of rural policy in Scotland. It recommended that:

“Scotland aim for a distinct vision of policy for all rural areas, one that is comprehensive and integrated, capable of mixing sectoral and territorial approaches and developing linkages and exchanges, between the agricultural sector (farmers and land managers) and the other sectors of the rural economy.”

The OECD stressed that economic diversification was vital to the future of rural Scotland and argued that *“Opportunities for economic development and diversification require looking beyond agriculture for the future of Scottish rural regions”*, including to sectors such as forestry, tourism and renewable energy. It acknowledged the support provided by Scottish Enterprise and HIE, although specifically recommended that more support was needed to assist businesses with expansion, address local labour market shortfalls and to foster innovation and knowledge-sharing. The review therefore provided very clear messages about the need to diversify rural Scotland’s economy and ways in which this could be achieved. More discussion about the need to strengthen the rural economy through improving linkages between sectors is provided in the contribution from Deb Roberts relating specifically to the Shetland Islands. To further improve our understanding of sectoral linkages, a survey is currently in development by Scottish Enterprise and SRUC which will focus on exploring and measuring the linkages between agriculture and other rural businesses. The aim is to be able to monitor the impacts of any changes in agricultural incomes on the performance and plans of businesses operating across the wider rural economy.



Strengthening the rural economy through diversification and new inter-sectoral linkages

Professor Deb Roberts, Interim Director of Science, The James Hutton Institute

Remote rural economies are often over-reliant on just one or two sectors. In economic terms they are said to have a narrow economic base. This makes them particularly vulnerable to a downturn in the fortunes of those particular sectors, with limited opportunities for redeployment of labour or alternative sources of income. In addition the sectors that tend to be important in remote rural areas – agriculture, forestry, fishing, tourism and, more recently, renewable energy – are inherently unstable, with their performance highly dependent on climatic conditions, world market prices and changes in the exchange rate. For this reason, rural development policy is often focussed on increasing the sectoral diversity of rural economies, most recently through promoting a “smart specialisation” agenda aimed at building on the comparative advantages of remote areas including their unique natural, social and cultural assets.

However in addition to increasing the range of sectors in an economy, there is an argument that policy should also focus on a) improving the connections between existing sectors in rural areas, and b) encouraging and supporting the establishment of linkages between new and existing sectors in rural areas.

In relation to the first argument, many studies have shown that rural areas are poor at retaining the benefits of economic growth. This is a direct consequence of the fact they tend not to be diversified, relying instead on imported inputs, and exporting unprocessed outputs rather than adding value to products locally. Similarly business services are often supplied by companies located outside the area with the local service sector concentrated on tourist or consumer services. Using the New Economic Foundation’s metaphor, rural economies are like leaky buckets with little of the benefits from a positive economic stimulus retained locally¹. By encouraging new links between existing sectors – such as the local processing of food products and their use by local caterers, supplying locally-generated renewable energy to a businesses that would otherwise rely on the national network, or creating new on-farm or woodland activities for tourists to the area - a higher proportion of benefits would be retained and rural economies would become more resilient.

Turning to the second argument, previous work with colleagues on the integration of oil-related sectors in Shetland² has shown the considerable time it can take to establish linkages between new and existing sectors and before the new sector relies on local labour. As a result, benefits from attracting the new sector may be missed. In the case of Shetland, while the establishment of the oil terminal at SullomVoe and the oil supply sectors in the Islands resulted in a rapid and large positive impact on regional GVA (reaching a peak in late 1980s), the impact on Shetland household incomes took far longer and was less significant, only growing once the local labour market had adjusted to the requirements of the new sectors. Similarly, it was only in the decade following the peak of oil-related activity in the Islands that the strength of connections between the oil terminal and supply sectors reached the same level as connections between other sectors in the economy.

It follows that both diversification and a strengthening of linkages between sectors are needed to achieve rural development objectives and ensure remote areas will be able to cope with the uncertain macroeconomic environment ahead.

References:

¹ New Economics Foundation (2008) Plugging the Leaks: Local Economic Development as if People and the Planet Mattered. <http://www.pluggingtheleaks.org/about/>

² Roberts, D. and Newlands, D. (2010) The economic integration of new sectors in rural areas: a case study of the Shetland economy, *Environment and Planning A*, 42: 2687-2704.



The introduction of the SNP Government's single over-arching purpose and the associated NPF in 2007, and the commitment to mainstreaming rural issues by adapting policies to meet local needs and circumstances and not setting rural Scotland aside as something different, has meant a move away from specific strategies for rural Scotland. However, the Scottish Government-created Rural Development Council published **Speak up for Rural Scotland** in 2010, as requested by the then Cabinet Secretary for Rural Affairs and the Environment, Richard Lochhead MSP to provide him with advice on *"how best rural Scotland could contribute to the creation of a more successful country through sustainable economic growth"*. This contained a series of 37 step-changes vital to achieving the Council's vision for rural Scotland, a vision which included *'Competitive enterprises creating employment opportunities'*.

The document recognised the unique contribution of rural businesses to Scotland's economic success, and some of the key challenges they faced: *"Rural areas provide the natural resources required for high quality food production, tourism and recreation and power-generation opportunities. There are, however, particular rural issues, such as lack of critical mass, distance to markets, limited infrastructure and access to networks which can affect the ability of rural small and medium-sized enterprises to capitalise on their potential and to improve their competitiveness"*. Despite a positive recognition of the contribution of rural businesses to national economic growth in the Cabinet Secretary's brief to the Rural Development Council, this statement from the document again apparently demonstrates a rather limited picture of rural Scotland's based on food, tourism and energy activities, and emphasises the challenges they face.



Within the *Rural Economies* theme, the Council identifies four step changes:

1. Developing leadership skills and business ambition;
2. Adding greater value to the products and services of all rural businesses (which could be done by businesses acting on their own, or working in collaboration);
3. A requirement for all public bodies to make tendering processes easily accessible and manageable for small businesses to bid for contracts;
4. Clarification of roles and responsibilities in relation to business advice and support, especially for social enterprises and small businesses.



The *Speak up for Rural Scotland* document was released as a consultation to which a large number of responses were received. These emphasised the importance of tourism, country sports and, notably, the creative industries to rural Scotland, and focused on the need to develop and encourage rural businesses and entrepreneurial skills. Respondents also highlighted the importance of broadband for rural businesses, the role of education in developing the skills and talents needed by rural Scotland, and the need for transport, housing and childcare improvements. Respondents noted that one thing missing from the document was *"greater recognition of the role and contribution of the private/third sectors"*. For this contribution to be fully understood and quantified, an accurate evidence base is required.

Our Rural Future was the Scottish Government's response to the Speak up For Rural Scotland consultation, and this included a vision for a rural Scotland *"that is outward looking and dynamic – with a diverse economy and active communities... Rural businesses will make the best use of local assets to become more competitive and enterprising."* The document set out a number of things that the Government was already doing or planning to do in relation to business and skills development, including improving public procurement opportunities for local businesses, improving the availability and affordability of finance for businesses, adding value locally including in the tourism and creative industries, ensuring that young people develop enterprising attitudes and skills, and supporting businesses and other third sector organisations to secure access to the public sector market.



Like previous documents there is recognition of the need for a diverse economy in rural Scotland and *Our Rural Future* includes a specific mention of the creative industries alongside the more traditionally recognised rural sectors. However, rather than forming the basis of a clear Scottish rural development policy, the document has seemingly become lost since its publication. Instead, the Government has focused on changes in particular policy domains, such as community empowerment and land reform, which will no doubt benefit rural economies, including by encouraging enterprise formation, but which cannot be said to form a coherent rural policy or vision¹⁸. Importantly in the context of this chapter, Scotland is still in a position where a substantial proportion of the funding in the SRDP 2014-20 goes to LFASS and agri-environment and forestry support rather than wider rural development.

From this short review of policies and strategies, we can see that concerns relating to rural businesses have persisted since 1995, including the need to diversify and grow rural economies, and the difficulties faced by

rural businesses, including infrastructure challenges and skills shortages. *Rural Scotland – A New Approach* in 2000 recognised that rural Scotland is integral to Scotland's success, and the need for this contribution to be enhanced was also reflected in Richard Lochhead MSP's request to the Rural Development Council in 2010. In 2008, the OECD also recognised the traditional sectoral – i.e. agricultural - approach which had been taken to rural development in Scotland, and emphasised the need to look beyond this towards a more territorially-focused approach to development in rural Scotland.

One notable recent shift is the new requirement for LEADER Local Action Groups¹⁹, announced in June 2014 by the then Cabinet Secretary for Rural Affairs and the Environment, Richard Lochhead MSP, to target some of their funding at small business support and diversification (a minimum of 10% of their total LEADER budget on each, amounting to some £20 million nationally). This is a significant change for LEADER but the scale of this commitment is very limited, especially when compared to the £65.5 million per annum budget for the LFASS, for example²⁰.

Support for Rural Business from LEADER

Chris Parkin, Lanarkshire LEADER Programme Manager

The LEADER Programme has assumed responsibility under the Scottish Rural Development Programme (SRDP) 2014-20 for supporting farm business diversification projects with a minimum 10% of the LEADER budget allocated to this activity. In addition a further 10% of the LEADER allocation is targeted at non-agricultural rural business support. In Lanarkshire this means that an indicative allocation of £800,000 will be targeted at supporting rural business over the term of the LEADER programme.

The Lanarkshire Local Action Group (LAG) are clear that before they make any investments they need to determine and differentiate between LEADER support and that provided through the other funds, particularly European Regional Development Fund (ERDF) and Local Authority funds, and that LEADER needs to be additional to support being delivered through existing services such as Business Gateway. Both North and South Lanarkshire Council work very closely in partnership on the delivery of enterprise activity across Lanarkshire and have done so for a number of years. Both Councils jointly deliver activity in the tourism and food and drink key growth sectors as well as managing the Business Gateway service. The Lanarkshire LAG is working closely with both Councils, Scottish Enterprise and Business Gateway to establish an appropriate niche for LEADER based on a considered and integrated local investment approach.

Supporting business projects through LEADER is not new in Lanarkshire as 'growing business' has always been a priority in this rural area. Under the previous 2007-2013 LEADER Programme, South Lanarkshire Council's Rural Capital Grants Scheme (RCGS) was delivered with LEADER funding matched 50:50 with Council monies. The impact of the investments was significant with 59 small businesses receiving

financial support, 103 jobs being created at a cost per job of just over £3,000 and for every £1 of LEADER investment just over £3 in additional private sector funding being levered.

One business receiving help in the 2007-2013 period was the Big Red Barn, located near Biggar on the A702 main road route to Edinburgh. This was a new cafe/restaurant and retail facility offering quality freshly prepared local food and drink and a range of gifts with a Scottish twist. The business initially employed 4 staff, although this has now increased to 12, and within the first six months of opening had welcomed over 10,000 customers. Since then, with around 40% annual growth in the business, customer numbers are now in excess of 27,000 annually. The business isn't standing still and is now developing 'The Little Red Pie Shed' outdoor eating area to attract more family trade.



Another was John Hannah Growers who were supported to grow their strawberry growing business near Lanark. Before the investment in 2013 John Hannah Growers marketed two strawberry crops, one between April and June and a later one in September. However there was a production gap in mid-summer, and the intention was for the RCGS investment in table top structures and a heater to enable an additional crop to serve existing and new customers during July and August. A key consideration for the LAG was proof of market demand and John was able to do this with assistance from Business Gateway.

The LEADER programme 2014-20 has now launched and the team are starting to work with rural business projects to develop strong and robust applications. As ever the process is not straightforward and they are getting used to the Scottish Government's new online application system, LARCS. However, in Lanarkshire they are trying to establish a process that ensures that good projects that will deliver rural jobs and economic growth receive support and advice in a joined up way.... so the team do the leg work to identify what assistance route is most appropriate rather than referring projects back and forth between funds and fund managers.



The Scottish Rural Parliament, which had its second meeting in Brechin in early October 2016, also represents an opportunity for rural private sector businesses to raise awareness of their characteristics and contributions. Indeed, in a survey administered prior to the inaugural meeting of the Scottish Rural Parliament in November 2014, 'Rural businesses and employment' was the theme most often highlighted by respondents (almost 60%) as being one that should be considered by the Parliament²¹. Support for rural businesses was voted as one of the top issues on which to focus in the concluding session of the second Rural Parliament in October 2016 (see Section 2.3).

Following the May 2016 Scottish election, there are now two Cabinet Secretaries covering rural issues, Fergus Ewing MSP, the Cabinet Secretary for Rural Economy and Connectivity (previously Minister for Enterprise, Energy and Tourism), and Roseanna Cunningham MSP Cabinet Secretary for the Environment, Climate Change and Land Reform. Particularly relevant for this section is Fergus Ewing MSP's brief, which includes HIE, economic activity in rural Scotland (specifically mentioned are agriculture, forestry, fisheries, aquaculture, food and drink and crofting), transport (including public transport), connectivity (including broadband) and cross-government coordination on Islands. Appearing before the Rural Economy and Connectivity Committee at its second meeting in June 2016, Fergus Ewing MSP stated: "*When the First Minister appointed me, she urged me to drive forward the rural economy in Scotland... Rural Scotland is the home of many diverse small businesses, the source of so much of what we eat and drink, the foundation of our green energy revolution, and the cradle of much of the culture, the history and the landscape that are integral to how we as a country view ourselves and to how we are viewed by others who invest here, who are increasingly interested in investing in rural Scotland*"²². This statement is welcome as it is positive about the opportunities and acknowledges the diversity of businesses in rural Scotland, but emphasis is still placed on more traditional rural economic activities. It will be interesting to see how this brief evolves and the extent to which other growing sectors, including service related activities, are recognised and supported.

2.3 The support infrastructure for businesses in rural Scotland

Scotland has two enterprise agencies – Highlands and Islands Enterprise (HIE) and Scottish Enterprise – for which the Scottish Government sets the strategic direction. The agencies have a statutory duty to undertake economic development, HIE in the Highlands and Islands and Scottish Enterprise in lowland Scotland. Scottish Enterprise may operate throughout the whole of Scotland if it agrees this with HIE and the Scottish Government. HIE leads on Community Broadband Scotland (which supports communities to access superfast broadband in rural areas) and the Scottish Land Fund (which provides communities with grants of up to £1 million to take ownership of their land and assets²³), on behalf of both agencies.

Through delivering intensive account-managed support, both agencies are tasked with focusing on those businesses with the potential to grow and those that are important to the economy (i.e. those operating in defined growth sectors). However, the two areas have different geographies, populations and business bases, resulting in different economic circumstances, challenges, opportunities, customers and underlying rationales for their support. HIE and Scottish Enterprise have different remits, with HIE having an additional responsibility to support social and community development to meet the challenges faced by its remote, rural and fragile areas and to strengthen communities. It does this through three main areas of activity:

- Assisting communities to build their capacity and confidence.
- Empowering communities to acquire, manage and exploit community assets for community benefit.
- Supporting social enterprises to provide employment and deliver local services.

Lighting the entrepreneurial spark across the Highlands and Islands

Calum Macfarlane and Catherine MacNeil, Highlands and Islands Enterprise

The geography of rural Scotland has always been one of its main strong points, but when it comes to enterprise it also presents challenges.

Highlands and Islands Enterprise (HIE), the agency responsible for economic and community development across half the country, is using technology and digital connectivity to meet some of those challenges.

One recent example is enabling entrepreneurs across the region to take part in the Entrepreneurial Spark accelerator programme, an initiative powered by Royal Bank of Scotland to boost entrepreneurship. This is the world's largest free accelerator and has been hugely successful in other parts of Scotland, the UK and overseas. To date, it has supported 660 companies, helping them to raise more than £45 million in investment, generate turnover of £85 million, and create more than 1800 jobs.

In the past it has not been viable to run the accelerator in the Highlands and Islands. The need for groups of participants to work together would have meant travelling long distances, which can be costly and time consuming.

Now however, with massive improvements in the region's digital connectivity and advances in technology, HIE has teamed up with Entrepreneurial Spark to make the programme available in virtual form, with only three physical gatherings. It is the first time such an initiative has been run in the UK and the move has attracted additional funding from Scottish Government and law firm Harper Macleod.

Forty businesses from across the region are taking part; mainly pre start and young business ventures but also more mature businesses looking to kick start growth. Entrepreneurs have access to a suite of ten online modules on key business topics. Entrepreneurial Spark Enablers challenge the business leader constructively to identify areas for improvement as they seek to develop their entrepreneurial mindset. They will also be connected with mentors who will provide specialist advice.





The programme kicked off with a two-day boot camp in September. Entrepreneurs were guided through a process to validate and test their business proposition. The bootcamp finished with a pitching competition conveying the importance of being able to sell a business idea in a compelling and succinct manner.

Participants were placed into cohorts for peer support and joint problem solving, and an enabler guides and challenges them to develop and refine their business ideas.

Entrepreneurs are embracing the 'virtual' aspect of the pilot and the use of technology to engage with their enablers and cohorts. A second face to face meeting, focusing on leadership skills, takes place six weeks after the bootcamp. HIE and Entrepreneurial Spark meet weekly to track progress and identify sources of support for the entrepreneurs on completion of the pilot.



Scottish Enterprise also provides support to rural areas. For example, in 2014/15, 10% of its supported businesses were located in the three most rural council areas in lowlands Scotland – Aberdeenshire, Dumfries and Galloway, and Scottish Borders²⁴. Scottish Enterprise is a partner on the South of Scotland Alliance, with Dumfries and Galloway and Scottish Borders Councils, which supports the planning and delivery of economic development activity in the south of Scotland²⁵ and it also runs the Rural Leadership Programme which has just completed its tenth year of operation.

Scottish Enterprise Rural Leadership Programme

Julian Pace and Chloe Purves, Scottish Enterprise

The Scottish Enterprise Rural Leadership Programme (SERLP) has been running since 2006 and over 400 participants from across the Scottish Enterprise area have taken part.

The programme is aimed at helping business managers and employees from rural businesses who have a desire to develop their leadership skills, grow their business and positively influence rural economic issues and agendas in the local, national and international arenas.

The programme runs on an annual basis over a 6 month period and consists of a series of workshops/ residential modules and group learning built around: leadership skills, including communications; enhancing rural knowledge; innovation; and influencing policy decisions with the final module involving learning journeys to the Scottish, British and European Parliaments.



The programme has had a big impact on the participants with 90% of alumni saying the SERLP had increased their confidence in their ability to lead, 83% saying their ability to motivate had improved, and 81% stating the programme had positively affected their ability to initiate and implement change.

These positive impacts have translated into tangible benefits for rural businesses. In addition to increased turnover, profits and reductions in costs, 62% of SERLP graduates have improved their business practices, 26% have set up a new business, and 38% have introduced a new product.



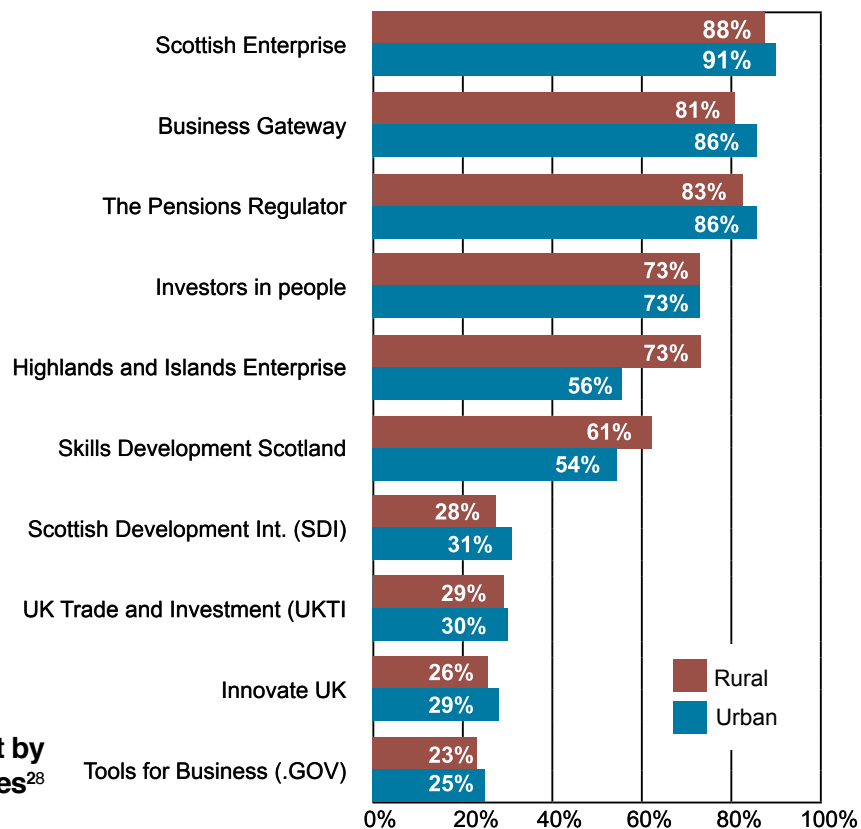
Business Gateway provides a first point of contact for all publicly funded advice to business in Scotland. The service offers a range of assistance, including business advice and planning, financial management, marketing and sourcing funding. Business Gateway is delivered by local authorities to all types of business, new and existing. Despite its universal offering across Scotland, workshop discussions at the Scottish Rural Parliament in Brechin in early October 2016 highlighted confusion amongst rural businesses regarding the services provided by Business Gateway, not least because the service is organised and delivered differently in different parts of Scotland (for example, in terms of the relationship with local authorities and the involvement of other delivery organisations).

The Scottish Government is working on simplifying how SMEs access finance, advice and support, and bringing together all financial support services and public sector finance products for SMEs under a single brand and digital platform at www.mygov.scot. A range of other organisations work across Scotland to provide advice and other (direct and indirect) support to businesses, including Scottish Development International and Skills Development Scotland, and membership organisations such as the Federation of Small Businesses, national and local Chambers of Commerce and Scottish Land and Estates. There is also a range of specific schemes to help businesses, including ‘Fresh Start’ which enables occupiers of shops, offices, hotels, pubs and restaurants which have been empty for at least a year to apply for a 50% rates discount for 12 months, and the Digital Boost programme, delivered by Business Gateway which offers online diagnostics tools, guides, workshops, events and significant one to one support.

Previous rural business survey work has suggested that rural businesses have lower awareness and use of public sector business support providers, and instead rely more heavily private sector support providers, such as accountants and lawyers²⁶. However, data from the Small Business Survey 2015²⁷ showed that awareness was high across Scotland with 99% of urban and 96% of rural SMEs stating that they were aware of business support providers. The Survey also asked for more information on which providers SMEs were aware of (see Figure 1).

The graph shows that levels of awareness are broadly similar in rural and urban Scotland, although rural SMEs were more aware of HIE and Skills Development Scotland than urban SMEs.

Figure 1: Awareness of business support by urban/rural, Top 10 Responses²⁸



Mirroring discussions at the second Scottish Rural Parliament which highlighted a lack of understanding amongst rural businesses of the support available to them, Audit Scotland’s July 2016 report on the role of the Scottish Government and the economic development agencies²⁹ noted that the full range of public sector support for businesses is not known, which creates a risk of duplication and inefficiency. It goes on: “*Public sector support is not well understood by businesses and there is scope to simplify arrangements and clarify roles and responsibilities.*” The report argues that the landscape for supporting economic growth in Scotland is becoming more complex, for example, as a result of City Region Deals and the developments regarding the Islands³⁰.

From mid-July until mid-August 2016, the Scottish Government held a call for evidence on Scotland’s enterprise and skills services. Over the summer of 2016, Keith Brown MSP, Cabinet Secretary for Economy, Jobs and Fair Work, led a Ministerial Review Group looking at the enterprise and skills support provided by Scotland’s economic development and skills agencies. The aim of the review was to ensure that businesses, workforce, training providers, colleges and universities and young people all receive the joined-up support they need. It was announced in mid-September that the Review will be taken forward in two stages, and the first stage reported in late October 2016. The report detailed several reforms including: creating a new Scotland-wide statutory board to co-ordinate the activities of Scottish Enterprise and Highlands and Islands Enterprise, including Scottish Development International, Skills Development Scotland and the Scottish Funding Council; and protecting services in the Highlands and Islands and creating a new service for the South of Scotland³¹.

Alongside nationally available business support services, there are regional and local business support programmes in some parts of Scotland. GrowBiz in rural Perthshire is a community-based model of business support provision which has been positively evaluated recently and is being looked at by other areas of Scotland seeking to replicate its approach.

GrowBiz (Enterprising Eastern Perthshire Ltd.)

Jackie Brierton, Enterprise Coordinator, GrowBiz

GrowBiz is a community-based enterprise support organisation covering rural Eastern and Highland Perthshire. It was formed in 2007 based on the Sirolli model of enterprise facilitation, and provides a range of enterprise support activity to individuals and start-up and existing businesses in rural Eastern and Highland Perthshire.

GrowBiz offers a combination of individually tailored one-to-one support, mentoring, networking and facilitated peer support to individuals and businesses looking to start-up or develop their business. The model is fully client-led, easily accessible and provides a mix of personal and business support, allowing clients to grow their business at their pace and access support as and when they need it.



GrowBiz is operated through a voluntary Board of Directors and a small core of part-time staff and it is funded through both public and private funding grants. Over the years, services have expanded to include a Women's Enterprise Network, and the GrowBiz XChange project where clients offer voluntary time and use of their skills as needed by other clients, providing further sustainability to the enterprise model.

In 2015, a review of GrowBiz¹ found that it had performed strongly against all of its performance targets. The key findings of the evaluation were that GrowBiz has:

- created a value added service and support network for individuals looking to start up and grow their business in rural Perthshire;
- through its bottom-up approach, it has effectively reached and supported a population which the traditional models of enterprise do not;
- increased community capacity and engagement, and is highly valued by the client base it services in terms of harnessing the energy and ideas from the community;
- provided individuals from within the community who wish to develop their business or business ideas with the confidence and support to do so.

The review concluded that the informal, supportive and personal nature of the enterprise facilitation support that GrowBiz provides through being embedded within the community is key to its success with its client base. However, it is also critical that there are systems which demonstrate and track the performance of the model and that effective linkages are in place across the enterprise infrastructure serving each community.

Recently, GrowBiz has had approval for a LEADER



project which will allow the team to expand their enterprise support model across all of rural Perthshire, in partnership with Elevator (Business Gateway), Perthshire Chamber and Perth and Kinross Association of Voluntary Service. This has been supported and/or match-funded by a number of bodies including Scottish Enterprise, SSE (through a windfarm enterprise fund – the first of its kind), Perth and Kinross Council, the Federation of Small Businesses, University of the Highlands and Islands and others.

Other predominantly rural parts of Scotland are now considering adopting the GrowBiz model, including Angus and Cairngorms National Park. The GrowBiz team has also been approached by the Rural Communities team at the Scottish Government to produce a 'toolkit', case studies and awareness sessions for other LEADER programmes wishing to adopt a similar model as part of their rural business support provision.

In summary, the evaluation team found the GrowBiz model to be inspiring and effective, and as indicated here, it has been identified as a potential source of good practice for the provision of rural enterprise support and facilitation elsewhere in Scotland. The GrowBiz team believe that improving rural business support of this kind is even more important given the EU referendum result in June which has highlighted how vulnerable rural economic development is if EU funding disappears, and the lack of a coherent 'lobby' for non-agricultural/land-based enterprise in rural areas.



¹ Gass, D. and MacCallum, N. (Rural Matters LLP) (2015) *A review and evaluation of GrowBiz Final Report*, Funded by Scottish Enterprise and the Scottish Government (November). Available online: <http://growbiz.co.uk/news/eval15/>

Rural enterprise support was a key theme discussed at the second Scottish Rural Parliament event in Brechin in October 2016³², including through tailored workshop sessions on rural business support needs. It featured strongly in the 'Manifesto for Rural Scotland' produced in advance of the event, which called for a number of actions, including greater support for grassroots business support services (which truly reflect the needs of micro and small businesses in their region), a review of existing support services and their applicability in different parts of Scotland, an Enterprise Bill to be brought forward by the Scottish Government to address the current inequity in business support, and the protection of funding schemes to help private and community-led businesses³³. At the concluding session of the Parliament, in which the 'Manifesto for Rural Scotland' was discussed, rural business support was voted as one of the top three priorities for future action. Scottish Rural Action has also commissioned further work on the rural business support landscape and this will be available later in 2016.



The issue of business support is one area where there is a shortage of up-to-date and detailed evidence, but there are many other areas too. These are returned to in Section 2.5. First, Section 2.4 describes what we do know about Scotland's rural enterprises, highlighting data which has been made available recently.

2.4 What do we know about Scotland's rural enterprises?

At the start of this section it was argued that the relative absence of data demonstrating the breadth of activities across Scotland's rural areas is one of the key reasons why the rural economy still tends to be rather simplistically equated with agriculture and why the economic contribution of rural areas tends to be underestimated in comparison to Scotland's urban areas. This section outlines what we do know about Scotland's rural enterprises, drawing on data which has previously been published (for example, in the Scottish Government's Rural Scotland Key Facts publication) and new data which has recently become available through work by the Scottish Government's Office of the Chief Economic Adviser. Notwithstanding the availability of this new data, Section 2.5 then describes a number of gaps that remain in the data and that are vital to fill in order to improve our understanding further.

2.4.1 Sectoral breakdown of employment and enterprises

The Scottish Government's Rural Scotland Key Facts publication provides a good place to start in terms of data on enterprises in rural Scotland. The 2015 publication shows employment in enterprises registered for VAT or PAYE in 2014 across the primary, secondary, tertiary and public sectors in remote and accessible rural areas and the rest of Scotland³⁴. In all parts of Scotland, the tertiary sector (including wholesale, retail and repair, accommodation and food services, transport, financial services, professional, technical and administrative services and education and health activities) is the largest in terms of employment, making up 48% and 51% of employment in remote and accessible rural areas respectively, and over 60% of employment in the rest of Scotland.

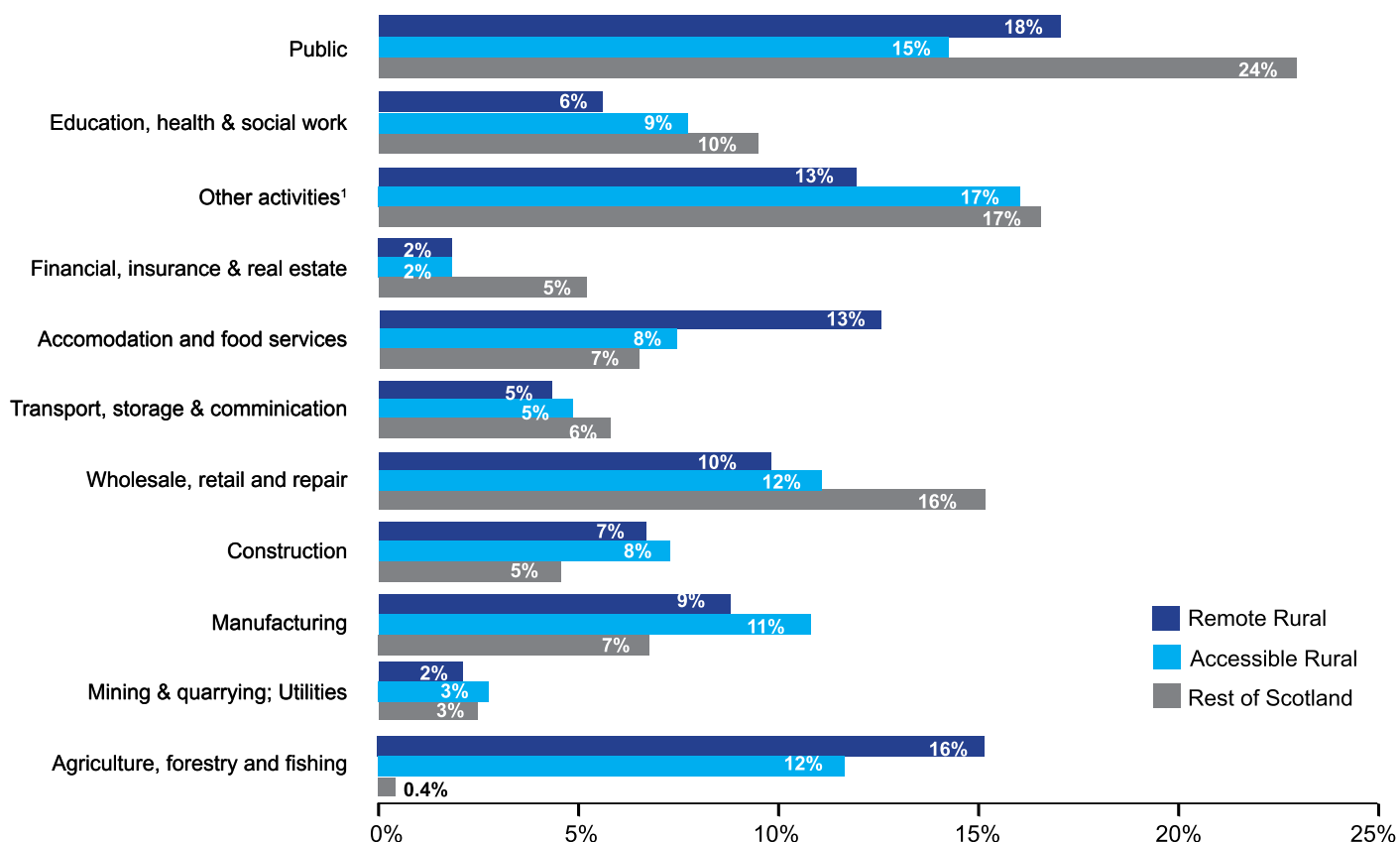


Figure 2: Employment by industry sectors and in the public sector by geographic area, 2014³⁵

Source: Inter Departmental Business Register as at March 2014. Using Scottish Government Urban Rural Classification 2013-14

Looking in more detail at employment in different sectors (Figure 2) confirms the importance of traditional rural sectors such as agriculture, forestry and fishing, accounting for 16% of remote rural employment (this proportion had risen to just over 18% by 2015) and 12% of accessible rural employment. However, in accessible rural areas, the largest source of employment in 2013 was the other activities sector, which includes professional,

scientific and technical activities, administrative and support service activities, arts, entertainment and recreation services, and other service activities (17% of employment, the same as in the rest of Scotland, with 13% in remote rural Scotland). The Wholesale, retail and repair and manufacturing sectors both had similar proportions of employment (11-12%) compared to the primary sector in accessible rural Scotland, although by 2015, data (not presented here) suggests that manufacturing was the largest sector in employment terms in accessible rural Scotland. Construction accounted for 8% of private sector jobs in accessible rural and 7% in remote rural areas, higher proportions than in the rest of Scotland (5%). Over the five years to 2015, in remote rural Scotland, the sectors responsible for the majority of employment growth were



accommodation and food services activities (up 2,650 jobs since 2010) and professional, scientific and technical activities (up 1,490 jobs since 2010)³⁶.



Rather than comparing proportions employed in different sectors, another way of exploring the breadth of economic activities in rural Scotland is by looking at the sectoral distribution of enterprises. Table 1 on the next page shows the numbers and proportions of enterprises across the urban/rural classification in 2015, taken from the Scottish Government's Businesses in Scotland 2015 report.



Table 1: Number and proportion of enterprises in Scotland by urban/rural classification and broad industry sector, March 2015

Urban/rural classification	Agriculture, Forestry and Fishing (A)		Mining and Quarrying (B, D, E)		Manufacturing (C)		Construction (F)		Wholesale, retail and repair (G)		Transport and storage; information and communication (H, J)		Accommodation and food service activities (I)	
	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%
1 Large Urban Areas	360	2	385	31	2,935	33	5,835	31	9,650	39	6,505	45	5,020	38
2 Other Urban Areas	1,170	7	295	24	2,610	30	4,860	26	7,300	30	3,495	24	3,540	27
3 Accessible Small Towns	665	4	65	5	720	8	1,660	9	2,200	9	1,035	7	1,070	8
4 Remote Small Towns	495	3	50	4	440	5	875	5	1,500	6	420	3	840	6
5 Accessible Rural	7,560	43	330	27	1,550	18	3,420	18	3,270	13	2,130	15	1,390	10
6 Remote Rural	7,200	41	245	20	910	10	2,105	11	2,200	9	1,065	7	1,730	13
Scotland'	17,380	100*	1,235	100*	8,785	100*	18,560	100*	24,735	100*	14,365	100*	13,265	100*

Urban/rural classification	Financial and insurance activities (K)		Real estate activities (L)		Professional, scientific and technical activities (M)		Administrative and support services (N)		Education, Human health and social work (P, Q)		Arts, entertainment and recreation, Other service (R,S)		Total	
	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%	Number of enterprises	%
1 Large Urban Areas	1,260	61	2,685	51	13,995	44	4,525	39	3,970	46	5,060	40	62,185	37
2 Other Urban Areas	515	25	1,215	23	7,115	22	2,675	23	2,440	28	3,545	28	40,775	24
3 Accessible Small Towns	130	6	295	6	2,530	8	870	8	700	8	955	8	12,890	8
4 Remote Small Towns	70	3	170	3	1,050	3	425	4	445	5	640	5	7,420	4
5 Accessible Rural	165	8	665	13	5,505	17	2,195	19	1,035	12	1,525	12	30,740	18
6 Remote Rural	60	3	390	7	2,195	7	1,190	10	685	8	1,075	9	21,055	12
Scotland'	2,075	100*	5,295	100*	31,900	100*	11,575	100*	8,600	100*	12,565	100*	170,335	100*

Notes: This data excludes central and local government and it uses the 2011-12 sixfold urban/rural classification. Importantly, the proportion totals (marked with *) do not always total 100 as the same enterprise may operate in more than one type of area.

Table 1 shows the spread of economic activities across Scotland. Agriculture, forestry and fishing enterprises are heavily concentrated in accessible and remote rural areas, as would be expected, however, 47% of enterprises operating in the mining and quarrying sector are in accessible and remote rural Scotland. Rural Scotland also accounts for almost 30% of Scotland's manufacturing and construction enterprises. One in five of Scotland's real estate enterprises and education, health and social work enterprises are found in rural Scotland, nearly one in four of its professional, scientific and technical activities enterprises, and nearly 30% of its administrative and support service enterprises. This data demonstrates the importance of recognising the breadth of activities located in rural Scotland, and therefore ensuring that support targeted at these sectors recognises that a sizeable proportion of the enterprises are in rural – and often remote rural - locations.

The Scottish Government's *Businesses in Scotland 2015* publication includes a detailed breakdown of more data using the six-fold urban/rural classification compared to previously, when only a broad accessible rural, remote rural and rest of Scotland breakdown was used. It is available on an annual basis and therefore provides more up-to-date data than the biennial *Rural Scotland Key Facts* publications³⁷.

2.4.2 The size of businesses in rural Scotland

The publication includes a range of information on businesses across Scotland, and confirms the greater importance of SMEs in employment terms in rural Scotland than in urban Scotland. As at March 2015, SMEs accounted for 79.9% of private sector employment in remote rural areas compared to 70.7% in accessible rural areas, and 46.3% in the rest of Scotland. Between March 2014 and 2015, private sector employment increased by 2.8% in remote rural Scotland, compared to 1.3% in accessible rural areas and 1.5% in remote rural Scotland³⁸. As mentioned earlier, the majority of this growth has been in the accommodation and food services and professional, scientific and technical activities sectors.

Table 2 on the next page shows the number and proportion of enterprises in Scotland by urban/rural classification and employee size band and total employment.



Table 2: The number/proportion of enterprises in Scotland by urban/rural classification and employee sizeband and total employment, 2015³⁹

	Large Urban		Other Urban		Accessible Small Towns		Remote Small Towns		Accessible Rural		Remote Rural		Scotland	
	Number/% of enterprises	Employment	Number/% of enterprises	Employment	Number/% of enterprises	Employment	Number/% of enterprises	Employment	Number/% of enterprises	Employment	Number/% of enterprises	Employment	Number/% of enterprises	Employment
0	21,400 (34.4%)	22,620 (2.4%)	12,615 (30.9%)	13,570 (2.7%)	4,495 (34.9%)	4,940 (5.3%)	2,035 (27.4%)	2,330 (3.6%)	13,025 (42.4%)	15,940 (8.3%)	9,470 (45.0%)	12,080 (11.3%)	63,035 (37.0%)	71,490 (3.8%)
1-4	21,915 (35.2%)	58,550 (6.3%)	15,330 (37.6%)	42,540 (8.4%)	4,940 (38.3%)	13,840 (14.6%)	2,825 (38.1%)	8,310 (12.8%)	11,665 (38.0%)	33,020 (17.1%)	7,630 (36.2%)	22,230 (20.9%)	64,205 (37.7%)	178,490 (9.4%)
5-9	7,880 (12.7%)	53,540 (5.8%)	5,520 (13.5%)	37,810 (7.4%)	1,525 (11.8%)	10,500 (11.3%)	1,080 (14.6%)	7,660 (11.8%)	2,790 (9.1%)	19,610 (10.2%)	1,965 (9.3%)	14,020 (13.2%)	20,530 (12.1%)	143,140 (7.6%)
10-19	4,690 (7.5%)	63,400 (6.8%)	3,140 (7.7%)	41,750 (8.2%)	795 (6.2%)	10,090 (10.8%)	635 (8.6%)	8,380 (12.9%)	1,485 (4.8%)	19,680 (10.2%)	1,030 (4.9%)	13,650 (12.8%)	11,345 (6.7%)	156,950 (8.3%)
20-49	2,275 (3.7%)	58,520 (6.3%)	1,645 (4.0%)	40,740 (8.0%)	420 (3.3%)	9,020 (9.7%)	340 (4.6%)	8,040 (12.4%)	695 (2.3%)	17,560 (9.1%)	420 (2.0%)	10,790 (10.1%)	5,055 (3.0%)	144,660 (7.6%)
50-249	2,210 (3.5%)	122,120 (13.2%)	1,360 (3.3%)	73,660 (14.5)	350 (2.7%)	15,040 (16.1%)	255 (3.4%)	11,030 (17.0%)	585 (1.9%)	30,660 (15.9%)	300 (1.4%)	12,280 (11.5%)	3,870 (2.3%)	264,780 (14.0%)
250+	1,815 (2.9%)	549,410 (59.2%)	1,165 (2.9%)	258,510 (50.8%)	370 (2.9%)	29,750 (31.9%)	250 (3.4%)	19,190 (29.6%)	495 (1.6%)	56,590 (29.3%)	240 (1.1%)	21,440 (20.1%)	2,295 (1.3%)	934,900 (49.4%)
Total	62,185	928,150	40,775	508,580	12,890	93,180	7,420	64,940	30,740	193,060	21,055	106,500	170,335	1,894,410

Note: Enterprise counts rounded to the nearest five. Employment rounded to the nearest ten.

Totals may not equal the sum of the constituent parts due to rounding.

This data excluded central and local government and is based on the urban/rural classification according to the 2011-12 sixfold classification.

The data counts the number of enterprises operating within each urban/rural classification but these do not sum to the total for Scotland as the same enterprise may operate in more than one type of area. Size band is based on the number of employees that the enterprise employs across the UK.

In terms of number/% of enterprises, the data confirms the importance of firms with 1-4 employees across urban and small town Scotland. In contrast, in rural Scotland, businesses with no employees are the most prevalent in terms of the number of enterprises. In employment terms, it is large enterprises (250+ employees) that account for the highest proportion of employment across the classification, except in remote rural areas, where firms with 1-4 employees employ marginally more. Overall, Table 2 confirms the greater importance of SMEs in employment terms in rural Scotland when compared to urban Scotland. Nevertheless large enterprises remain important in employment terms in rural Scotland (even though there are not many enterprises of this size).

Policies and support programmes need to recognise this as a change in their location or performance may have significant impacts in surrounding local communities.

2.4.3 Business start-ups and closures

Rural Scotland Key Facts 2015 included data on business openings and closures in rural and urban Scotland in 2013, measured by the number of businesses registered for either VAT or PAYE (Table 3). This data therefore excludes businesses with no employees and those with a turnover below the VAT threshold, and it is likely that both of these are present in significant numbers in rural Scotland.

In general, the data tends to confirm that the survival rates of rural businesses are good and rural areas often display low entry and exit rates for businesses (i.e. low levels of business churn). More specifically, the lowest rate of openings was in remote rural Scotland (9%), but remote rural areas also had a low rate of business closures (8%, the same rate as accessible rural areas). The low levels of churn may either indicate a relatively resilient economy with a stable business population, or, more negatively, a lack of dynamism or competitiveness in Scotland's remote rural economies. In the absence of more data on the reasons for business opening and closures we cannot know for sure.

Table 3: Business openings and closures by geographic area, 2013⁴⁰

	Remote Rural	Accessible Rural	Rest of Scotland
Total businesses	13,365	30,925	117,940
Business openings	1,240	3,740	16,560
Business opening rate	9%	12%	14%
Business closures	1,010	2,585	11,315
Business closure rate	8%	8%	10%
Total businesses per 10,000 adults	490	578	327
Business openings per 10,000 adults	45	70	46
Net business openings and closures	230	1,155	5,245
Net business openings and closures as % of total businesses	2%	4%	4%

Source: Inter Departmental Business Register (ONS), 2013
(Using Scottish Government Urban Rural Classification 2013-2014)

Business registration and deregistration and three year survival rates are also available at local authority area level for Scotland (see Table 4).

Table 4: VAT/PAYE business 2013 registration, deregistration (per 10,000 adults) and three year survival rates for rural local authorities⁴¹

Rural Local Authority Areas	VAT/PAYE registrations per 10,000 adults	VAT/PAYE deregistrations per 10,000 adults	VAT/PAYE 3 year business survival rates (%)
Aberdeenshire	67	40	68.8
Angus	42	29	61.8
Argyll and Bute	43	40	56.6
Comhairle nan Eilean Siar	41	28	46.2
Dumfries and Galloway	35	25	57.1
East Ayrshire	35	25	52.9
Highland	50	36	62.5
Moray	37	28	60.0
Orkney Islands	47	22	60.0
Perth and Kinross	50	39	59.5
Scottish Borders	42	34	58.7
Shetland Islands	45	34	70.0
South Ayrshire	41	32	48.2
Stirling	56	38	62.0
Scotland	49	34	57.1

Source: Business Demography (ONS), 2013

Table 4 shows that the VAT/PAYE registration rates per 10,000 adults in some rural local authorities are considerably higher than the Scottish average – notably Aberdeenshire and Stirling. However, for some rural local authorities the rates are lower than the Scottish average, notably Dumfries and Galloway, East Ayrshire and Moray. Dumfries and Galloway and East Ayrshire, along with Orkney, have the lowest deregistration rates suggesting a low level of business churn. In contrast, Aberdeenshire and Argyll and Bute⁴² have high levels of deregistrations. For Aberdeenshire, this could be interpreted as a positive, dynamic high business churn situation, with many registrations and deregistrations. However, Aberdeenshire, along the Shetland Islands and Highland, also has one of the highest three year business survival rates. In contrast, business survival rates in local authorities in the south west of Scotland - Dumfries and Galloway, East and South Ayrshire and Argyll and Bute – along with Comhairle nan Eilean Siar (which actually has the lowest three year survival rate of all Scotland’s rural local authority areas), are lower than the Scottish average, suggesting perhaps a lack of business dynamism.

Business start-up statistics are also available on a quarterly basis from 2013-15 from The Committee of Scottish Bankers (this data has now been discontinued)⁴³. Table 5 shows the number of new businesses in Scottish banks in in rural and urban Scotland.

Table 5: Number and proportion of new businesses in Scottish banks by Urban/Rural Split, 2013-2015⁴⁴

Urban/Rural	2015	2014	2013
Urban	8,980 (77.0%)	9,077 (77.1%)	8,723 (74.7%)
Accessible Rural	1,719 (14.7%)	1,715 (14.6%)	1,917 (16.4%)
Remote Rural	970 (8.3%)	980 (8.3%)	1,034 (8.8%)
Total Rural	2,689 (23.0%)	2,695 (22.9%)	2,951 (25.2%)
Total	11,669	11,772	11,679

The Total Rural row demonstrates that, using this data, rural areas account for a higher proportion of new business start-ups (approximately 23-25%) than their proportion of the Scottish population (approximately 18%). Interestingly, this is a different picture to Table 2 (based on Inter-Departmental Business Register data) which showed lower rates of business openings in remote and accessible rural areas (when compared to the rest of Scotland), and that the lowest rate of business openings per 10,000 adults was in remote rural Scotland. The more positive picture in Table 5 may be because new business owners in rural areas are more likely to establish a business bank account when they set up their business than urban owners who may be more likely to use an existing personal account. It may also be because rural businesses are less likely to be picked up in the Inter Departmental Business Register data which only includes businesses registered for VAT or PAYE. However, this is perhaps the reverse to what we might expect given what we know about the characteristics of rural businesses. For example, rural businesses are more likely to be microbusinesses, family-owned and to be closely inter-linked with the household than urban businesses⁴⁵, all of which may suggest that owners would be more likely to use an existing personal or family bank account rather than set-up a new account. Again, however, as we do not have detailed information on why rural people are setting up businesses (for example, are they doing so through choice and because they have an entrepreneurial idea, or necessity because there is a lack of alternative employment options) and the processes that they go through to do this, it is not possible to explain the differences in the data. More data collection and analysis is vital to gain an accurate picture of business start-ups to inform the shape of future support programmes and policies.

Table 5 also shows that the proportion of new business bank accounts in rural areas has declined since 2013, but it has risen in urban areas. Again, we do not have supporting evidence to explain these trends and it may reflect a number of different processes, including a lack of start-up advice or finance in rural areas or fewer perceived opportunities for people to set up their own business. The different picture painted by this (now discontinued) data highlights the importance of having as wide an evidence base as possible to ensure that characteristics and trends are fully and accurately understood.

2.4.4 Data from the Small Business Survey 2015

More information about Scotland's rural businesses can be found in the Scottish Government's Topic Report published in September 2016, based on data from the 2015 Small Business Survey Scotland⁴⁶. The key messages included:

- 87% of accessible rural and 81% of remote rural SMEs were microbusinesses (with 1-9 employees); 11% of SMEs in accessible rural areas were small businesses (10-49 employees) compared to 18% in remote rural.
- Family-owned businesses were more prevalent in rural areas than in urban areas (79% of SMEs in remote rural areas and 77% in accessible rural areas).
- Home-based businesses were also more prevalent in rural areas than in urban areas (43% in accessible rural areas compared to 40% in remote rural areas and 17% in the rest of Scotland).
- Majority-led by women businesses⁴⁷ were more prevalent in urban areas than in rural areas (22% and 15% respectively).
- Accessible rural areas had the highest proportion of SMEs who exported outwith the UK (14% compared to 12% in the rest of Scotland and 8% in remote rural areas).

- A higher proportion of SMEs were innovators in urban areas than in rural areas (45% and 33% respectively); however, within the rural category, a higher proportion of SMEs were innovators within remote rural areas (41%) than in accessible rural areas (28%).
- A higher proportion of SMEs in accessible rural areas offered training to employees (69%) compared to SMEs in the rest of Scotland (60%) and in remote rural areas (52%).
- Remote rural areas had the lowest proportion of SMEs which reported having their own website (57% compared to 63% in accessible rural areas and 70% in the rest of Scotland).
- A higher proportion of rural SMEs had applied for finance (30%) than SMEs in urban areas (15%); this finance was usually in the form of a bank overdraft or loan and a higher proportion of rural SMEs reported that this was for working capital/cash flow than urban businesses (66% and 48% respectively).
- A higher proportion of rural SMEs reported employment and turnover growth in the last 12 months than urban SMEs (22% and 20% respectively); a lower proportion of rural SMEs (13%) reported a decrease in employment and turnover compared to urban SMEs (16%).
- However, looking forward, a higher proportion of urban SMEs expected employment and turnover growth in one year's time (26% and 17% respectively) and sales growth over the next three years (66% compared to 55%), compared to rural SMEs, and a lower proportion of urban SMEs expected a decrease in employment and turnover compared to rural SMEs (11% and 15% respectively).
- For both rural and urban SMEs, regulations and red tape was the most commonly reported obstacle to business success (52% and 54% respectively); rural SMEs highlighted a range of other challenges, including location/cost of travel/logistics, weather conditions and poor broadband speeds.

This data highlights a number of key differences between rural and urban firms and suggests that support and interventions need to be shaped differently, in relation, for example, to obstacles to growth, innovative behaviour, access to finance, exporting, employee training and future growth plans.

2.4.5 Growth sectors and rural Scotland

New data on the urban/rural breakdown of growth sectors has also been made available recently by the Scottish Government's Office of the Chief Economic Adviser. Scotland's Economic Strategy⁴⁸ identifies those sectors where Scotland has a distinct comparative advantage:

- Food & Drink (including food manufacturing, drink manufacturing, agriculture & fisheries)
- Creative Industries (including digital)
- Sustainable Tourism
- Energy (including renewables)
- Financial & Business Services
- Life Sciences

The data shows that in 2014, almost 25% of Scotland's growth sector jobs were located in rural areas compared to 15% of jobs more generally. For the Food & Drink growth sector, nearly 70% of all the jobs in the sector are located in Scotland's rural areas. Other growth sectors with relatively high shares of jobs in rural areas include Life Sciences (22%) and Sustainable Tourism (20%). The importance of rural businesses to these growth sectors demonstrates the critical need to understand the characteristics of these businesses in order to ensure that they are adequately supported through the Government's growth sector-focused interventions. If such interventions were only targeted at urban-located businesses – or even simply better tailored to them (e.g. in terms of the way they are delivered) - a significant number of businesses in these sectors would be disadvantaged⁴⁹.

2.4.6 Self-employment in rural Scotland

One final issue to explore in this section in terms of nationally available data is the issue of self-employment. Table 6 shows self-employment levels and rates using the 8-fold urban/rural classification from 2013-15.

Table 6: Self employment levels and rates by urban/rural area, all those aged 16 and over, Scotland: 2013 to 2015

2013-2014 Urban Rural Classification (8-fold)	2013			2014			2015		
	Self Employment	All Employment	Self Employment Rate	Self Employment	All Employment	Self Employment Rate	Self Employment	All Employment	Self Employment Rate
1 Large Urban Areas	84,300	845,800	10.0%	87,400	868,700	10.1%	92,600	889,200	10.4%
2 Other Urban Areas	77,000	869,700	8.9%	84,500	891,400	9.5%	77,600	894,400	8.7%
3 Accessible Small Towns	24,900	223,400	11.1%	28,400	244,800	11.6%	23,400	235,800	9.9%
4 Remote Small Towns	5,400	50,700	10.7%	5,900	48,900	12.1%	7,400	51,500	14.4%
5 Very Remote Small Towns	4,600	35,000	13.1%	4,300	35,400	12.1%	4,100	35,700	11.5%
6 Accessible Rural Areas	59,100	327,100	18.1%	59,700	329,100	18.1%	59,900	331,900	18.0%
7 Remote Rural Areas	17,400	77,100	22.6%	16,900	71,100	23.8%	17,300	72,900	23.7%
8 Very Remote Rural Areas	15,000	65,600	22.9%	15,200	68,300	22.3%	15,200	65,900	23.1%
All	287,700	2,494,300	11.5%	302,300	2,557,700	11.8%	297,400	2,577,300	11.5%

Source: Annual Population Survey (January to December). Notes: Headline employment levels cover those aged 16 and over. Levels are rounded to the nearest hundred and totals may not equal the sum of individual parts due to rounding. The 2013 - 2014 Scottish Government Urban Rural Classification has been used here, built up from 2011 census output areas. The employment estimates here are on a residence basis (e.g. it is number of people living in rural areas that are currently employed - their workplace(s) could be in a rural and/or urban area).

Table 6 confirms the much higher rates of self-employment in rural Scotland, and particularly remote and very remote rural Scotland. The rates in small towns are lower than rural areas, but higher than the rest of Scotland. The average self-employment rate across rural Scotland has remained static at 19.5% over this three year period (data not presented here). As mentioned earlier, we do not know the reasons why individuals are in self-employment, and indeed how many of these people have set up and are running their own business, but on a positive level, these figures can be taken to indicate a more entrepreneurial population in rural Scotland⁵⁰. On the other hand, high levels of self-employment may be indicative of poor employment options at local level meaning that individuals are forced into running their own business. A better understanding of the ways in which, and reasons why, people enter self-employment is vital to ensuring that programmes can be appropriately tailored to support them (where relevant) in the right way. Looking at the sectoral breakdown of self-employment (data not presented here) suggests that there has been a growth in self-employment in the professional services sector, such as management consultants, so this may be a growth sector to monitor in terms of future support and evidence needs.

Alongside these national level surveys, researchers have explored particular aspects of (rural) Scotland's business population. For example, Professor Colin Mason at Glasgow University has published a large quantity of work on home-based businesses. His most recent publication, for the Federation of Small Businesses Scotland, revealed that 56% of businesses in Scotland are home-based, accounting for 17% of all private sector employment and 10% of private sector turnover. Home-based businesses are predominantly located in rural local authority areas. This is partly to do with the large number of home-based businesses in the hotel, catering, leisure, tourism and entertainment sector which accounts for 30% of all rural home-based businesses. Several other sectors also have a higher share of home-based businesses in rural locations, including construction, agriculture, engineering, manufacturing, digital and telecoms and transport⁵¹. This group of businesses will have particular support requirements that differ from those of businesses that are located on high streets in local towns, or in rural business parks.

Researchers at Queen Margaret University have been researching family-owned businesses for a long time.

Rural Family Business: the Economic Bedrock for Local Economies and Communities

Dr Claire Seaman, Reader in Enterprise and Family Business, Queen Margaret University

Family businesses form the economic bedrock of communities across Scotland and indeed far beyond. That may sound like a bold statement, but it is based on recent research from Queen Margaret University in Edinburgh and encapsulated in a number of new developments. There is some debate about how to define a family business. In Scotland, SMEs account for 99.3% of all private sector enterprises and 63% of these are family businesses. The proportion is probably higher in rural areas and higher still in remote rural communities where there are relatively few people and infrastructure challenges may deter international firms from investing. Statistics from DEFRA tend to bear this out - there are more registered businesses per head of population in rural areas than in urban areas, if London is excluded, which suggests there being more small businesses in rural areas. Notably, too, agriculture, forestry and fishing accounts for only 15.6 per cent of registered businesses in rural areas, highlighting the relative importance of small business from a variety of sectors in rural areas.



In spite of this, detailed statistics on family business are scarce, in part because we tend to collect data focused on business size or sector, rather than focusing on the patterns of ownership. Nevertheless, one thing is clear. Families run businesses and this brings with it a number of distinct benefits and

challenges. Looking at research and practice internationally, the benefits of family run businesses seem to be reasonably clear. Families in business seem to benefit from a longer field of strategic vision, a degree of cooperation (sometimes!) and a shared pool of social and financial capital. The challenges, sadly, are also well documented and here research evidence stands in parallel with anecdotal tales of disagreements, generational shifts and feuds. The inclusion of a family within a business makes a fundamental difference to the manner in which many businesses operate and this is well-documented in research. While many family businesses have the advantage that family resources (social and knowledge-based, as well as financial) are accessible through the family dimension, the challenges they face can include older members of the family who are unwilling to retire and indeed a next generation for whom the family business may not fit in terms of aspiration or aptitude. Very often, family businesses work to resolve those issues on their own or by drawing on the advice of trusted advisors but specialist education that takes into account some of these issues is also becoming available.

A number of recent developments aim to support and protect this vital group of businesses. At Queen Margaret University, MBA and MSc programmes with a family business focus aim to combine general business learning – because, after all, these are businesses – with learning that offers specialist insight into the family dimension within the business. Queen Margaret University also offers doctoral level learning, where PhD candidates work with countries as diverse as Kashmir, Jordan, Ghana and indeed Scotland itself.

In January 2017, new studies that look at rural farming families, family-run car dealerships in rural areas, migrant families in business and indeed the often less-visible women in family businesses will begin, adding to the evidence-base for future work. Working with Family Business United Scotland, the team at Queen Margaret University aims to incorporate their programmes with a wider programme of family business education being developed, which includes half-day seminars and the Scottish Family Business Week. Scottish Family Business Week happens in October each year and serves to bring together families who run businesses across Scotland to celebrate family business and focus on activities that could support this sector.

For further details about masters programmes with a family business focus, check out:

http://www.qmu.ac.uk/courses/PGCourse.cfm?c_id=282

http://www.qmu.ac.uk/courses/PGCourse.cfm?c_id=283

For further details about Family Business United Scotland check out www.fbuscotland.com



Research has also been undertaken in England on the role of in-migrant business owners. This work has highlighted the economic significance of rural in-migration in terms of new enterprise formation and job creation⁵². Work in the North East of England revealed an average of 2.8 jobs were created for each in-migrant business surveyed⁵³. Work in rural Scotland (Roxburgh and North Lewis), however, found that few in-migrants were establishing businesses and those that did were thought to represent 'survival self-employment' creating few jobs for others⁵⁴.

2.5 What more do we need to know about Scotland's rural enterprises and why?

Section 2.4 has presented some of the existing evidence about rural businesses in Scotland, and has demonstrated the breadth of activities going on and some of the characteristics of rural enterprises and how they differ from urban businesses. New data has been analysed and made available recently, however, there are still topics on which it would be useful to have much more data and these are briefly described in this section⁵⁵.

At the outset of this section it is worth noting that Scottish Government statisticians are currently analysing data on a number of key issues which will significantly improve the rural evidence base. This includes data on Gross Value Added for rural Scotland and it is hoped this will be available in 2017. Statisticians are also currently working on releasing data for unregistered businesses – i.e. businesses that are not registered for

VAT or PAYE – and this will help to improve our understanding of this group of businesses in rural Scotland⁵⁶. Data from March 2014 suggested that unregistered businesses made up over 50% of all private sector enterprises in Scotland. If this national picture is replicated in rural areas, this would double the number of rural businesses to over 100,000. This data is therefore vital to build up a full and accurate picture of the business profile of (rural) Scotland.

As previously discussed in this section, one issue on which evidence is lacking is the routes that different individuals take into setting up their business or becoming self-employed, and particularly whether this is through choice or necessity. Understanding these pathways is critical to shaping appropriate support mechanisms as those who set up a business through choice, having had an idea, worked up a business plan, done market analysis etc. are likely to have very different support needs to those who have set up - or perhaps taken over - a small business as a result of a different set of circumstances.

Rural and urban economies demonstrate considerable similarities in terms of the broad sectoral breakdown of their businesses (see Figure 2). However, data is often not easily available to ‘dig deeper’ into these broad sectoral characteristics⁵⁷. In Manufacturing, for example, there are 24 Divisions (including the manufacture of wood and wood products, paper and paper products, textiles, food products and beverages, etc.), but disaggregated reporting of industry Divisions in rural areas - at disaggregated geographies (i.e. beyond a high level accessible and remote breakdown) - is hard to find. In some cases, this is because numbers of businesses are too small to enable robust analysis or to maintain confidentiality, plus such disaggregation can be costly in time and money. However, only with this in-depth understanding can policies and support programmes be appropriately tailored to reinforce ‘good’ trends, to correct market failures or to identify clustering or dispersal of particular economic activities. Moreover, even when data is available at broad industry sector level, it is important to understand changes in the number of people employed, the number of enterprises and turnover levels as these different measures will produce different profiles for rural economies. A more comprehensive understanding will enable support interventions to be appropriately shaped and focused depending on the desired aim (e.g. increasing jobs or revenue or encouraging concentration or dispersal).

Linked to this, a better understanding of the ownership structure of businesses in rural Scotland, including understanding whether a business is a branch office or main site, or whether it is family-owned, would also help to build interventions that are appropriate for the units on which they are targeted. These businesses are likely to have different relationships with their local areas, for example, in terms of the extent to which they depend on local suppliers.

Similarly, a better understanding of the distribution and roles of micro-businesses, SMEs and large firms in rural Scotland would be useful. Interventions are often focused on microbusinesses and SMEs – quite rightly due to their importance in rural Scotland – but it is also important to understand the characteristics and roles of the few large firms in rural areas as even a small contraction or expansion of their workforce is likely to have a significant local impact (see Table 2). Moreover, it will be useful to more fully understand their relationships with local businesses (for example, in terms of accessing supplies) which may well help to inform incentives to encourage them become more positively engaged in their local communities. Understanding the relationships of businesses and their localities will show where investments could best be targeted to have the most significant positive local and regional impact.

In terms of innovation, statistics tend to suggest that rural businesses are not as innovative as urban businesses (as also described in Section 2.4), but this is often more to do with how innovation is measured in official statistics. It is unlikely that small rural businesses will be able to match urban businesses in terms of spending on R&D, staff in R&D departments, or even numbers of patents, for example. However, if a broader definition of innovation is taken to include incremental changes, or changes to working practices as well as products, then rural businesses are often more innovative than their urban counterparts. In order to be fully inclusive, future strategies to support innovation need to recognise the differences in innovative behaviour between rural and urban businesses, and use data that will adequately record innovation by rural businesses.



To demonstrate how important it is to have an accurate, up-to-date evidence base on rural businesses, there are several examples of where rural business research work elsewhere has had impacts on regional and national rural policy. For example, rural business survey work at the Centre for Rural Economy, Newcastle University in 1999/2000 provided baseline data to analyse the impact of the foot and mouth disease outbreak in the north of England. The findings fed into public sector responses to the outbreak, including the shaping of regional support programmes for businesses affected by the disease. The second survey in 2010 provided a sound evidence base for CRE researchers to feed into Defra's Rural Economy Growth Review⁵⁸. In turn, this Review informed the creation of the Local Enterprise Partnerships, now in existence across England, and other growth strategies and measures adopted by the Department of Business, Innovation and Skills.

One approach to tackling some of the gaps in the data on rural businesses is through building rural-urban markers into existing surveys/datasets. This may not always be the best approach as it is often the case that the survey does not pay adequate attention to issues that may be particularly important for rural businesses, plus sample sizes may be too small in rural areas for robust and accurate conclusions to be drawn. However, a team of researchers at Newcastle University is currently working with partners, including the Department for Business Innovation and Skills, to use such an approach to improve the rural evidence base across the UK from the Small Business Survey.

Rural Enterprise UK

Professor Jeremy Phillipson, Centre for Rural Economy, Newcastle University

Rural Enterprise UK (REUK) is an integrated research, enterprise and implementation initiative designed to improve the fortunes of rural SMEs across the UK by overcoming weaknesses in the baseline evidence of rural enterprise activities and potential. REUK aims to:

- analyse and disseminate evidence of growth opportunities and challenges for businesses in the UK's rural areas;
- identify solutions to overcome impediments to raising productivity in rural areas;
- foster rural business development and growth.

REUK is being led by the Centre for Rural Economy and the Business School at Newcastle University and has been built upon extensive communication with UK Government Departments, enterprise agencies, business organisations and other partners.

Taken together, REUK activity will help business owners, their representatives, advisors and policy makers to understand and tackle differential weaknesses and strengths within rural and non-rural firms, and to identify and encourage the adoption of successful solutions to such challenges by businesses themselves, by public and private business advisors, and by those who design and deliver support for national and local economies. This will be achieved by extended evidence collection and analysis, improved monitoring, and more comprehensive expertise exchange regarding the contribution, needs and potential of rural enterprises. The project is building a national partnership between rural enterprises, policy makers, enterprise partnerships and development agencies, and researchers.

Newcastle University researchers are analysing responses to the UK Government's Longitudinal Small Business Survey (LSBS) between 2016 and 2020 to produce a consistent evidence base about rural businesses and their performance (on key drivers of productivity, growth and competitiveness), challenges and changes over time. Data on rural businesses across the UK will be available over the coming months.

Further work planned includes: spotlight studies to explore in-depth challenges affecting the performance of rural businesses and potential solutions; working with businesses and their representatives to mainstream rural enterprise into policy and research; and developing improved networks for exchange of knowledge, experience and skills to facilitate rural business competitiveness and improved economic policy that works for rural areas.

More information on REUK can be found by emailing Professor Jeremy Phillipson at the Centre for Rural Economy, Newcastle University (jeremy.phillipson@ncl.ac.uk).



More qualitative data will also be useful, for example on the characteristics of business owners. As the rural population ages, for example, we do not know enough about older business owners. What are their motivations for setting up their business, what are their future plans (including relating to succession) and how can they best be supported, are all important questions. Alongside this, broader work on the motivations of business owners would be useful, to ascertain the degree to which they are seeking to maximise profits or are perhaps seeking other outcomes, including achieving 'green' credentials or contributing to wellbeing goals, for which rural businesses may be particularly well placed.

These improvements in data, both statistical and qualitative will require dedicated analytical time at national and local levels, by all those interested in supporting rural businesses. However, in time this work will permit national, regional and local enterprise support organisations to better shape and differentiate their priorities and interventions, according to, for example, key local concentrations of businesses, sectors in which large firms or microbusinesses dominate or sectors in which the numbers of businesses is growing or declining.

2.6 Concluding comments – the shape of Scotland's rural economies in future

Rural Scotland is home to over 51,000 businesses – more than 30% of Scotland's (registered) businesses. When businesses in small towns (up to 10,000 population) are added, this amounts to 42% of businesses (over 72,000). These businesses operate across a range of sectors, including land-based activities, but also manufacturing, construction and service sector activities. Indeed, data suggests that in terms of numbers of SMEs, while the primary sector remains important particularly in remote rural Scotland, the manufacturing, construction and transport, retail and distribution sectors are at least as important in rural Scotland as they are in urban Scotland. However, traditional, simplistic perceptions of "rural economy = agriculture" still persist and the breadth and size of the contribution of rural areas is undervalued and often 'under the radar' of policies and support programmes. This contrasts to the land-based sector which is relatively well-evidenced, understood and supported.



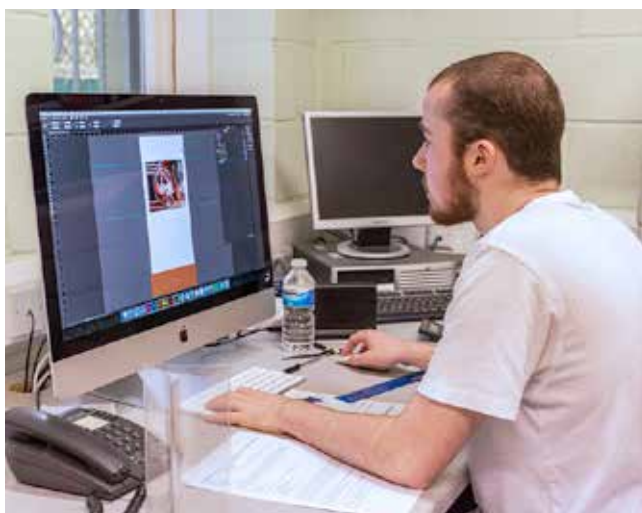
The data that is available suggests that not only are rural businesses sizeable in terms of their numbers and diverse in their composition, but that they also demonstrate different characteristics and needs when compared to urban businesses, including in terms of their size, ownership structure, growth plans, export potential, employee training provision, and innovative behaviour. These differing characteristics suggest that mainstream business support policies and programmes may need to be tailored and delivered differently. But without better underlying evidence, such tailoring cannot be effectively implemented. Without such tailoring, non-land-based rural businesses are in danger of being under-represented and forgotten, or worse, disadvantaged.

The evidence base to demonstrate the breadth of activity in rural areas and to feed into policy formation is improving, but there are still important gaps. For example, data is often only available at local authority level or for comparing remote and accessible rural businesses, but not at finer geographical scales. Data is often not available for sectoral sub-categories to dig deeper into more specific growth areas or to identify clusters. In order to accurately measure the contribution of rural businesses to the sustainable and inclusive growth of the communities and regions in which they are located and to Scotland as a whole, and to fully support them to increase this contribution, we need to fill these data gaps. Further work might include the addition of urban/rural markers to existing datasets, ensuring larger rural samples in future surveys, undertaking additional survey work and sharing lessons learned from best practice approaches. In addition, understanding and explaining changes requires qualitative research, case studies and dialogue between businesses, those who represent and advise them and their employees, and those who plan, resource and deliver policies and interventions.

Improving this evidence base is particularly important given a number of recent and ongoing processes, including:

- ***The UK's exit from the EU:*** The uncertainty caused by the referendum vote will continue as negotiations progress, perhaps particularly so in rural areas where EU funding for agriculture and rural communities is so important. Understanding how this is impacting on business performance, and how businesses are themselves responding, is vital in order for policy-makers and business support organisations to be able to shape appropriate interventions. More positively, Brexit may provide opportunities to introduce new funding and support arrangements.
- ***The diversity of Scotland's rural economies is likely to grow in future:*** As broadband provision improves and new opportunities open up to rural businesses in terms of increasing access to the internet and more people are able to work from home, there is likely to be additional growth in service sector activities which will need to be tracked and support provision shaped accordingly. Home-based businesses are likely to require different kinds of support to those not based in the home, with the latter including isolated single business units, small clusters of firms in rural business parks or businesses in busy town centres, all of which may require different interventions and delivery approaches.
- ***New economic opportunities:*** This section has already demonstrated the importance of businesses located in rural areas to Scotland's identified growth sectors, especially life sciences, finance and business services, and sustainable tourism. Indeed rural areas are home to some of Scotland's most important and fastest growing sectors. Rural areas are well placed to deliver innovative business developments in other emerging sectors, including the production of sustainable renewable energy and biomaterials, high quality food production and digital services. This will further increase the diversity of Scotland's rural economies, and to fully maximise their potential, many of these businesses will require access to the latest knowledge, innovation and appropriate financial and other support.
- ***LEADER is now involved in delivering support to small rural businesses:*** However, to deliver this support as effectively as possible at local level requires up-to-date data to inform the targeting of this (somewhat limited) funding, for example on local growth businesses or sectors.
- ***Changing financial powers for Scotland:*** Alongside ever-tightening public budgets, Audit Scotland note that the changes to Scotland's financial powers resulting from the Scotland Acts 2012 and 2016 mean that the performance of Scotland's economy, including employment rates and salary levels, will have more impact on Scotland's public finances than before. It is therefore important that public sector economic growth activity and funding are targeted where they will have the greatest impact on sustainable and inclusive economic growth⁵⁹. Targeting requires an accurate underlying evidence base.
- ***Announcements in the 2016-17 Programme for Government:*** As discussed earlier, the Programme for Government included several new business-related initiatives, including the £500 million Scottish Growth Scheme, the Post-Referendum Business Network, the one-to-one support for SMEs and funding for specific areas to improve business infrastructure, including community enterprise hubs. A full evidence base will be required to demonstrate how far these initiatives do/do not apply to rural businesses in the same way as urban businesses, and to monitor ongoing activities. If these schemes are not fit-for-purpose for Scotland's rural enterprises, evidence can be used to help shape more appropriate interventions.
- ***Developments relating to Scotland's island communities:*** It will be interesting to monitor forthcoming legislation for Scotland's island communities and whether or not this includes any specific support for island-based businesses. Again, evidence is required to demonstrate why such businesses might require different interventions or modifications to be made to mainstream programmes.
- ***The targeting of broader goals:*** Development approaches that are designed to boost the sustainability and resilience of local communities – and also wider objectives such as inclusion, wellbeing and even happiness - rather than job creation and business growth may also come to the fore in future, hence a need to understand, for example, the motivations and future plans of all rural business owners.

Our ability to understand the needs and opportunities of the country's 51,000 rural businesses is critical to meeting the Scottish Government's purpose of increasing sustainable and inclusive growth. This cannot be achieved if we lack an adequate evidence base on their make-up and contribution. An improved understanding will enable public sector and business bodies to better target, strengthen and monitor their contributions to this goal. In short, informed by better rural evidence, mainstream policies and programmes will be more 'fit-for-purpose' and flexible in being able to acknowledge and support the breadth of activities going on across Scotland. The evidence will also feed into the design of specific responses in particular localities, where appropriate. Improved policy and programme support will increase the confidence and performance of existing and potential rural firms as they see their needs being met and their contribution and opportunities being nurtured and strengthened.



Section Endnotes

- 1 Copus, A. (2016) SMEs in the Small Towns and the Rural Areas of Scotland, Research Note March 2016 – Vibrant rural communities series. Available online: <http://www.hutton.ac.uk/research/groups/social-economic-and-geographical-sciences/SEGS-research-notes>.
- 2 For more detailed data, see Table 1 later in this section.
- 3 Fergus Ewing MSP, Cabinet Secretary for the Rural Economy and Connectivity referred to the internet as the “birth of opportunity for rural Scotland”, in his opening address for the 2016 Scottish Rural Parliament in Brechin (6th-8th October 2016).
- 4 Also in his opening address at the second Scottish Rural Parliament, Fergus Ewing MSP, Cabinet Secretary for the Rural Economy and Connectivity, commented that Scotland’s “rural economy is undervalued”.
- 5 For more information, see: <http://www.gov.scot/About/Performance/purposestratobjjs>
- 6 The Scottish Government (2015) Scotland’s Economic Strategy, The Scottish Government, Edinburgh. Available online: <http://www.gov.scot/Topics/Economy/EconomicStrategy>
- 7 The Scottish Government (2016) A Plan for Scotland, The Government’s Programme for Scotland 2016-17, The Scottish Government, Edinburgh. Available online: <http://www.gov.scot/Publications/2016/09/2860>
- 8 These are stated elsewhere in the document as tourism, food and drink, fisheries and agriculture.
- 9 Scottish Government (2016) Small Business Survey Scotland 2015 Topic Report Urban/Rural Businesses, Scottish Government, Office of the Chief Economic Adviser. Available online: <http://www.gov.scot/Topics/Economy/ASBS>.
- 10 Fintech is financial technology, an industry composed of companies that use technology to improve the efficiency of financial services.
- 11 This part of the Programme announced £10 million to support the delivery of capital projects for local economic development, see The Scottish Government (2016) A Plan for Scotland, The Government’s Programme for Scotland 2016-17, The Scottish Government, Edinburgh. Available online: <http://www.gov.scot/Publications/2016/09/2860> (p. 30)
- 12 For more information, please see: <http://news.scotland.gov.uk/News/Support-for-local-economies-2bbb.aspx>.
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- 14 More information on BIDS in Scotland is available online: <http://bids-scotland.com/>.
- 15 Scottish Executive (2003) Rural Scotland – Taking Stock. Scottish Executive. Edinburgh. Available online: <http://www.gov.scot/Publications/2003/03/16701/19555>.
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- 17 OECD (2010) The New Rural Paradigm: Policies and Governance. OECD Publications, Paris. Available online: <http://www.oecd.org/gov/regional-policy/thenewruralparadigmpoliciesandgovernance.htm>.
- 18 For more discussion of the lack of a coherent rural policy or vision in Scotland see: Skerratt, S., Atterton, J., Brodie, E., Carson, D., Heggie, R., McCracken, D., Thomson, S. and Woolvin, M. (2014) Rural Scotland in Focus 2014, Edinburgh, Rural Policy Centre, SRUC, Scotland’s Rural College. Available online: http://www.sruc.ac.uk/info/120428/rural_scotland_in_focus/1265/2014_rural_scotland_in_focus_report.
- 19 LEADER is a grassroots method of delivering support for rural development through implementing Local Development Strategies. For more information, please see: <http://www.gov.scot/Topics/farmingrural/SRDPL/LEADER>.

- 20 For more information on LFASS please see: <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/lfass/>.
- 21 Steiner, A., Brodie, E. and Skerratt, S. (2014) Analysis of online survey themes and Twitter 'Rural Hours' for Scottish Rural Action. Report prepared by Scotland's Rural College's (SRUCs) Rural Policy Centre for Scottish Rural Action (October).
- 22 Scottish Parliament Rural Economy and Connectivity Committee (2016) Rural Economy and Connectivity Committee, Wednesday 29 June 2016 Official Report. Available online: <http://www.parliament.scot/parliamentarybusiness/CurrentCommittees/99825.aspx>.
- 23 Audit Scotland (2016) Supporting Scotland's economic growth, The role of the Scottish Government and its economic development agencies, Audit Scotland, July. Available online: <http://www.audit-scotland.gov.uk/report/supporting-scotland%E2%80%99s-economic-growth-the-role-of-the-scottish-government-and-its-economic>.
- 24 Scottish Enterprise (2015) 2014/15 Local Activity Reports, Scottish Enterprise.
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- 26 See for example, Agirova, E. and Michaelis, C. (2003) Omnibus Survey of Small Businesses in Scotland 2002: Rural Analysis, Final Report for the Scottish Executive Environment and Rural Affairs Department (September); Smallbone, D., North, D. and Leigh, R. (1993) The growth and survival of mature manufacturing SMEs in the 1980s: an urban-rural comparison, In Curran, J. and Storey, D. (eds) Small Firms in Urban and Rural Locations, Routledge: London and New York; Keeble, D., Tyler, P., Broom, G. and Lewis, J. (1992) Business Success in the Countryside: The Performance of Rural Enterprise, HMSO, London.
- 27 The Small Business Survey Scotland is part of a UK-wide large-scale telephone survey commissioned by the Department of Business, Innovation and Skills (BIS) and was conducted between July 2015 and January 2016. The Survey includes small and medium sized enterprises (0-249 employees) with and without employees and is a longitudinal survey. Data are weighted to ensure the results are representative of the overall Scottish SME population. Data presented here relates to SMEs with employees only. In 2015, 820 businesses with employees took part in the Survey, including 134 (20%) in accessible rural areas, 76 (10%) in remote rural areas and the remainder (610, 69%) in the rest of Scotland.
- 28 Figure taken from Scottish Government (2016) Small Business Survey Scotland 2015, Topic Report: Urban/Rural Businesses, Scottish Government Office of the Chief Economic Adviser (September). Available online: <http://www.gov.scot/Topics/Economy/ASBS>.
- 29 Audit Scotland (2016) Supporting Scotland's economic growth, The role of the Scottish Government and its economic development agencies, Audit Scotland, July. Available online: <http://www.audit-scotland.gov.uk/report/supporting-scotland%E2%80%99s-economic-growth-the-role-of-the-scottish-government-and-its-economic>.
- 30 Audit Scotland (2016) Supporting Scotland's economic growth, The role of the Scottish Government and its economic development agencies, Audit Scotland, July. Available online: <http://www.audit-scotland.gov.uk/report/supporting-scotland%E2%80%99s-economic-growth-the-role-of-the-scottish-government-and-its-economic>
- 31 More information on the call for evidence and Ministerial Group, including the first phase report, is available online here: <http://www.gov.scot/Topics/Economy/EntandSkillsreview>.
- 32 For more information, please see: <http://www.scottishruralparliament.org.uk/>.
- 33 Scottish Rural Action (2016) A Manifesto for Rural Scotland, Scottish Rural Action. Available online: <http://www.scottishruralparliament.org.uk/a-rural-manifesto-for-scotland/>.
- 34 Scottish Government (2015) Rural Scotland Key Facts 2015. The Scottish Government: Edinburgh. Available online: <http://www.gov.scot/Publications/2015/03/5411>, p. 49 Figure 17.
- 35 This figure is taken from Scottish Government (2015) Rural Scotland Key Facts 2015, Scottish Government, Edinburgh. Available online: <http://www.gov.scot/Publications/2015/03/5411> (p. 50, Figure 18).

- 36 The Scottish Government (2015) *Businesses in Scotland 2015*, A National Statistics Publication for Scotland, Business and Energy. Available online: <http://www.gov.scot/Topics/Statistics/Browse/Business/Corporate> (p. 10).
- 37 2015 data is presented here but 2016 data will be made available in early November 2016.
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- 39 Table is taken from Scottish Government (2015) *Businesses in Scotland 2015*, A National Statistics Publication for Scotland, Business and Energy. Available online: <http://www.gov.scot/Topics/Statistics/Browse/Business/Corporate>. (Table 9, p. 140).
- 40 This figure is taken from Scottish Government (2015) *Rural Scotland Key Facts 2015*, Scottish Government, Edinburgh. Available online: <http://www.gov.scot/Publications/2015/03/5411> (p. 55, Table 26).
- 41 This table is derived from data available online via: <http://statistics.gov.scot/>.
- 42 This situation for Argyll and Bute was mirrored in the 2014-15 data, where this local authority area and the Scottish Borders were the only local authority areas in Scotland to experience a falling registered business count (The Scottish Government (2015) *Businesses in Scotland 2015*, A National Statistics Publication for Scotland, Business and Energy. Available online: <http://www.gov.scot/Topics/Statistics/Browse/Business/Corporate>).
- 43 Contributing banks are Bank of Scotland, Clydesdale Bank, TSB Bank, and The Royal Bank of Scotland.
- 44 This table is derived from data available online via: http://www.scotbanks.org.uk/facts_and_figures.php.
- 45 For more discussion of this business-household interlinking, see for example: Wheelock, J., Oughton, E. and Baines, S. (2003) Getting by with a little help from your family: towards a policy relevant model of the working household, *Feminist Economics* 9 (1), pp. 19-45.
- 46 820 SMES with employees took part in the Longitudinal Small Business Survey (LSBS) in 2015. Of these 820, 20% (134) were located in accessible rural areas and 10% (76) in remote rural areas.
- 47 Defined as controlled by a single woman or having a management team comprised of a majority of women.
- 48 The Scottish Government (2015) *Scotland's Economic Strategy*, The Scottish Government, Edinburgh. Available online: <http://www.gov.scot/Topics/Economy/EconomicStrategy>
- 49 More information on the urban/rural breakdown of the growth sector statistics is available online here: <http://www.gov.scot/Topics/Statistics/Browse/Business/Publications/GrowthSectors/LADatabase>.
- 50 For more discussion on this, see: Atterton, J., Newbery, R., Bosworth, G. and Affleck, A. (2011) Rural enterprise and neo-endogenous development, in Alsos, G. A., Carter, S., Ljunggren, E. and Welter, F. (eds). *The Handbook of Research on Entrepreneurship in Agriculture and Rural Development*, Edward Elgar: Cheltenham, UK, pp. 256-280.
- 51 Mason, C. and Reuschke, D. (2015) *Home Truths: The true value of home-based businesses*, A report for FSB Scotland. Available online: <http://www.fsb.org.uk/media-centre/press-releases/half-of-all-scottish-businesses-are-based-at-home-fsb-study-reveals-spupr0602>.
- 52 See for example. Bosworth, G. (2006) *Counterurbanisation and Job Creation: Entrepreneurial In-Migration and Rural Economic Development*, Discussion Paper No 4, Centre for Rural Economy, Newcastle. Available online: <http://www.ncl.ac.uk/cre/publish/discussionpapers/index.htm>.
- 53 Bosworth, G. (2009) Education, mobility and rural business development, *Journal of Small Business and Enterprise Development*, 16 (4), pp. 660-677.
- 54 Stockdale, A. (2006) Migration: Prerequisite for rural economic regeneration? *Journal of Rural Studies* 22, pp. 354-266.

- 55 For a more in-depth discussion of some of these issues see: Turner, R. and Atterton, J. (2015) Scotland's Rural Enterprises: What do we know and where are the information gaps?, Rural Policy Centre Policy Briefing, RPC Policy Briefing 2015/11 (August). Available online: http://www.sruc.ac.uk/downloads/download/1041/2015_scotlands_rural_enterprises_what_do_we_know_and_where_are_the_information_gaps.
- 56 It is likely that this data will be available in November 2016.
- 57 It is worth noting that the Office for National Statistics (ONS) make a large number of their datasets available to academic/government researchers via the Secure Data Service. An application has to be made, but via this route, the data is available at detailed level for those that request it for a specific project or analysis.
- 58 For more information, see: <https://www.gov.uk/government/publications/rural-economy-growth-review>.
- 59 Audit Scotland (2016) Supporting Scotland's economic growth, The role of the Scottish Government and its economic development agencies, Audit Scotland, July. Available online: <http://www.audit-scotland.gov.uk/report/supporting-scotland%E2%80%99s-economic-growth-the-role-of-the-scottish-government-and-its-economic>.



Policies for communities
in Scotland: are they
delivering national
resilience outcomes?
Section 3

Policies for communities in Scotland: are they delivering national resilience outcomes?

Professor Sarah Skerratt

Section 3



KEY POINTS

- Community development and regeneration have been the focus of successive governments since 1999.
- Whilst high-level aspirations have been expressed in largely the same way for 17 years, the definitions and indicators underneath have changed, leading to the lack of a coherent national journey and a deficient national evidence base.
- It is therefore not possible to know which Milestones and Outcomes *have* been delivered, what has *not* been delivered, and *how* and *where* this matters. Much learning has been lost rather than accumulated.
- Whilst the National Performance Framework is to be celebrated in principle, there are significant challenges in knowing whether or how policies have delivered NPF national outcomes.
- *In rural areas*, lack of evidence is particularly concerning, especially coupled with over-reliance on the Scottish Index of Multiple Deprivation (SIMD). *It is no longer acceptable to say that it is “too difficult” to collect data in and for rural areas.*
- There is an urgent need to develop a framework for meaningful, objective, systematic evidence-gathering, plus smarter use of what we already know.
- If this does not happen soon, we will have no clear picture of what has changed and why, and what this means for community resilience. It will also be impossible to know what to stop and what to continue, meaning lost opportunities to support community resilience outcomes across rural Scotland.

3.1 Why focus on community policies over the past 17 years?

During the first four sessions of the Scottish Parliament, there have been multiple policies, programmes and funds, often working in parallel, to support an increase in community resilience. What is not clear is how these have impacted on communities in terms of the overall national outcomes of reducing inequalities, building capacity and enhancing resilience.

In 1999, when the Social Justice Strategy was launched, the Justice Minister at the time said that it was important to collect data so that “**Scotland will know** if we are moving towards a fairer, more just nation” (p.2). In 2016, we read a similar phrase in the refreshed Standards for Community Engagement, where the indicators for each Standard are designed to show “**how we will know** we have met this Standard”.

However, after 17 years of interventions, it is clear that **we do not have systematic knowledge about how far these policies have changed outcomes for communities across Scotland**. This is because: (i) policies and programmes have not always fed into each other over time; (ii) milestones, outcomes and indicators have changed *significantly* with each new policy and programme, meaning that national learning has not been systematically accumulated; and (iii) evidence of *local-level* delivery has not been collated as a basis for assessment of progress towards *national* community outcomes.

The internationally-recognised National Performance Framework of the Scottish Government is in its tenth year of operation. One of the 16 national outcomes is “**We have strong, resilient and supportive communities, where people take responsibility for their own actions and how they affect others**”. The Community Empowerment (Scotland) Act 2015 commits current and subsequent governments to an outcomes-based National Performance Framework for the years to come. This means that there is a significant and growing need to generate and use meaningful data on community resilience – so that “Scotland can know” whether, how and where outcomes are, and are not, being delivered, and learn how to shape effective policies into the future.

Communities in **rural** Scotland are of course a key part of this national picture, with additional challenges of data availability for a smaller, more dispersed population. Systematic data *can* be gathered, and *can* be fed into outcomes-based assessment. There is on-going policy commitment to resilient rural communities through significant legislation including Community Empowerment, Land Reform and an upcoming Islands Bill. The need to know whether and how these new policies will deliver a “resilience outcome” for rural communities is therefore becoming all the more imperative if resources are to be used to their best effect.

3.2 National policy review: the journey towards community empowerment 1999-2016

3.2.1 A prequel: 1973

Twenty-six years prior to the establishment of the Scottish Parliament in 1999, the **Local Government (Scotland) Act 1973** (Part IV, Section 51) led to the creation of **Community Councils**, seen then as “the most local tier of elected representation”. Their role was:

Local Government (Scotland) Act 1973

“to ascertain, co-ordinate and express to the local authorities for its area, and to public authorities, the views of the community which it represents, in relation to matters for which those authorities are responsible, and to take such action in the interests of that community as appears to it to be expedient and practicable.”

This element of the 1973 Act is still in place. According to the Community Councils website¹, Community Councils “play an important role in local democracy”, through “representing the community to the local authority... they advise, petition, influence and advocate numerous causes on behalf of local communities”².



3.2.2 From 1999 to 2016

1999 - Social Justice: A Scotland where everyone matters:

“Our communities need to be supported to be able to take more ownership of their own destinies. Too many Scottish communities and neighbourhoods are isolated and disadvantaged, or in danger of becoming so. We believe that every community matters and we need to work together with them to plan for a more inclusive future.... We will do this through an integrated approach to strategic planning, involving communities in the renewal of their own neighbourhoods and by making sure these communities can influence what happens in their own area. We will make sure services, including health and community care, are organised around the needs of the individuals and communities.” (pp.7 and 16)

2016 - Programme For Government 2016-2017:

“Strong, resilient and supportive communities are important to the idea of ‘One Scotland’ where we all live together in peace and people from all backgrounds have the opportunity to flourish. Cohesive communities are anchored in equality of opportunity, respect for human rights, social justice, and an inclusive national identity... We are pushing the boundaries of community empowerment and community-led innovation. We are determined to see a Scotland where community-led action is celebrated and community ownership is both desirable and viable... Where once the people had little say in how their local environment was used, they will now have the power to decide their future. All this will be reinforced by new laws designed to devolve real power and decision-making.” (p.72)

The journey from 1999-2007

Since the formation of the Scottish Parliament in 1999, there has been a range of efforts by successive Governments to create and support community-led development. Over 17 years, these have been variously focused on addressing poverty and disadvantage, place-based regeneration, health and social care, community-led service delivery, community learning and development, strengthening local democracy, and land and asset purchase. Such initiatives have been driven by: an ideological commitment to addressing inequalities and regeneration needs through the empowerment of communities; and more recently, increasing resource pressures in the public sector coupled with an aging population and greater demand for services, with the need to reconfigure service provision.

Figure 1 (*see next page*) shows a timeline of policies, strategies, programmes and projects which have been put in place during the four sessions of the Scottish Parliament, and indicates upcoming legislation and programmes in session five.

At the top level, we can see the appointment of Ministers for “Communities” in *most* Parliamentary sessions. We see a Minister for Communities for one year (1999-2000), then an absence for three years until the second session, when three Ministers held the Communities portfolio during the four-year period 2003-2007. From 2007-2011, when the new SNP Government created Cabinet Secretaries, there was no Cabinet Secretary for Communities, but rather a Minister for Communities and Sport for two years, followed by a Minister for Housing and Communities. From 2011, we start to see Cabinet-level appointments being made, firstly for Social Justice, Communities and Pensioners’ Rights (2011-2016), and secondly, for Communities, Social Security and Equalities (2016-2021), now responsible for:



Welfare policy, community empowerment, devolution to communities and reform of local government, equalities, religious and faith organisations, protection and development of social and human rights, third sector and social economy, democratic renewal, local government, housing, homelessness, community planning, planning, business improvement districts, town centres, building standards, social security, implementation of new powers, measures against poverty, disabilities, older people, tackling inequalities, social justice, regeneration.

If we look back to the beginnings of the Scottish Parliament in 1999, the focus of the initial Minister for Communities was on social justice, social inclusion, closing the gap between communities, and the potential for community learning and development to support community-focused outcomes. The key strategy was **Social Justice: A Scotland where everyone matters**³.





The **vision for communities** was “a Scotland in which every person both contributes to, and benefits from, the community in which they live” (p.6), with two long-term targets being: reduce inequalities between communities; and increase residents’ satisfaction with their neighbourhoods and communities. There was a strong commitment to community involvement and ownership, and to giving communities a greater say over local

spending patterns. **Six Milestones** were designed to assess progress towards these targets (p.16):

1. Reducing the gap in **unemployment rates** between the **worst areas** and the average rate for Scotland;
2. Reducing the incidence of **drugs misuse** in general and of **injections and sharing of needles** in particular;
3. Reducing **crime rates in disadvantaged areas**;
4. Increasing the **quality and variety of homes** in our **most disadvantaged communities**;
5. Increasing the number of people from all communities taking part in **voluntary activities**;
6. Accelerating the number of households **in disadvantaged areas** with **access to the Internet**.

A commitment was given to annual monitoring. The **first report in 2000**⁴ restated the ambition for “building strong, inclusive communities” (p.16), with community empowerment being central to greater inclusion and communities being able to “take ownership of their own futures” (p.5). The report introduced **five additional high-level Actions**, although it is not clear whether or how these new Actions would be monitored or deliver alongside the original six Milestones:

1. giving power to communities to make decisions and to influence others;
2. building skills, confidence and capacity;
3. getting high quality and affordable services to communities;
4. closing the digital divide; and
5. developing community control of assets, of organisations, and of enterprises.

The report highlights: **Social Inclusion Partnerships** to tackle injustice and exclusion at a local level, in urban and rural areas, by building strong, thriving communities and developing “local solutions to local problems”; and the **Better Neighbourhoods Services Fund (BNSF)** to help local authorities improve services to communities suffering deprivation.

The **second report**⁵ (2001) re-commits to building “stronger, inclusive communities... putting power and resources into the hands of communities so they can shape their future” (pp.1-2). Although the Introduction highlights that there are “no quick fixes or easy answers to tackling poverty” (p.2), they nonetheless state that “twelve months on from our First Report we are beginning to see real progress”. This progress is reported according to the six Milestones. No mention is made of the five high-level Actions of 2000, but instead **three additional new Actions** are introduced to “revive and empower Scotland’s disadvantaged communities”:



1. ensuring that the mainstream programmes and resources of public sector agencies are targeted as effectively as possible;
2. complementing those mainstream programmes with a range of targeted initiatives aimed at addressing particular concentrations of disadvantage in areas or groups; and
3. empowering communities through extending participation, access to skills, knowledge and resources.

Again it is not clear how these three new Actions are intended to sit alongside the initial six Milestones (1999) or the five additional Actions (2000). Instead, the report outlines a range of initiatives around: skills, confidence

and community capacity; information and communication technologies (ICTs); addressing homelessness, inadequate housing and varying standards of housing management; and the importance of enterprise and wealth creation. The report also looks ahead to the **Community Regeneration Statement**⁶ (2002) which will “set out further detail of our strategy for reviving and empowering Scotland’s communities” and provide a framework for **Communities Scotland**⁷ to operate.

The **third report**⁸ (2002) keeps to the same six Milestones, with no mention of the eight Actions. Significantly at this point, we start to see a grouping together of the Social Justice Strategy and the Closing the Opportunity Gap programme. The **fourth and final report** (2003) also links the Social Justice Strategy into a bigger picture of parallel policies where:

“This Report is only a milestone in itself in the development of our commitment to social justice. *Scotland is changing, and our strategy will change to deliver for Scotland...* New commitments in the Partnership Agreement for the new Scottish Executive will help achieve our goals, by delivering outcomes that will benefit Scotland and its people – growing the economy, delivering excellence in public services, supporting strong communities, and developing an ambitious and confident Scotland...” (p.v).

In the same period as the Social Justice Strategy annual reports, the Scottish Executive published **Better Communities in Scotland – Closing the Gap**⁹ (June 2002), followed by an **Action Plan**¹⁰ (December 2002) which sets out: “how we – together with our partners in local government, other parts of the public sector, the private sector and voluntary and community groups – intend to turn round disadvantaged communities and create a better life for those who live in them.” (p.6).

The two parts of Action Plan are: (i) making **core public services** as effective as possible in deprived areas; and (ii) making sure that individuals and communities “have the **social capital** – the skills, confidence, support networks and resources – to take advantage of and increase the opportunities open to them.” (p.6). There is belief in targeted regeneration, coupled with joined-up national, regional and local priorities, with community planning providing the framework.



The **Action Plan** was based on joint working between the Convention of Scottish Local Authorities (COSLA), the Scottish Executive and Communities Scotland, with input from a wider reference group. The report refers to “closing the opportunity gap” as a key element of social justice which sits across education, health, police, national and local government. There are descriptions of existing and future steps under four headings:

1. **Joining Up Services:** mainly through community planning partnerships;
2. **Building Knowledge and Expertise:** the Scottish Neighbourhood Statistics Project; introducing a new Deprivation Index; setting up the Scottish Centre for Regeneration;
3. **Improving Services:** develop community budgeting, neighbourhood management approaches to service delivery and use of local outcome agreements; use findings of Social Economy Review to work across sectors;
4. **Raising Skills:** support partnership working and develop more guidance; prepare guidance on how community learning and development (CLD) approaches can support community involvement in the community planning process; improve how to measure the effect of CLD on building social capital and improving core services; raise the skills of professionals and communities to engage with one another; the Scottish Community Action Research Fund.

Closing the Opportunity Gap was highlighted in the **Scottish Budget 2003-2006**¹¹ and then launched in **2004**. Its intention was to prevent individuals or families from falling into poverty, provide routes out of poverty, and sustain people to be free from poverty. The **Community** target focused on “regeneration of the most deprived neighbourhoods, through improvements



by 2008 in employability, education, health, access to local services, and quality of the local environment". Improved outcomes were to be delivered, in part, through Community Planning Partnerships (CPPs), via Regeneration Outcome Agreements (ROAs).

It is not clear how these new themes, goals, outcomes and measures were intended to link with the already-existing Social Justice Strategy Milestones being delivered at the same time. It therefore becomes less easy to see how and what the parallel projects and policies are actually delivering. As new strategies are published, high-level goals become "aspirational" again, with the underpinning data being less visible. A very crowded landscape starts to develop.



This landscape develops further at the beginning of Parliamentary Session two (2003) when the **Joint Statement: A Partnership for a Better Scotland**¹² was published with **450 new commitments** within four new themes: Growing the Economy; Delivering Excellent Public Services; **Supporting Stronger, Safer Communities**; and Developing a Confident, Democratic Scotland. The four overall themes do not map onto Ministerial portfolios and in fact, during the period 2003-2007, there were three consecutive Ministers for Communities (Curran [2003/4], Chisholm [2004/6] and Brankin [2006/7]).

For Supporting Stronger, Safer

Communities, there are **92 new High-level Commitments and Supporting Activities** focused on **four new** themes: Children and Young People; Justice (including youth crime and prosecution); Social justice; and Sports, Culture and the Arts. It now becomes much more difficult to trace the route from earlier Milestones and Targets to this new framework.



During this period, we also see the development of **Community Planning**, underpinned by four concepts: Community leadership; A strategic vision for the whole area; Community involvement; and Partnership working. **Community Planning Partnerships (CPPs)** were given statutory basis in the **Local Government in Scotland Act (2003)** (Section 2) with a duty on local authorities to bring



community and public bodies around the table. Community Planning aims to promote community engagement, joint working, rationalisation between multiple initiatives, and connection between local and national priorities¹³. Delivered by 32 local CPPs (one for each local authority area), it is designed to help public agencies work together with the community "to plan and deliver better services which make a real difference to people's lives"¹⁴.

Around this time, evaluations of a number of community-focused programmes, particularly Social Inclusion Partnerships¹⁵, showed a need for improved ways of involving communities. Evidence showed that public involvement did not work very well in practice – it was too late, insufficiently resourced, with key decisions being taken by people who did not live in the affected areas¹⁶. Therefore, the **National Standards for Community Engagement**¹⁷ were established in **2005**, designed to support better working relationships between service providers and communities. The Minister for Communities and Minister for Finance and Public Services Reform describe the Standards as:

"measurable performance statements which can be used by everyone involved in community engagement to improve the quality and process of the engagement. They set out key principles, behaviours and practical measures that underpin effective engagement. They will be of real benefit to community planning partnerships in involving communities to achieve real and sustained results" (p.2).



COSLA recommended these Standards to the public sector: “as a fundamental part of community planning and a means of bringing in the voice of those engaged in the most disadvantaged communities. The principles underpinning the standards help create a common set of ground rules that should be applied to ‘both sides’ of the engagement process.” (p.3)

The National Standards (Table 1) were intended to be a practical tool that could be used in both formal and informal engagement. Case studies of pilots, a toolkit and reference manuals were provided to support implementation. In addition, **VOICE** was commissioned (2007) and launched (2008) by the Scottish Executive “to enable all users to employ

a common system for analysing, planning, monitoring, evaluating and recording their community engagement.”¹⁸ It was designed in four sections: Analyse, Plan, Do, Review¹⁹.

1. **INVOLVEMENT:** we will identify and involve the people and organisations who have an interest in the focus of the engagement.
2. **SUPPORT:** we will identify and overcome any barriers to involvement.
3. **PLANNING:** we will gather evidence of the needs and available resources and use this evidence to agree the purpose, scope and timescale of the engagement and the actions to be taken.
4. **METHODS:** we will agree and use methods of engagement that are fit for purpose.
5. **WORKING TOGETHER:** we will agree and use clear procedures that enable the participants to work with one another effectively and efficiently.
6. **SHARING INFORMATION:** we will ensure that necessary information is communicated between the participants.
7. **WORKING WITH OTHERS:** we will work effectively with others with an interest in the engagement.
8. **IMPROVEMENT:** we will develop actively the skills, knowledge and confidence of all the participants.
9. **FEEDBACK:** we will feed back the results of the engagement to the wider community and agencies affected.
10. **MONITORING AND EVALUATION:** we will monitor and evaluate whether the engagement achieves its purposes and meets the national standards for community engagement.

Table 1: The ten National Standards for Community Engagement²⁰

Three years on from the new Government’s Partnership Agreement for a Better Scotland, a new Policy Statement was published: **People and Place: Regeneration Policy Statement (2006)**²¹. Community-focused policies are seen as central to achieving the Executive’s main goal of sustainable economic growth. Renewed community confidence is a priority. CPPs are described as taking the lead strategic role in bringing together public, private and voluntary sectors, for example through Regeneration Outcome Agreements (ROAs)²², where:



“regeneration is about creating vibrant, safe and attractive communities where individuals and families from all backgrounds want to live and businesses want to invest and grow: communities which are well planned and well designed; communities with a diverse and attractive environment; communities which provide opportunities for culture and sport; and communities with a sense of identity and pride.” (p.45)

There is no indication of how these **new** high-level community outcomes would be achieved. Rather, they are called a “**statement of intent**”, with a promised detailed work programme and annual progress reports to come later.

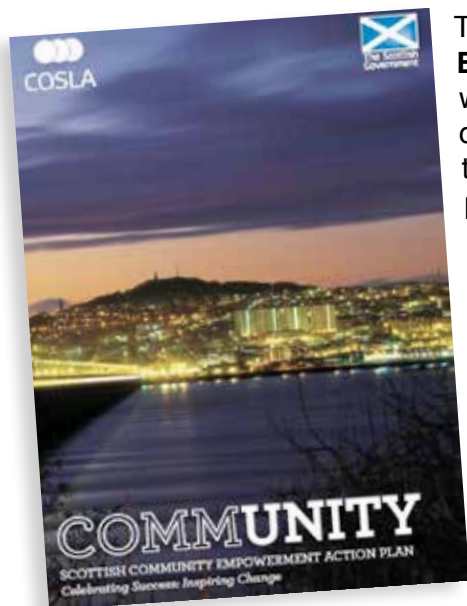
The period 2007 to 2016

Of great significance in this policy journey is the creation, by the newly re-named Scottish Government, of the **National Performance Framework (NPF)** in **2007**. According to the Scottish Government’s website, the NPF presents “a move away from counting inputs and outputs to measuring longer-term outcomes”. It represented a significant “gear-change” in Scottish Government policy. From this point onwards, all policy efforts were to be re-oriented towards the delivery of 16 National Outcomes underpinned by the over-arching Purpose of Government^{23 24}.



Coupled with the NPF was the Concordat²⁵, “a new relationship between the Scottish Government and local government, based on mutual respect and partnership”, much-reduced central ring-fencing of budgets and greater local control. The Concordat was coupled with the formation of Single Outcome Agreements (SOAs) between each local authority and the Government, based on the National Outcomes, national and local Indicators, and a new reporting framework.

The NPF National Outcome for communities is: “**We have strong, resilient and supportive communities, where people take responsibility for their own actions and how they affect others.**” Resilient communities are described as important because they enhance inclusion, embrace diversity, allow more people to contribute, increase cohesion, set appropriate behaviour boundaries and lead to a better quality of life. Essential to delivering this NPF Outcome are: well-designed places, housing, devolving power to local levels, partnerships between central and local government (through CPPs), vibrant democracy and purposeful voluntary activity.



Two years after the launch of the NPF, the **Scottish Community Empowerment Action Plan Celebrating Success: Inspiring Change** was published by the Scottish Government and COSLA (2009). This defined community empowerment as “a process where people work together to make change happen in their communities by having more power and influence over what matters to them.” (p.9). Community empowerment “invigorates democracy”, since:

“Scotland’s communities are a rich source of talent and creative potential and the process of community empowerment helps to unlock that potential. It stimulates and harnesses the energy of local people to come up with creative and successful solutions to local challenges... Communities doing things for themselves can be the best way of delivering change” (p.9).

CPPs are again seen as best placed to lead joined-up approaches to community empowerment, with **Community Learning and Development (CLD)**²⁶ supporting community capacity-building.

Two years later, the **Commission on the Future Delivery of Public Services (2011)**²⁷ unambiguously put communities at the heart of reformed public service delivery:

- The **first of four Principles** states that “Reforms must aim to empower individuals and communities receiving public services by involving them in the design and delivery of the services they use” (p.vi);
- The **first of nine Priorities** is “Recognising that effective services must be designed with and for people and communities – not delivered ‘top down’ for administrative convenience” (p.ix);

- The **second of eight Recommendations** states the need for: “Making provision in the proposed Community Empowerment and Renewal Bill to embed community participation in the design and delivery of services” (p.ix);
- The **first objective of the reform programme** must be to ensure that “public services are built around people and communities, their needs, aspirations, capacities and skills, and work to build up their autonomy and resilience” (p.23), because public services are “most effective, and provide best value for money, when users have a pivotal role in designing and evaluating them” giving “more sustainable outcomes and higher levels of satisfaction for users and staff” (p.35).



Soon after the Christie Commission’s report, the Scottish Government and COSLA issued a **Statement of Ambition** regarding **Community Planning and Single Outcome Agreements (2012)**²⁸. The Statement puts communities firmly at the centre: communities have high expectations of public services; they have a key role to play in shaping better outcomes; they need to be understood; there must be genuine opportunities to consult, engage and involve them; CPPs must know communities’ needs and aspirations. All this must be achieved via the principle of “Strengthening community engagement and participation in delivering better outcomes” (Annex, p.4). In fact, the Community Planning process, coupled with SOAs, are seen as *the* “key strategic building blocks” for reducing inequalities for Scotland’s local communities – even more so than any structural change (p.1). This substantially increases the expectations placed on CPPs and SOAs.



Since **2013**, the Scottish Government has funded **Scottish Rural Action**, a newly-formed, independent charity with a dual purpose of “developing and organising Scotland’s Rural Parliament and supporting the development of a rural movement”²⁹. In November **2014**, the first **Rural Parliament**³⁰ took place in Oban, opened by the then Cabinet Secretary for Rural Affairs, Food and the Environment. According to the website: “The creation of a Rural Parliament is a unique opportunity to enable a stronger, more coherent voice for Scotland’s rural communities... It must be firmly rooted in Scotland’s rural communities, developed by and for the people who live and work in rural Scotland.” The Rural Parliament was followed by a **Rural Summit** in November **2015**, at which the First Minister spoke and re-emphasised her belief in, and commitment to, resilient communities determining their own futures, with the Cabinet Secretary supporting this view during a panel session. The Rural Parliament held its second full event in **October 2016**, once again opened by a Cabinet Secretary for Rural Economy and Connectivity. This high-level Ministerial input is coupled with a Government commitment to listen to the “Asks” and Manifesto of the Rural Parliament.

In **2014**, the **Commission on Strengthening Local Democracy**³¹ likewise pointed to the centrality of communities in Scotland’s future – this time with a focus on how it is right for people to be making decisions about what directly affects them, through “a new democratic partnership”, because:



“Scotland is a diverse country: what works in our cities will not suit remote rural communities, just as the priorities in our towns will not be the same as those on our islands. Put simply, strong local democracy means putting local people in charge of their own lives, and leaving national government to focus on outcomes for the whole of Scotland, and the rights that all communities should enjoy.” (p.6)

The Commission made nine Recommendations including: supporting and empowering communities to be involved in decision-making locally; overcoming barriers to participation; decentralisation, participatory budgeting, empowerment schemes – all scrutinised by communities; reinvestment in community learning and

development; and a Centre of Excellence in Participatory Democracy (p.30). The report states that this will require no “short term burst of activity” or “beautiful ‘engagement plans’ on paper which fall short on delivery” – it will need sustained, long term focus and investment (p.30). They recommend the start of a new conversation – one which will “galvanise the democratic sector in Scotland” (p.37).

Also in **2014**, communities are seen as being at the heart of Scotland’s preparedness in the face of the changing climate. The Scottish Government’s **National Centre for Resilience (NCR)**³² aims to ensure communities across Scotland are fully and adequately prepared for natural hazards such as flooding and landslides. The focus is on up-skilling local, place-based communities so that, through partnership with local agencies (fire, police and health services), they are able to manage the consequences of extreme weather events.



The Scottish Government states that community resilience will be built by:

- promoting and developing existing community resilience projects;
- improving our understanding of the impact of both risk and emergencies on communities, and providing community groups with access to learning and exercising opportunities;
- improving our understanding of the challenges Scotland’s communities will face as a result of climate change, focusing on capacity-building for communities, in particular vulnerable communities, and help support on-the-ground action “climate justice”.



In parallel with the above initiatives and developments is the **community regeneration** work of the Scottish Government, focused on community-led, asset-based approaches with “local people identifying issues and opportunities for themselves, deciding what to do about them, and being responsible for delivery that will make a difference”³³.

Launched in **2012**, the **People and Communities Fund (PCF)** is designed to “support community organisations

to grow and strengthen by delivering outcomes to meet and respond to the aspirations of their communities”, through four components: **main grant; Strengthening Communities Programme; DTAS Community Ownership Support Service**³⁴; and **Coalfields Regeneration Trust**³⁵.

Main grant: has provided support, training/upskilling, volunteering and employability advice, funding for community facilities, activities for young people and healthy eating initiatives. Additional funding was announced for 2015/16 to tackle poverty and inequalities and promote social inclusion in Scotland’s most disadvantaged communities, through supporting Registered Social Landlords and other community anchor organisations, such as community development trusts. The PCF is currently closed for new applications.

Strengthening Communities Programme (SCP): a partnership approach launched in April 2014³⁶ between the Scottish Government, Scottish Community Development Centre (SCDC), Highlands and Islands Enterprise (HIE), Carnegie UK Trust and the Development Trust Association Scotland (DTAS). The aim is to “build the capacity of the next generation of community organisations so that they are capable of assisting communities to address the social, economic and environmental opportunities in their area.”³⁷ According to the SCP website, the impact of the programme will include “more resilient and sustainable community organisations committed to community regeneration objectives... and a pipeline of organisations with their

capacity enhanced and ready to advance into more ambitious initiatives". The SCP supports two portfolios of community organisations through HIE/DTAS and SCDC (called "Supporting Communities"³⁸).

Community Ownership Support Service (COSS): funded by the Scottish Government to support community based groups to take a stake in, or ownership of, previously publicly owned land or buildings. COSS aims to "provide individual community groups and public bodies with a bespoke support service, including: Expert advice on all aspects of asset transfer; Training courses on the asset transfer and asset development process; Sign-posting to other support agencies; Web access to information on good practice, toolkits and case studies"³⁹.

Since the establishment of the over-arching PCF, the Government stated in its **Programme for Government 2014/15**, that it would establish the **Empowering Communities Fund**. In December 2015, £20M of funding was announced⁴⁰, whereby: "Communities will be able to tackle poverty and inequalities and take forward regeneration in their areas on their own terms... giving even more power to communities"⁴¹. The new Empowering Communities Fund is described as "the overall package of support for programmes such as the People and Communities Fund, Strengthening Communities Programme and Community Ownership Support Service".

The Scottish Government's policy drive towards communities being at the centre is at its most substantial in the **Community Empowerment (Scotland) Act (2015)**^{42 43}. Community empowerment is described in the Act as a core pillar of the **human rights** approach, based on a "long and proud tradition of people coming together to use their energy and creativity to make a difference for their communities"⁴⁴. By exercising this human right, "communities become more confident and resilient, leading to improvements in health and equalities". They are "often best placed to determine outcomes for local services", meaning that service providers should fully engage communities to make sure "community voices are heard in public sector processes". A very brief overview of key Parts of the Act reinforces this standpoint .



Key Parts of the Community Empowerment (Scotland) Act 2015

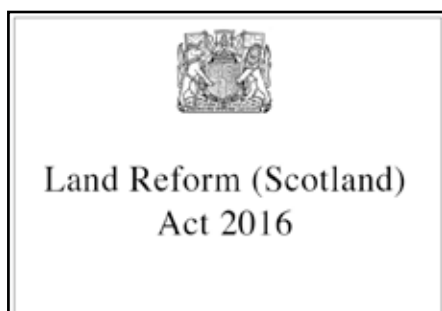
- **Community Planning (Part 2):** CPPs must focus efforts on the "reduction of inequalities which result from socio-economic disadvantage". New statutory duties: focus on improving outcomes and produce a local outcomes improvement plan (LOIP); identify locations where communities experience the poorest outcomes and agree priorities and outcomes for these communities; report on their LOIPs and locality plans; expand the list of statutory partners "Near-final" Guidance and Regulations was issued on 25th October 2016⁴⁵ who must ensure that community organisations play an active role in community planning. Importantly, instead of local authorities taking the lead role, it is now shared between named partners through specific new governance arrangements. [Consultation on CPPs delivery Guidance closed in June 2016. "Near-final" Guidance and Regulations was issued on 25th October 2016].
- **Participation Requests (Part 3):** A mechanism for community bodies to put forward ideas for how services could improve outcomes for their community, including community bodies taking on delivery of services⁴⁶. [Consultation on draft regulations closed in June 2016].
- **Community Rights to Buy Land (Part 4):** Amends Land Reform (Scotland) Act 2003 (Parts 2 and 3), extending the community right to buy to all of Scotland, urban and rural, and improving procedures. Introduces: measures to amend, and in some areas, simplify, thecrofting community right to buy; new provision for community bodies to purchase land which is abandoned, neglected or causing harm to the environmental wellbeing of the community, where the owner is not willing to sell that land. This is if the purchase is in the public interest and compatible with the achievement of sustainable development of the land. [Amendments to Part 2 of the Land Reform Act came into force on 15 April 2016. Consultation on key policy questions relating to thecrofting community right to buy, and the community right to buy abandoned, neglected or detrimental land, closed in June 2016].
- **Asset Transfer Requests (Part 5):** Provides community bodies with a right to request to purchase, lease, manage or use land and buildings belonging to local authorities, Scottish public bodies or Scottish Ministers. There will be a presumption of agreement to requests, unless there are reasonable grounds for refusal.

Reducing inequalities will be a factor for public authorities to consider when making a decision. Relevant authorities will be required to create and maintain a register of land which they will make available to the public. [Consultation on draft regulations closed in June 2016].

- **Delegation of Forestry Commission Functions (Part 6):** Allows for different types of community bodies to be involved in forestry leasing. Available under revised National Forest Land Scheme to be published after the Asset Transfer Requests provisions come into force.
- **Common Good Property (Part 8):** statutory duty on local authorities to establish and maintain a register of all property held by them for the common good. Requires local authorities to publish proposals and consult community bodies before disposing of or changing the use of common good assets.
- **Participation in Public Decision-Making (Part 10):** A new regulation-making power enabling Ministers to require Scottish public authorities to promote and facilitate the participation of members of the public in the decisions and activities of the authority, including in the allocation of its resources.

The Government's clear belief in the centrality of communities runs through the Act:

“The core purpose of the Scottish Government ... will only be achieved by making the most of all the resources available in Scotland, especially the collective talents, creativity and determination of Scotland's people... The Scottish Government believes that Scotland's people are its greatest asset: they are best placed to make decisions about our future, and to know what is needed to deliver sustainable and resilient communities... trusting the people who live and work in Scotland to make decisions about the nation's future”⁴⁷.



This perspective is strongly echoed in the next significant piece of legislation from Session 4: **The Land Reform (Scotland) Act 2016**⁴⁸. Land Reform is couched in terms of a fundamental relationship between the people living in Scotland and the land of Scotland⁴⁹, where “the land of Scotland should be an asset that benefits the many not the few”⁵⁰. The Scottish Government's website describes the Government's vision of: “a democratically accountable and transparent system of land rights that promotes fairness and social justice, environmental sustainability and economic prosperity”. This is further emphasised in the Policy Objectives of the Act, including: “Land, both rural and urban, is one of Scotland's most fundamental and finite assets and is intimately linked to ideas of well-being, social justice, opportunity and identity and is key to both the success and development of its people and communities alike”⁵¹.

The Act is underpinned by seven Principles, including that “a growing number of local communities in Scotland should be given the opportunity to own buildings and land which contribute to their community's wellbeing and future development”. There are ten parts to the Act; those Parts with a specific community focus are shown in purple.

Parts of the Land Reform (Scotland) Act 2016

- **Statement on Land Rights and Responsibilities (Part 1):** Requires the Scottish Government to publish a statement and review this every 5 years. The statement will contain a set of principles to guide the development of public policy on the nature and character of land rights in Scotland, to ensure that the full public benefits from land in Scotland are realised.
- **Scottish Land Commission (Part 2):** a Commission will be established, which will appoint Land Commissioners and a Tenant Farming Commissioner.
- **Public register (Part 3):** A public register of persons that have a controlling interest in land, to improve transparency of landownership in Scotland by ensuring information about persons with a controlling interest is publically available.

- **Community engagement Guidance (Part 4):** Ministers to issue guidance about the circumstances in which persons with control over land should carry out community engagement. Guidance will be produced in consultation with all relevant persons and in preparing the guidance have regard to promoting respect for and observance of relevant human rights, encouraging equal opportunities, furthering the reduction of inequalities of outcome which result from socio-economic disadvantage, and the achievement of sustainable development in relation to land.
- **Right to buy land to further sustainable development (Part 5):** Empowering communities to buy land where this is necessary to further sustainable development and where certain conditions are met.

The journey of land reform is a central commitment in the **2016/17 Programme for Government**⁵²:

- bring more land into community ownership with the goal of reaching one million acres by 2020. Support community land purchases through £10 million/year Scottish Land Fund, increasing the level of support that communities receive to develop proposals for land ownership and purchases;
- Aim to have Land Commission operational by April 2017;
- Consult on Land Rights and Responsibilities Statement in Autumn 2016, before laying the statement in Parliament in 2017;
- Consult on proposals for a register of controlling interests in those who own land, and lay regulations in Parliament in 2017 to establish the register and set out how it will operate.



Community engagement continues to be prioritised, and in September 2016, **National Standards for Community Engagement** were refreshed⁵³, “designed to complement and support Scotland’s developing community empowerment policy landscape and in particular the implementation of the Community Empowerment (Scotland) Act 2015”⁵⁴. Engagement is defined as: “a purposeful process which develops a working relationship between communities, community organisations, public and private bodies to help them to identify and act on

the needs and aspirations of the community” (p.6). The Standards are intended to “act as a central benchmark and reference for best practice” (p.4), underpinned by fairness, equality and a commitment to continuous improvement. They are for public sector bodies and elected representatives, third sector organisations, community groups and the private sector, and are intended to lead to shared decision-making and support for community-led action.

In this revised version there are seven (rather than ten) Standards: Inclusion; Support; Planning; Working together; Methods; Communication; and Impact. As with the original Standards, each is underpinned by Indicators. Resources are available from the VOiCE website⁵⁵, including case studies, policy and strategy information, practical materials, and the Scoring Criteria for Evaluation.

In October 2016, the Scottish Government announced the allocation of £1.5M for 28 projects under the **Community Choices Fund (CCF)**⁵⁶, designed for “people to have more say on how money is spent”. The CCF is targeted at deprived areas. In the **Programme for Government 2016/17**, the Government states it will “continue to work with local government and communities on delivery of the target of councils having at least 1% of their budget subject to Community Choices budgeting, backed by the £2 million Community Choices Fund”. The Government states that “tens of thousands of people will have a direct say in how tens of millions of pounds are spent by their councils and will be involved in innovative community action.” (p.79)

Participatory Budgeting (PB) is directly linked with the CCF. According to the PB website “there is a growing interest within policy and practice in Scotland in PB and in participatory democracy more generally... With 20 local authorities now signed up to the concept in Scotland it is an approach that will dramatically develop over the next year.”⁵⁷ A PB Working Group has been established, with members from SCDC, Scottish Community Alliance, University of Edinburgh, Church and Society Council, Scottish Council for Voluntary Organisations, COSLA, and The Democratic Society, to “build capacity in Scotland to ensure PB is delivered in a meaningful and sustainable way”.

Finally, in the Programme for Government 2016/17, we read that the **Islands Bill** will be introduced “to help the islands build a more prosperous future for their communities”, with commitment to a new **Islands Strategic Group** to meet for the first time in autumn **2016** to begin working on the creation of a National Islands Plan⁵⁸.

The bigger policy picture



Annual **Programmes for Government** and periodic **Government Economic Strategies** sit alongside the specific pieces of legislation, statements, plans and projects outlined above. It is worth having a brief look at how communities are described in the most recent Programmes and Strategy, as they give an insight into how Government sees the on-going role for resilient communities in Scotland.

Programme for Government 2014-15⁵⁹: The Government’s commitment to the up-coming Community Empowerment Bill is described as reflecting “our belief in the ability of the people in Scotland to do things for themselves. There is a huge reservoir of talent and energy in all our communities – by energising and releasing this, we will give people a greater sense of control over their own futures. This is an important aspect of tackling inequalities” (p.75).

Programme for Government 2015-2016⁶⁰: the Scottish Government sets out its vision for strengthening communities, where: “Our ambition is for Scotland to be a country where every person, regardless of circumstances has the right to ... influence decisions that affect them... has opportunities and support to lead their own change... has a voice in their local community and be able to play their part in making it a sustainable and enjoyable place to live... We believe that people in Scotland have the ideas, the energy and the talent that will make this a better country for everyone to live in.” (p.1).



Programme for Government 2016-17⁶¹: under the heading “Putting people in charge and creating opportunities”, the Government states that they are determined to see community-led action being celebrated, with the Community Empowerment Act being a first step along this journey. We also read that: “Strong, resilient and supportive communities are important to the idea of ‘One Scotland’ where we all live together in peace and people from all backgrounds have the opportunity to flourish. Cohesive communities are anchored in equality of opportunity, respect for human rights, social justice, and an inclusive national identity.” (p.72)

Scottish Government Economic Strategy⁶² **2015**: there will be investment in “strengthening the success and resilience of local communities... and in communities, local assets and housing” (pp. 9, 11).

The Government will also “support the range of organisations which together empower local communities and underpin the structures which many individuals rely on to participate within society” (p.11). They are “committed to a One Scotland approach, where communities are empowered to drive change and deliver growth in the shared interest of the people of Scotland” (p.14).



3.3 Challenges of knowing whether national community resilience outcomes are being delivered

3.3.1 Assessing community resilience outcomes

As the previous section showed, communities have been a point of policy focus since the formation of the Scottish Parliament in 1999. Successive and parallel programmes have sought to address deep-seated challenges, as well as increase the empowerment of Scotland's communities. Throughout this period, there have been high-level claims relating to ground-breaking outcomes for communities. However, there are rarely systematic data to underpin these statements. This next section looks at how and why this is the case.

1999-2003: The Vision and four annual monitoring reports of the Social Justice Strategy

- **1999 - VISION:** the vision for communities was “a Scotland in which every person both contributes to, and benefits from, the community in which they live” (p.6). The six Milestones differ significantly from the wider vision and long-term targets for communities.
- **2000 - FIRST REPORT⁶³:** progress is reported in terms of existing or future programmes for increased community participation. The report states “it is clear that we must develop our ability to measure across all facets of poverty and deprivation – not just the ones we can measure now” (p.29). No link is made between actions and impact. Nonetheless, the report states: “We are starting to make in-roads into some of the accumulated problems facing individuals, families and communities. We are starting to make progress in turning round the legacy of poverty we inherited. We are pursuing policies that will bring real and lasting improvements to the lives of people everywhere in Scotland” (p.30).
- **2001 - SECOND REPORT⁶⁴:** much of the update is purely descriptive, outlining why specific issues are important, without any link between actions and community outcomes. *Trends* are reported in a descriptive way, with no direct link given between these (often high-level, national) trends and Strategy actions. *Making it Happen* describes a mix of current and future work, with case study examples. There is no link between activities and evidence of impact. There is a focus on process and on partnerships, but this is not coupled with outcomes evidence. Also, it is difficult to see links between some of the case studies and the Milestones. *Priorities for Progress* focus either on particular geographical areas or target groups, and/or recommend the development of new integrated, longer-term work and comprehensive new strategies, that is, larger-scale future investment.
- **2002 - THIRD REPORT⁶⁵:** begins with a case study, followed by “What we are doing” in Jobs, Health, Crime, Fuel Poverty, Housing, Volunteering, Digital Inclusion and Community Regeneration. The descriptions show numbers of households subscribed to a range of projects (e.g. new heating programme, Care and Repair Scheme, affordable homes), national statistics (e.g. offending figures), and up-coming programmes. The reporting format for each Milestone is the same as 2001, with “real case studies” of people whose lives have been “transformed as a result of the policies that we have implemented”. In spite of this largely descriptive case study format, the report is able to conclude that:

“We are indeed succeeding. We are making inroads into the problems of poverty and social exclusion. We are turning people’s lives around and beginning to break the cycle of deprivation. We are giving children and young people the chance to overcome the barriers they have faced, allowing them the chance to fulfil their potential. This is what all the data which we are now able to collect is telling us.” (p.2).
- **2003 - FOURTH REPORT⁶⁶:** The final report is very different from the previous three. There is a Milestone Progress Summary at the beginning (see Table 2). For each Milestone there is a summary of national or regional data showing trends in that particular issue, e.g. unemployment or volunteering. There is no commentary on how these statistics relate to the Strategy. There is no list of actions, no case studies, no linking of actions to impacts or outcomes. It is impossible to see what the Strategy’s actions have been and whether they have led to any change.

Milestone		Progress
1	Reducing the gap in unemployment rates between the worst areas and the average rate for Scotland	=
2	Reducing the incidence of drugs misuse in general and in injections and sharing of needles in particular.	=
3	Reducing crime rates in disadvantaged areas	**
4	Increasing the quality and variety of homes in our most disadvantaged communities	√
5	Increasing the number of people from all communities taking part in voluntary activities	=
6	Accelerating the number of households in disadvantaged areas with access to the Internet	√

Table 2: Milestone Progress Summary from the 2003 Annual Report on the Social Justice Strategy (Scottish Executive, 2003), p.vii. (Where √ is “data moving in the right direction; ** is “insufficient data” and = is “no change”).

2003/4-2008: Closing the Opportunity Gap Programme

- Significantly, there is recognition that, in spite of much investment and effort, “*we do not always know precisely what has been effective or what changes have taken place*” (p.15). Equally significantly, the Scottish Executive produced a set of indicators (Table 3) which “*were chosen because they reflect existing targets that individual Executive departments are responsible for delivering... Other indicators of deprivation, such as income, were excluded because they are not ones for which Scottish Executive departments have responsibility*”. (p.17)

Theme	Indicator
Education	Children achieving at least basic educational qualifications
Health	Death from coronary heart disease in people under 75
	Mothers who smoke during pregnancy
Justice	Levels of housebreaking
Transport	Serious and fatal road accidents involving children
	Access to a local bus service
Housing	Homes with poor energy efficiency
Jobs	Unemployment rates
	16-19 year olds who are not in education, training or employment
	Children in workless households

Table 3: the indicators associated with the 2003-2006 Budget and Closing the Opportunity Gap. (Source: Scottish Executive 2002, pp.16-17).

- The **Phase 1 Evaluation of CtOG (2007)**⁶⁷ spends one chapter setting out the challenges of monitoring and evaluation, including: multiple delivery agencies are collecting different data in a variety of ways; timeliness of data production and availability was problematic, as was data disaggregation according to the strategy’s many primary and secondary objectives. For the **Community Generation Target**, it was “too early to say” whether “Direction of Travel” had changed. The authors emphasise the need for on-going monitoring, particularly since “examples of policy areas which have not yet delivered as hoped may be overlooked” (pp.114-115). There were no additional evaluation reports. Plus it is not clear whether or how the CtOG indicators were linked with Social Justice Strategy monitoring.

2003: Monitoring the Partnership for a Better Scotland⁶⁸

- There is the summary of progress against each of the **46 new indicators** for “Supporting Stronger, Safer Communities” (Annex 2, pp.104-145). All reporting is qualitative, with reference to legislation (some predating the Partnership Statement), task forces and projects. Much of the language is aspirational, outlining what *will* be done, even for those listed as Achieved. Other examples simply state that something has been issued (e.g. legislation, Guidance) without assessing the impacts of those measures in relation to the Targets. Others outline actions without specifying whether it is the Government that has delivered them. It is not possible to identify which activities have led to what impacts, let alone to longer-term outcomes.

2006: People and Place: Regeneration Policy Statement

- A detailed work programme and annual progress reports had been promised in the Statement. Appendix B says the Statement “builds on the experience and lessons of regeneration in Scotland and the rest of the UK over the last two to three decades” (p.50) and cites some of the lessons, which include: physical investment is important but not enough; making investment work for people; linking opportunity and need; an integrated approach; leadership and clarity of purpose; partnership working; involving communities; education, learning and employability; finance; aligning funding streams.
- These are high-level descriptions which lead to Appendix C which describes a range of existing and future measures. Case studies are largely descriptive and make no link between investment and impact. Despite saying it would build on previous learning, this evidence base does not appear to use any of the data which had been collected in relation to the Social Justice Strategy (1999-2003) or subsequent programmes. Only high-level statements are made about these multiple programmes, rather than anything in-depth about impact.

2007: National Performance Framework

- It is important to note that the Scottish Government is leading the way internationally in terms of establishing its outcomes-based National Performance Framework (NPF) which aims to link all policies and programmes to higher-level outcomes and an overall Purpose. New Zealand is the only other country with a similar framework in place⁶⁹.
- The NPF is now in its tenth year of operation and “Scotland Performs”, the online information on how Scotland is performing against a range of targets, was launched in 2008. The NPF was refreshed in 2011, expanding the National Indicator set from 45 to 50 and adding an outcome on older people.
- In the 2016/17 Programme for Government, we read that the NPF: “is delivering real change in people’s lives and driving us towards fulfilment of our vision for Scotland as a fairer society and a more prosperous country with opportunities for all to flourish” (p.81).
- In policies and programmes predating and postdating the launch of the NPF, community outcomes include terms such as inclusion, diversity, cohesion, quality of life, well-designed places, devolution of power, partnerships, vibrant democracy, voluntary activity, good will and neighbourliness. The community-focused outcome of the NPF is similarly far-reaching: “**We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others**”.
- *However*, in contrast to these over-arching, multiple outcomes for community resilience, **the three NPF Indicators** related to the resilient communities outcome are: (i) improve people’s perceptions about the crime rate in their area; (ii) reduce crime victimisation rates; and (iii) improve people’s perceptions of their neighbourhood.
- These three NPF indicators bear little relationship to the Government’s resilient community outcomes. They also seem to make no connection with the learning from the previous programmes of Social Justice (1999-2003), Partnership (2003), National Standards for Community Engagement (2005), Regeneration Statement (2006), Community Planning (2003) or the Community Empowerment Action Plan (2009). Additionally, there is no apparent link between the Indicators and the focus of the National Centre for Resilience (2014) where communities play a central role⁷⁰.

- This makes it difficult not only to know what has changed over the past 17 years for Scotland's communities, but whether and how the past ten years of policies and programmes have delivered to the national outcome for resilient communities.

2009: Community Empowerment Action Plan

- In the Plan's 69-pages, only one page sets out how the impact of the Action Plan will be evaluated. It begins by stating that: "How we measure community empowerment is making a difference is not straightforward. This is partly because community empowerment can take so many different forms. At one level, how to measure impact must be decided on a case by case basis, depending on what activity is being taken forward by which kind of group or community. However, even that can be a challenging process, involving some complex debates and difficult decisions" (p.19).
- The Action Plan concludes this page by stating there is a need for coherence "to help people understand how best to measure the impact of community empowerment", and that work will be carried out to deliver that coherence, including reviewing progress with partners in 2010. There is no information on how the Action Plan's high-level outcomes will be monitored or evaluated.

2011: Christie Commission

- The report states the need for any national targets to be based on "a clear and explicit account of their contribution to achieving the desired outcomes" (p.50). Transparency and consistency are required, with a logical connection being made between how public money is supporting achievement of outcomes. The report concludes that "clarity about outcomes is a vital element in improving public services" (p.63).

3.3.2 Are national community resilience outcomes being reached?

The **Programme for Government 2014/15** states that the "one Scotland" approach is "a single framework to which all public services in Scotland are aligned and provides a clear direction to move to outcomes-based policy making" (p.17). However, the lack of coherent monitoring and evaluation means it is not possible to know whether community-related local and regional policy efforts are achieving the NPF outcome of community resilience. The above track record also leads to substantial questions as to how the Community Empowerment (Scotland) Act 2015 and the Land Reform (Scotland) Act 2016 will be evaluated in terms of their contribution to the NPF community resilience outcome.

There appears to be a clear disjoint between the high-level aspirations and rhetoric evident in community-related strategies and policies, and the Indicators being used to assess progress towards these outcomes. The NPF is measuring only partial aspects of community resilience through three Indicators, and policy and multiple programme evaluations have not linked actions with outcomes. It is therefore unlikely we will know, in any *systematic* way, when and where community resilience outcomes are being achieved across Scotland as a result of Scottish Government policies.

This presents a further challenge in aligning resources with outcomes. Audit Scotland recently emphasised the need for 'Planning for Outcomes':

"A common theme in my 2015/16 performance audit reports is the potential for greater alignment of resources and actions, including those of public organisations, to the NPF. For example, the reports found that the NPF measures overall progress towards economic targets and outcomes but it does not measure the specific contribution of policies and initiatives to delivering these outcomes. We also found that policy implementation plans often lack indicators or measures to monitor progress... In embarking on reforms, more work is needed at the outset to define milestones and indicators of planned progress, to support the assessment of progress, performance reporting and accountability" (2016, p.16)⁷¹.

Audit Scotland's performance audits referred to in this quote include Community Planning and Economic Development. The need to link actions to outcomes, and create appropriate means for evaluation of outcomes delivery, is clearly substantial and cross-cutting.

SCOTLAND'S COMMUNITY PLANNING PARTNERSHIPS

In 2014, Audit Scotland stated that:

- *The Scottish Government needs to demonstrate a more systematic approach to implementing its outcomes approach by clarifying the links between longer-term outcomes, its priorities and performance measures across all policy areas (p.4).*
- *At present, there is no coherent national framework for assessing the performance and pace of improvement of CPPs. This means that there is no overall picture of how individual CPPs are performing and what progress is being made towards the effective implementation of the Statement of Ambition...*
- *Recommendation that the Scottish Government and COSLA should: develop a national framework for assessing and reporting progress in improving community planning and implementing the Statement of Ambition (p.5);*
- *Recommendation that the Scottish Government should: (i) ensure that future guidance on the implementation of public service reform programmes is clear about the specific role that CPPs should play and the contribution they are expected to make in supporting improved outcomes; (ii) implement its outcomes approach more systematically across all policy areas; and (iii) ensure that its review of national performance measurement arrangements streamlines approaches and creates a stronger prevention and outcome focus. (p.6).*

In 2016, Audit Scotland states:

- *The Scottish Government is strengthening its focus on outcomes in some policy areas. But the way in which public bodies report performance, and are held to account, does not always reflect the Scottish Government's policy of promoting outcomes, prevention and reducing inequalities. In particular, some short-term national performance targets are making it difficult to reform services to deliver more preventative service models... (p.5)*

Key points relating to Community Planning Partnerships, the National Performance Framework and Outcomes; Source Audit Scotland Reports on Community Planning 2014⁷² and 2016⁷³.

SCOTLAND'S ECONOMIC GROWTH

- *The Scottish Government's economic strategy sets out its priorities and overall approach to support sustainable economic growth. It is a broad, high-level strategy and does not set out in detail how underpinning policies and initiatives will be implemented. Although the Scottish Government sets the strategic direction for the enterprise bodies, their specific functions and responsibilities are not set out in the economic strategy. The economic strategy states that progress will be measured through the National Performance Framework (NPF). The NPF measures progress towards economic targets and outcomes but it does not measure the contribution of policies and initiatives to delivering these outcomes. The Scottish Government has refreshed its economic strategy twice since 2007 and has developed and refreshed underpinning plans and policies. But it has not collated progress against these, or the contribution made by individual public bodies, to form an overall assessment of progress against the priorities in its previous economic strategies. Doing so will allow the Scottish Government to ensure that its economic strategy remains relevant and fit for purpose. (p.5)*
- *Scottish Enterprise and HIE have performed well against their agreed performance measures but it is not possible to accurately measure their contribution to the NPF (p.6).*
- *Recommendations for The Scottish Government, Scottish Enterprise and HIE: agree common performance measures, where appropriate, that are clearly aligned to the NPF. This will allow the Scottish Government to: (i) compare the enterprise bodies' performance and (ii) measure their individual and joint contribution to NPF targets (p.7).*

Key points relating to Economic Growth, the National Performance Framework and Outcomes; Source Audit Scotland Report 2016⁷⁴.

This evidence is echoed by the Royal Society of Edinburgh (RSE), in their Advice Paper to the Finance Committee (2013)⁷⁵, which states that:

“The long-term nature of many of the desired outcomes set out in the NPF requires annual information on the cost, activity and quality of services delivered. **While the Scottish Government does provide an annual report on its progress against the national indicators contained in the NPF, this does not make a direct link between spending allocations and performance.** In order to be able to fully assess the effectiveness and efficiency of government performance, it is crucial that these connections are made within the structure of the NPF” (p.1).

3.4 What does all this mean for assessing the resilience of Scotland’s rural communities?

3.4.1 The on-going data deficit

The national policies and programmes discussed in this chapter operate in many (but not all) rural areas. Therefore the key points about the apparent “mismatch” between high-level outcome statements and measures of progress towards those same outcomes, apply equally to Scotland’s rural communities. We highlighted this as a concern in our *Rural Scotland in Focus* 2014 report⁷⁶, both in relation to rural statements and plans, and the gap between rural and national approaches – particularly concerning rural poverty.

Rural vision statements

In our 2014 report, we noted that, since **2000**, there has been a series of vision statements for Scotland’s rural communities. In **Rural Scotland: a New Approach**, the vision is for a “rural Scotland where everyone matters – every community, every family, every rural Scot”. Closing the Opportunity Gap appears in the **2002** vision **Taking Stock**⁷⁷, along with Promoting sustainable development. In **Rural Scotland: Better Still, Naturally (2007)**⁷⁸, eight strategic aims and approaches were listed, including “help to build resilient, sustainable rural communities”. In **2008**, the Scottish Government established the independent **Rural Development Council**, which reported in **2010** with its **Speak up for Rural Scotland**⁷⁹ vision document, where “active and confident communities” were seen as vital to Scotland’s future. The Council identified 37 Step Changes, including a focus on empowered communities and sustaining rural communities. In **2011**, the Scottish Government responded with **Our Rural Future**⁸⁰, which gave a vision of “...active communities... where our rural communities will grow in confidence and diversity, taking control of local assets and providing local services to generate income and employment”. Future priorities included Community Participation, highlighting CPPs and capacity-building. In none of these visions or statements is there a systematic plan for implementation, evaluation or, post-2007, linking to national outcomes.

Since 2011, there have been no vision statements or strategies for rural Scotland. However, in the annual **Programme for Government**, rural Scotland is specifically mentioned. In the most recent Programme (2016/17) there is reference to: building growth in rural and island areas; a vibrant and strong rural economy; providing jobs and sustaining services in rural and coastal communities; delivery of superfast broadband; the delivery of the second Scottish Rural Parliament; farming and crofting; fisheries; the Crown Estate; and community land ownership. In addition, a series of **Rural Economy Summits** is being held across Scotland in 2016/17 to explore “how best to deliver investment, sustainable growth, jobs and opportunities in rural and island communities” (p.47). A **Scottish Rural Infrastructure Plan** is also being developed in 2017, “to better coordinate existing and planned expenditure and resources through improved collaboration” (p.47).

No underpinning frameworks for assessing rural community resilience outcomes

However, although the Programme for Government does mention a range of measures, policies and programmes, there is no framework for assessing outcomes (either programme-by-programme or collectively), nor a direct evaluative link to the NPF. It is therefore not possible to track whether and how the rural initiatives listed in the past and current Programmes for Government are enhancing the resilience of Scotland’s rural communities.

If we link this with the evidence we have provided in our previous *Rural Scotland in Focus* Reports about how policies and programmes play out in specific ways in rural areas, and the associated need to tailor them to

rural contexts, the monitoring of outcomes takes on even greater importance. As was noted by the Scottish Executive back in 2002 and 2007:

“The ways in which issues manifest themselves in rural areas, and therefore the challenge for the Executive and our partners, can be quite different from that in our cities. The realisation of our rural vision will require distinctive policy responses, tailored to rural circumstances” (*Rural Scotland: Taking Stock*, p.2).

“Rural Scotland is not homogenous and evidence is not always unequivocal or robust. There is a need to develop further the evidence base and the ability to measure progress and success – with a clearer focus on the impacts (outcomes) of policies and actions and to take account of regional, local and other variations. Better comparative, including international data and analysis are needed” (*Rural Scotland: Better Still, Naturally*, p.v).

Mapping such *localised* differences onto monitoring of the *national* community resilience outcome would therefore seem to be essential in terms of being able to know whether, how and in what ways the outcome is being delivered.

Rural data needs

This raises the issue of data sets that are appropriate for rural Scotland. We have already reported the shortcomings of the **Scottish Index of Multiple Deprivation (SIMD)** for guiding investment in rural areas (in our 2014 *Rural Scotland in Focus* chapter on rural poverty). The **refreshed SIMD (2016)** explains that “the SIMD identifies deprived areas, not people” because “not all deprived people live in deprived areas, and not everyone in a deprived area is deprived” (p.7). Specifically, “there are no deprived data zones in the council areas of Shetland, Orkney and Western Isles, but there are still people experiencing deprivation” (p.7). In spite of recognising this, the refreshed SIMD appears to have made no discernible shift towards addressing the challenges of rural data sets appropriate for guiding policy and evaluation of outcomes.

This is not a new problem - the rural data deficit has been reported for 16 years:

“Scotland has some of the most disadvantaged communities in the UK. These are not restricted to our urban areas... Our rural communities also face many obstacles because of isolation, lack of opportunities or difficulty in accessing the opportunities that are available... Rural poverty is a distinctive feature of exclusion in Scotland and again data is limited. A working group set up by the Minister for Rural Affairs, Ross Finnie, will, as part of a wider remit, address this data deficiency” Scottish Executive, *Social Justice Monitoring Report* (2000, p.25).

3.4.2 Addressing the rural data deficit

In order to improve knowledge and understanding around **the extent to which the national resilient communities outcome is being delivered in rural areas by Scottish Government policies**, there is a need to: (i) be smarter about how data are used; (ii) generate new data; and (iii) deliberately examine links between actions and outcomes. These three themes are now briefly explored.

Be smarter about how data are used

There are four elements to this: gathering data in a way that allows a focus on **outcomes**; **planning** for gathering impact and outcomes data; using **existing data** in smarter ways to link to NPF Outcomes; and examining how outcomes-focused methods are in the process of being adopted.



Community Right to Buy Evaluation: using a Logic Model Approach



In 2015, IpsosMORI and SRUC carried out an Impact Evaluation of the Community Right to Buy (CRtB) Scheme⁸¹. The study team, at the request of the Scottish Government, used a Logic Model approach to structure the analysis of impact of the CRtB. The Report stated that: “The basis of the logic model is that, where evidence exists of short term and medium terms outcomes... these should in turn lead to long term outcomes...” (p.7). Hence it is possible to identify a ‘direction of travel’ from short, to medium to longer term outcomes.

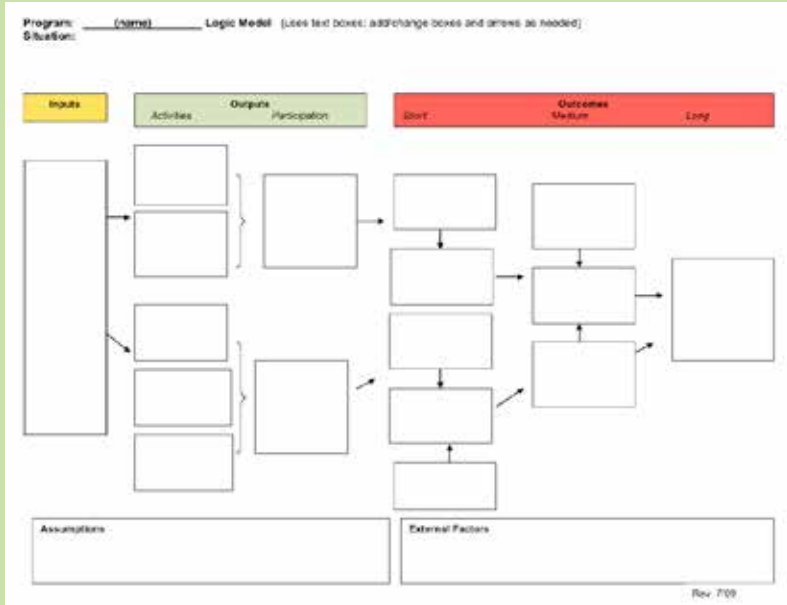
The headings for the logic model were: Inputs, Activities, and Short, Medium and Long Term Outcomes both for communities and for land/land assets. Different elements of the model included:

- **Inputs:** legislation, community interest, time given by community, advice and guidance, funding;
- **Activities:** publicity/awareness-raising; community body established; development and agreement of proposal; community ballot; fundraising; purchase;
- **Short term outcomes for communities:** increased awareness, knowledge, skills, understanding, motivation;
- **Medium term outcomes for communities:** sense of empowerment, cohesion, pride, motivation, partnerships, employment opportunities;
- **Long term outcomes for communities:** NPF Outcomes: strong, resilient and supportive communities, more and better employment opportunities.

Data collection was organised in relation to each of these headings. Subsequent “mapping” of the evidence generated through the desk study, survey and in-depth interviews allowed the research team to draw conclusions concerning the delivery of each of the outcome areas, as well as identifying enabling inputs and activities. This framework provided a shape to the analysis and allowed for direct connections to be drawn to specific outcomes. As a result of logic modelling, it was possible to report the **types of outcomes** achieved, and how these differed for those at different points in the CRtB process; for example:

- Each of the short term and medium term outcomes for communities identified in the CRtB logic model have been met to an extent. However, impacts were most apparent among members of community *bodies* and those that were *directly* involved in the CRtB process.
- Outcomes relating to awareness, engagement and motivation to participate in the process were more clearly seen among *community body members* than in the wider communities;
- A fuller range of outcomes was evident in cases where land and assets *had been acquired*. Outcomes such as “increased sense of pride in the community” and “increased employment opportunities” had been realised among a small number of cases, but there was little evidence of this among *communities who had not successfully purchased land and assets*.

It was also possible to identify common **inputs** (or “**enablers**”) that played an important role in helping to achieve these outcomes, including: (i) formation of community bodies to create a community voice; (ii) active and motivating individuals; and (iii) advice and guidance from support agencies. The logic model approach enabled the researchers to map the **barriers**, which included: challenges of attracting new members to the community body; and lack of specialist knowledge and expertise in the area of community land purchase. It is the **systematic nature** of these data, and **linking data to NPF outcomes**, that means lessons can be drawn across many case studies, progress can be identified, and individual patterns can be spotted in terms of enablers and hindrances to achieving overall community resilience outcomes.



Evaluation Support Scotland (ESS) states that **Logic Models** help with the planning of programme evaluations, since they identify what you expect to happen, and when⁸². The **University of Wisconsin Model**⁸³ (see Fig. 2), adapted for the CRtB research, shows which outcomes need to be measured when, which will take longer to happen, and acts as a pathway of cause and effect.

Figure 2: The University of Wisconsin Logic Model⁸⁴

Planning for gathering impact and outcomes data

The refreshed (2016) National Standards for Community Engagement include an **Impact Standard**, designed to assess the impact of engagement and improve future community engagement practice. There are seven progress indicators, with the VOiCE online tool designed for “the user” to Monitor and record progress and Evaluate outcomes. The VOiCE sitemap gives indications of the multiple steps associated with the Review process, including: How was the evidence collected? Have we met the Standards? Did we succeed? Who did we engage? What have we learned? The user makes performance assessments against six Scoring Criteria (from Excellent to Unsatisfactory). The VOiCE tool is focused on community engagement. Depending on how this refreshed Impact Standard is implemented, it could be that it has the potential to provide a more rigorous model for assessing different policy and programme journeys towards community resilience outcomes.

Use existing data in smarter ways to link to NPF Outcomes

As can be seen from the Timeline (Figure1), there are numerous policies and programmes which have been seeking to address community empowerment, equalities and resilience for almost two decades. In addition, there are many projects and programmes established by charities and fund distributors, private sector and other public sector bodies, which have taken place at local, regional and national levels.

Many of these projects report key break-throughs, investment, positive outcomes (e.g. housing, employment) and transformations at local level⁸⁵. It is therefore critically important to begin to **harvest data from evaluations in a systematic way** in relation to national outcomes. Otherwise significant learning will stay either within localities, specific networks or project and programme reports. There is a wealth of learning spanning many years and programmes which needs to be deliberately linked to assess delivery of the **NPF Outcomes**.

There also needs to be recognition that the **NPF community resilience Indicators are too partial** to make use of this rich evidence base, and that they therefore need to be modified.

Examine how outcomes-focused methods are in the process of being adopted

One example is the **Personal Outcomes Approach**⁸⁶ of the Scottish Government’s Joint Improvement Team (now The Improvement Hub, part of Health Improvement Scotland sitting within the NHS⁸⁷). This approach is intended to feed personal-level outcomes into higher-level outcomes of service provider bodies and eventually into regional and national-level outcomes. The focus is on designing public services around people, through the use of Talking Points, in response to the Christie Commission’s emphasis on the strength, capacity, assets and resilience of individuals and wider community-based resources.⁸⁸

There was a one-year collaboration project funded by the Economic and Social Research Council called **Meaningful and Measurable**⁸⁹ with a website of resources. Although the Personal Outcomes Approach appears on the iHub website⁹⁰, the (now archived) JIT website states that “Personal outcomes approaches are now being used in all partnerships but the extent to which this is embedded as standard practice varies considerably”, with challenges remaining around “ensuring a personal outcomes approach and at the same time, measuring progress in a consistent way”. The iHub update states that eight out of 14 territorial Health Boards are working with the personal outcomes approach.

Generate new rural data to feed into policy reviews

In addition to organising and using data in smarter ways, there is also the need to generate **new** data on rural issues. The following two Case Studies show possible routes forward.

Firstly, the **Scottish Government’s Rural Fuel Poverty Task Force** (2015/2016)⁹¹: a need was identified - to generate additional evidence around rural fuel poverty in order to feed in to specific, high-level policy processes within a given timeframe. This used a tried-and-tested method of bringing experts to the Task Force, to inform, provide valuable perspectives and data, in order to build up a robust, newly-collated set of coherent evidence specifically to guide policy.

Improving the evidential basis for policy development: the experience of The Scottish Rural Fuel Poverty Task Force

Di Alexander, Chair of the Task Force

In recognition of the serious fuel poverty problem which continues to affect just over half of all Scotland’s rural areas, the Scottish Government set up an independent and broadly-based Rural Fuel Poverty Task Force in 2015. It met eight times over a year to gather and consider evidence on the rural nature of the problem but with the firm intention on coming up with good solutions to it. The remit was to develop a realistic and practicable action plan which, in essence, would help improve the effectiveness of fuel poverty programmes with the aim of making it easier for people – particularly vulnerable households - living in rural and remote Scotland to then be able to live in affordable warmth in their own homes as a result.

The Task Force’s report, “**An Action Plan to Deliver Affordable Warmth in Rural Scotland**”, was published on the Scottish Government’s fuel poverty website in October 2016. The **evidence-gathering** process involved receiving presentations and submissions from a wide variety of experts with reference to such published evidence as was found to be available – and all the evidential sources accessed can be accessed via the online report. The **evidence-sorting** process was just as important and involved thinking through and teasing out the distinctively *rural* dimensions to fuel poverty and Chapter 1 of the report identifies 21 of these, with easy links provided to the principal sources of supporting evidence for each one. **Insofar as rural and remote Scotland is concerned, this new categorisation offers a template for a much more carefully focused analysis and understanding of the effectiveness or otherwise of remedial policy and programme development.**

The report begins by proposing that Scotland’s new fuel poverty/affordable warmth strategy should be based on three fundamental guiding principles, the first and foremost of these being “*Fairness and social justice should be every household’s right, wherever in urban or rural Scotland they happen to live*”.

It goes on to argue that “*Good policies are built on a solid evidence base*” but finds that “*at present, the underlying fuel poverty indicators and assumptions, such as SIMD and RdSAP, tend to be urban-oriented and technically-based and do not reflect rural realities or assess and record affordable warmth and comfort improvements effectively – either those required or actually made.*”

The Task Force calls for a new strategic approach which “*will clearly address the persistent inequalities in Scottish society, including the needs of Scotland’s rural and remote communities*” and which *the Task Force believes must be ‘rural-proofed’ and include specifically rural fuel poverty targets and expected programme outcomes*”.

Actions recommended by the Rural Fuel Poverty Task Force include :

- Scottish Government to take on the responsibility for commissioning **Minimum Income Standard (MIS) Scotland** reports every 3 years to provide top quality information on cost of living contexts and trends by 6-fold urban & rural classification. Also to ensure that the final MIS product becomes a recognised national dataset;
- **SIMD domains to be expanded to better reflect rural disadvantage** e.g. by adding a) a MIS index and b) an energy price index for all fuel types;
- UK Government to adopt **new modelling matrices to reflect urban/rural average energy consumption levels** and provide comparisons with average 'dual fuel' bills and average bills for each type of fuel, the purpose being to make it easier to identify disparity and ... to target remedial actions;
- Ensuring that **fuel poverty policies and programmes (of both Governments) are developed and further improved** on the basis of thorough, before-and-after measurement and assessment of the outcomes of the interventions made, especially to the well-being of those helped.

A fresh look is required at **how Scottish society can draw well-informed conclusions about how effective otherwise well-intentioned policies and programmes actually are in reaching and helping people and households living in rural and remote Scotland** (as defined by Scottish Government's 6-fold urban/rural classification system). The Task Force's report proposes a considered and deliverable way forward.

The second example focuses on **mental ill health in rural Scotland**. There are two drivers for generating this evidence base. Firstly, an immediate policy opportunity exists in terms of the current refreshing of Scotland's **Mental Health Strategy (2012-2015)**⁹². Secondly, the partners identified the need for a longer-term process of building up understanding and knowledge to underpin multi-partner approaches to addressing rural mental ill health more strategically.

Mental Health in Rural Scotland – Addressing Inequalities

Frances Simpson, CEO, Support in Mind Scotland



Support in Mind Scotland is a national mental health organisation providing services to around 2,000 people a year, with the majority of our services provided in rural areas of Scotland. However, whether in Edinburgh or Stranraer, we can see that in some fundamental ways, once someone has reached the point where support is needed, we have a common, compassionate response in terms of person-centred, tailored support to help individuals and families to cope. What differed was how we accommodated the familiar rural challenges of poor transport, fewer facilities and maintaining viability in sparsely populated communities.

So when SRUC approached us for a view on mental health issues in rural Scotland, we were very happy to be involved, as we believed we could bring specialist knowledge and expertise to the discussion and shine a spotlight on the issues people faced. We also believed we could highlight the need to protect precious community mental health services as austerity led to budgets being squeezed and services being threatened.

However, when presented with the questions SRUC wanted us to answer, it was clear that we were seriously under-informed. We realised that although we knew a great deal about existing mental health

services and the reasons why they were important for those who used them, we could not provide any solid evidence for how far those existing services truly reflected the mental health needs of people in rural communities, or contributed to population mental health and wellbeing.

That is why the survey that resulted from those early discussions is ground-breaking, as it allows us to start to answer those questions for the first time, and has proved that it *is* possible to gather solid data about rural life from people who are keen to share their views. Remoteness is no longer an excuse for not asking people what they think, as social media has opened up channels of communication that were not available to us before.

This survey also matters because without this data, we cannot possibly plan services and support for the future unless we completely understand local need. This survey has challenged various assumptions about age, gender, employment status and wellbeing that indicates that we are in danger of simply doing more of the same, rather than creating a new narrative of how we need to support people in remote and rural areas to live healthier, happier lives.

The Scottish Government has put addressing health inequalities at the heart of government policy. This survey is a vital first step for us understanding where some of those inequalities exist.

At the time of writing the *Rural Scotland in Focus* Report 2016, only a flavour of the survey findings is available. Full findings will be published in policy briefings in the coming months.

Dr Elliot Meador, SRUC Rural Society Researcher



The Rural Policy Centre at SRUC carried out a survey in the summer of 2016: **Living with Mental Ill Health in Rural Scotland** (LMIHRS). 343 respondents told us what it is like to experience mental ill health in rural areas, and themes around impediments to receiving health care. The study allows for a better understanding of issues faced by people who self-identify as having mental ill health who also live in a rural or remote area. It gives a unique and vital way of better understanding the challenges people face. The respondents represent a specific group; this survey is a non-probability survey and **is not** representative of the population. Nonetheless, the questionnaire is modelled after the Scottish Health Survey, which will allow us to expand our analysis by referring to the national picture.

The following paragraphs and figures explore a few of the initial findings from the LMIHRS survey. Figures 1.1-1.3 and 3 use the Warwick-Edinburgh Mental Wellbeing Scale (WEMWBS) as an indicator of overall well-being¹. WEMWBS scores have been placed in categories based on the national ranges from the Scottish Health Survey (2014): Very low represents a score of lower than 39 or equal to/less than 10% of the population.



Demographics

Figure 1.1: Gender & Mental Wellbeing

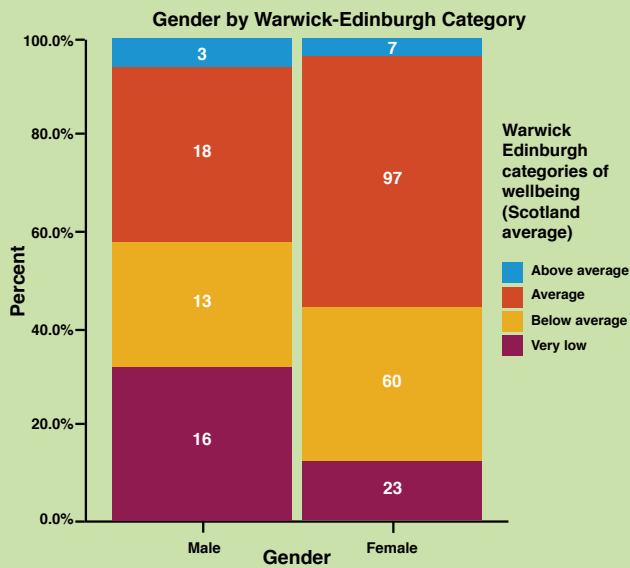


Figure 1.1 illustrates the differences in gender and well-being. About 35% of males who answered the survey reported having a well-being score of very low. This is compared to about 17% of females. About 60% of males have a well-being score of below average. Likewise, about 50% of females have a score of below average.

Overall, male respondents have a lower WEMWBS average score at about 39.3, where female's average score is about 42.3. This is a significant difference at $p < .05$ ($F 3.883$, $df 235$).

Figure 1.2: Employment Status & Mental Wellbeing

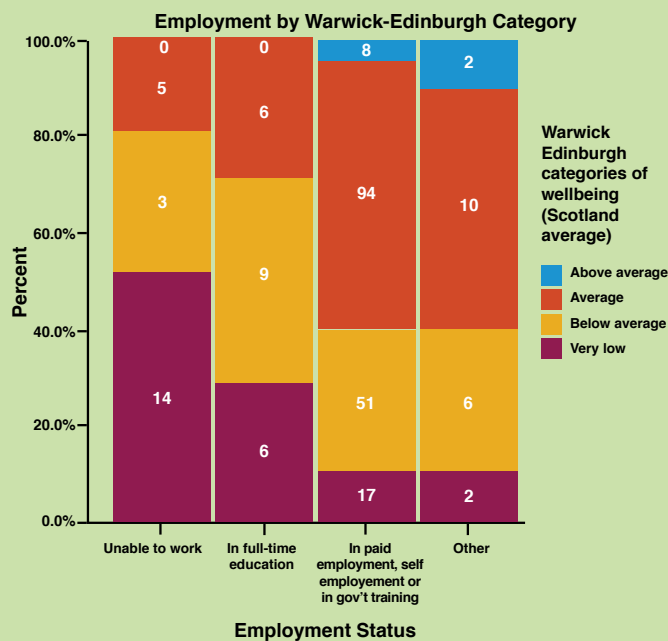


Figure 1.2 describes respondent well-being score by their occupation type. As shown in Figure 1.2, those respondents who said they are 'unable to work' have a higher percentage of very low well-being scores when compared to those in education or full-time employment.

While not conclusive, this finding indicates that there may be a connection between employment status and mental-wellbeing. It merits more attention.

Figure 1.3: Living Status & Mental Wellbeing

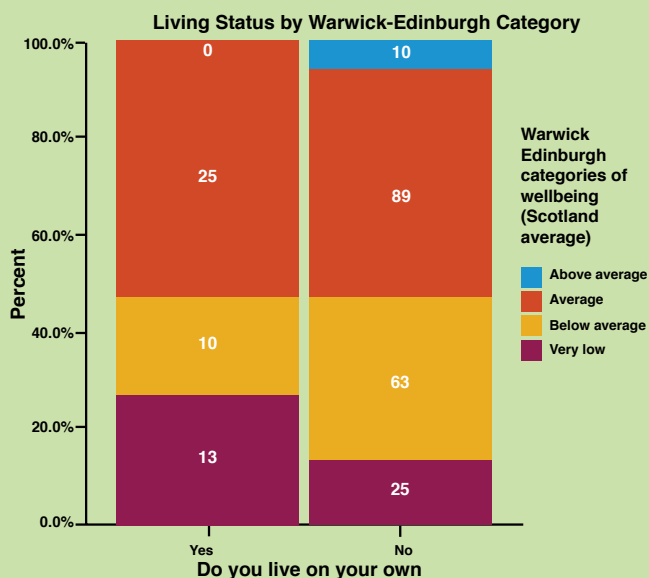


Figure 1.3 indicates the relationship between living alone and mental well-being. Almost 30% of those respondents who reported living on their own have a very low mental well-being score. This is much higher compared with those who do not live alone, of which about 17% have a very low mental-wellbeing score.

Figure 2: Feeling vs. Living Remotely

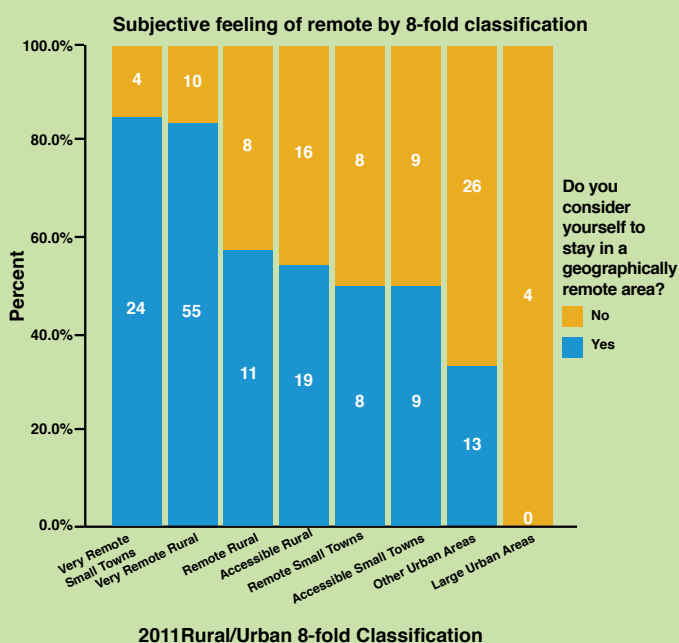
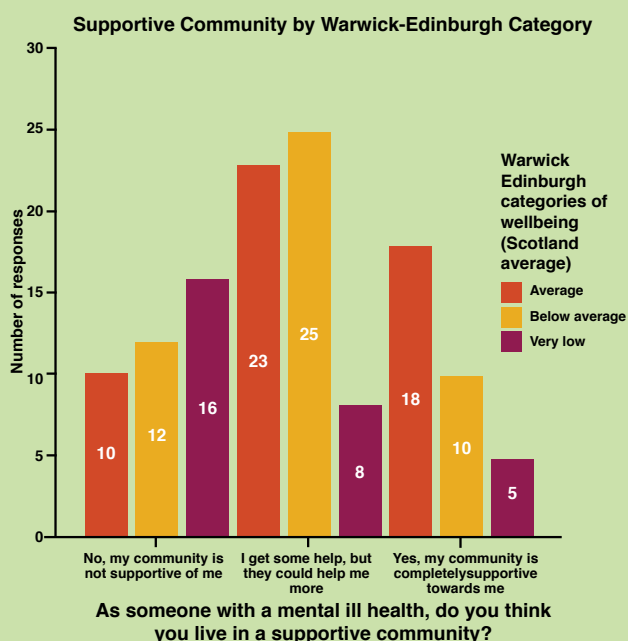


Figure 2 is interesting in that it shows the relationship between a respondent's subjective feeling of living in a remote area, as measured by the question, 'In your opinion, do you consider yourself to live in a geographically remote area?' and whether or not they live in a remote area as classified by the Scottish 8-fold rural/urban classification.²

It appears that over 80% of respondents who live in very remote places feel as if they live in remote places. This feeling of remoteness drops down to below 60% for remote and rural places. **Other than those living in very remote places, the feeling of remoteness does not appear to be strongly influenced by one's geography.**

Figure 3: Community Support & Mental Wellbeing



Lastly, Figure 3 sheds light on the association between a supportive community and a respondent's overall-wellbeing score. If one focusses their attention on the 'very low' category, they will notice that it decreases as respondents indicate that their community is more supportive. **It is the only category that appears to show a definitive pattern, and it certainly warrants further investigation.**

Conclusion

Primary research surveys, such as the LMIHRS, provide a valuable methodology for researchers interested in accessing quantitative data in niche areas. This rich data would be difficult to obtain from national surveys alone. Rather, because it is modelled after the Scottish Health Survey, the two can be used in tandem to provide a more rigorous and robust understanding of issues faced by people living in rural Scotland.

¹ The Warwick-Edinburgh scale is used extensively in self-completion surveys in Scotland. The LMIHRS survey used the 14 item scale. For more information see [this publication](http://www2.warwick.ac.uk/fac/med/research/platform/wemwbs/researchers/userguide/wemwbs_practice_based_user_guide.pdf) (http://www2.warwick.ac.uk/fac/med/research/platform/wemwbs/researchers/userguide/wemwbs_practice_based_user_guide.pdf)

² For more information on the Scottish Government 8-fold Rural Urban Classification see [this website](http://www.gov.scot/Topics/Statistics/About/Methodology/UrbanRuralClassification) (http://www.gov.scot/Topics/Statistics/About/Methodology/UrbanRuralClassification)

Examine links between actions and outcomes

In addition to using data more smartly, and generating new data, there is a need to assess and critique whether and how specific policy targets and/or approaches are delivering to rural outcomes, as the following example illustrates.

Delivering affordable rural housing



Derek Logie, CEO Rural Housing Scotland

The Scottish Government have committed to deliver 50,000 affordable new homes during the lifetime of this Parliament. Of these 70% (35,000) will be social rented homes. This is an ambitious and welcome target to deliver much need affordable housing. With high house prices, pressured markets, little social housing and few first time buyers more rural affordable housing is particularly needed. But will this commitment deliver for rural Scotland?

New initiatives such as the £25M Rural Housing Fund and £5M Island Housing Fund are helping to support new routes to deliver affordable housing and to secure community led housing as a contribution to the 50,000. However to secure a proportionate share of the national target and to build up rural social housing from a very low base a very significant number of affordable homes will have to be built in rural communities, and significant funding commitments made. A fair share for rural communities from this commitment would see 9,200 new affordable houses built of which 6,400 would be social rented homes, and over £552,000,000 committed.

It will take much more than political will to deliver this ambitious target in rural Scotland. The age old barriers to rural development of land ownership and supply, planning, water and road infrastructure and finance will have to be overcome. And the development skills which have left the social housing sector in recent years will have to be re-acquired.

The Government recognise this and have put in place an infrastructure fund, there is to be a planning white paper and Community Empowerment and Land Reform Acts have given communities the right to buy derelict land and to further sustainable development. However, there is also a need to pick up the recommendations of the Land Reform Review Group regarding measures to deliver land for housing, as well as fully investigate the use of compulsory sale orders in rural Scotland. Such initiatives, policies and programmes *must* work together - not in parallel - to deliver to the larger national target. Otherwise we will have piecemeal approaches which don't necessarily transform the larger system.

We also need to change the mindset.

To deliver this ambitious target we all need to be ambitious for rural Scotland - local and national government, communities, housing associations and third sector. Too often housing takes the easy route of building large developments in towns on public land or waiting for the affordable share from volume housebuilders. Rural developments are too wee and too difficult.

There needs to be an expectation that people should be able to secure affordable housing in their community wherever that is, and to demand that, despite it being difficult, we need much more affordable housing in our countryside. That expectation needs to be delivered through a coherent programme, from the local to the national, to maximise efficiencies and reduce barriers in effective ways.



3.5 Conclusions for rural Scotland

The commitment to resilient communities is becoming ever-stronger within Scottish Government policy and programmes. This is evidenced in the Community Empowerment (Scotland) Act 2015, the Land Reform (Scotland) Act 2016, refreshing of the National Standards for Community Engagement, commitments to expanding the reach of the Community Choices Fund, Participatory Budgeting and the development of an Islands Bill, plus the continued support for, and legitimacy given to, the **Rural Parliament**⁹³ and its **Rural Manifesto** as the collective voice of rural communities in Scotland.



Coupled with this drive is the statutory Duty within the Community Empowerment (Scotland) Act 2015 (Section 1) to maintain, consult on, develop and publish a set of National Outcomes for Scotland, *including the extent to which they are being achieved*.

The resilient communities NPF Outcome is therefore highly likely to remain a priority. The **data deficit** described above will continue to be an issue unless the **Indicators for the Outcome are revisited**, and a coherent, national approach is developed **for assessing whether and how different measures** (policies, programmes, funding) **are delivering to the NPF Outcome**.

Given the specifics of **rural Scotland**, there is a need to provide evidence on the extent to which the range of measures is enhancing the resilience of Scotland's *rural* communities. Again, although there is evidence of spend, activity and impacts across rural Scotland, the links between these and the delivery of the NPF community resilience Outcome is not explicit in policy/programme/project evaluations or systematically at the national level.

The evidence from the past 17 years has shown that rural areas and communities experience policies and programmes in specific ways, and therefore **the resilient communities NPF Outcome will be experienced in ways that are particular to rural Scotland**. Creating quality data, and matching, and/or using existing, data sets to identify the "rural routes to outcomes" is not only possible, but essential. The SIMD needs to reflect this (as we have stated previously in relation to rural poverty), and/or **an alternative, complementary Indicator Set** needs to be developed, so that community resilience outcomes - across all their breadth – can be meaningfully assessed and appropriately supported. As the Stiglitz-Sen-Fitoussi Commission states (2009)^{94 95}: "What we measure affects what we do; and if our measurements are flawed, decisions may be distorted." The partial nature of rural data, and its implications, have been reported for almost two decades, meaning that knowledge is being lost rather than accumulated. **It is no longer tenable to say that data cannot be collected systematically for rural areas.**

Clearly this is complex terrain, and therefore there is merit in adopting three recommendations of the Royal Society of Edinburgh (2013). Firstly, to **organise dialogue around the NPF Outcomes and Indicators**. Such engagement could bring together specialists around each particular National Outcome – in this case resilient communities, and particularly the rural dimensions – to identify what is known, what is not known, and what data are then required:

"It is notable that there has been limited opportunity for those outwith Government and the public sector to influence the development of the NPF and Scotland Performs. This not only applies to external technical input and analysis, but also to engagement with the public... It is important that a process of deliberative dialogue is initiated to ensure that civic society is engaged in the development of the NPF" (RSE, 2013, p.1).

Secondly, that "there is a need to strengthen the NPF by including mechanisms for independent assurance of data quality and the matching of data to the measures used in the NPF" (p.1). The RSE states that this should be provided by an **independent body**, such as Audit Scotland. Thirdly, that an independent **Commission** should interpret the findings of the independent body and present these to the Parliament. In the RSE's view, these three elements would result in the NPF being seen as an *objective* assessment of the Government's performance.



The RSE recommendations echo the path taken with the **Well-being of Future Generations (Wales) Act 2015**⁹⁶. The Act effectively forms a national framework with seven Goals for “improving the social, economic, environmental and cultural well-being of Wales”⁹⁷. It places a statutory Duty on listed public bodies, *which includes Welsh Ministers*, to carry out sustainable development, by: (i) setting and publishing “well-being objectives” that are designed to maximise its contribution to achieving each of the well-being Goals; and (ii) taking all reasonable steps to meet those objectives⁹⁸. Goals and Indicators were subject to a **national consultation process** across Wales (2015) prior to their publication in 2016, to enhance mutual understanding of how Goals could/should play out and what data would be required for monitoring progress.

The **Auditor General for Wales** has a statutory Duty to assess the extent to which public bodies have acted in relation to the Goals. The independent **Future Generations Commissioner**⁹⁹ has a statutory Duty to hold public bodies to account. Progress in relation to the Act’s Goals

will be scrutinised by Assembly Committees, primarily the Finance Committee and the Equality, Local Government and Communities Committee.

If we continue **not** to know whether or how the NPF is delivering, then **re-worded high-level statements, coupled with successive new programmes, funds and projects**, will continue to populate the policy landscape, without us being aware of whether they are bringing us closer to the NPF Outcome. As Sir Amyas Morse (the Comptroller and Auditor General of the UK National Audit Office) said in his speech in July 2016¹⁰⁰:

“Ministerial terms are often short, sometimes less than five years, and each Minister wants to make his or her mark. Ministers want initiatives that they can bring to fruition during their term in office. Imagine the oddity of a new Minister standing up in the House to say: “I have no new policy initiatives to announce because my department is at capacity in terms of what it can do well. So I am diligently carrying on the initiatives started by my predecessor in an effort to bring them in on time and on budget”... (p.4).

A focus on baselines, benchmarking, cumulative evidence, informed resource allocation, delivery towards outcomes and *knowing* outcomes are being delivered, will shift awareness to the links between actions and outcomes. We will be able to answer questions at a systemic, national level, **in relation to the NPF**, such as: What policies need to change? What needs to stop, or be redirected? What partnerships are working and why? What is transferable? What is achievable at local level and what needs direct government intervention, and where is a combination of the two required?

The need to be able to answer these questions, and target resources, is becoming more acute, particularly in an environment of increasing uncertainty. Being smarter is going to become more crucial, especially as the challenges and opportunities of Brexit start to affect resources, policies and programmes, and indeed communities, across rural Scotland. **Matching resources to NPF Outcomes will become even more imperative.**

The National Performance Framework is by nature forward-looking and is to be applauded for its vision. What underpins it must be similarly forward-looking. Otherwise we will not know about *national* performance; we will not know about *performance*. The framework is there, but the means for assessing Outcomes delivery needs to be much more independent, deliberate and planned.

“**Scotland knows**” is a compelling phrase – one which is full of promise, excitement and insights. It is worth reaching for. The evidence base is already likely to exist in some areas and for some themes – it will need harvesting and pulling together. In other instances, new evidence will need to be generated. The need to know is paramount, given the high-level aspirations of the Scottish Government to keep communities ‘centre-stage’ in Scotland’s future.

Section Endnotes

- 1 Co-hosted by the Convention of Scottish Local Authorities (COSLA), the Improvement Service and the Scottish Government: <http://www.communitycouncils.scot/what-is-a-community-council.html>
- 2 In its 2010 Manifesto Commitment, the SNP Government undertook *“to give Scotland’s Community Councils greater relevance and more opportunities to make a difference for the areas that they represent”*. The Scottish Government established the Community Council Short Life Working Group (SLWG) in 2011 to recommend how best to build the resilience, capacity and capability of Community Councils and make recommendations for the Community Empowerment and Renewal Bill. The reports are here: <http://www.gov.scot/Topics/Government/PublicServiceReform/CommunityCouncils/ASCCStakeSurv2010> The Scottish Association of Community Councils closed in 2012 (<http://www.cpalc.org.uk/scottish-association-of-community-councils-closes>). Since then, the Community Councils website (footnote 1) was established to exchange best practice.
- 3 <http://www.gov.scot/Resource/Doc/158142/0042789.pdf>
- 4 <http://www.gov.scot/resource/doc/159130/0043280.pdf>
- 5 <http://www.gov.scot/Resource/Doc/925/0051662.pdf>
- 6 <http://www.gov.scot/Publications/2003/01/16087/16090>
- 7 Established in 2001 and disbanded in 2008.
- 8 <http://www.gov.scot/Publications/2002/11/15766/13342>
- 9 <http://www.gov.scot/Resource/Doc/46729/0031676.pdf>
- 10 <http://www.gov.scot/Publications/2003/01/16087/16090>
- 11 www.scotland.gov.uk/closingtheopportunitygap
- 12 <http://www.gov.scot/Resource/Doc/47095/0025772.pdf>
- 13 http://www.audit-scotland.gov.uk/docs/central/2006/nr_060616_community_planning.pdf
- 14 <http://www.gov.scot/Topics/Government/PublicServiceReform/CP>
- 15 <http://www.gov.scot/Resource/Doc/1125/0086285.pdf>
- 16 <http://www.scdc.org.uk/media/resources/voice/Finding%20your%20voice%20booklet.pdf>
- 17 www.gov.scot/resource/doc/94257/0084550.pdf
- 18 Visioning Outcomes in Community Engagement: <http://www.scdc.org.uk/what/voice/>
- 19 See also Voice Scotland: <http://www.voicescotland.org.uk/>
- 20 <http://www.gov.scot/resource/doc/94257/0084550.pdf>
- 21 <http://www.gov.scot/Publications/2006/06/01145839/0>

- 22 ROAs were to be developed and delivered at local authority level by each CPP, putting neighbourhood regeneration into the strategic (and statutory) context of community planning. They were designed to address the issues from less successful SIPs where integration of local approaches into wider strategic planning had not taken place. The National Standards for Community Engagement, (and later the VOiCe programme) was intended to be at the heart of the ROA approach, under the Community Regeneration Fund (CRF).
- 23 <http://www.gov.scot/About/Performance/scotPerforms>
- 24 The NPF was refreshed in 2011 and an updated NPF Measurement Set was published in March 2016. However, the definition and indicators for resilient communities remained the same over this period.
- 25 <http://www.gov.scot/Publications/2007/11/13092240/concordat>
- 26 In *Working and Learning Together to Build Stronger Communities* (2004) the Scottish Government defines community learning and development as 'learning and social development work with individuals and groups in their communities using a range of formal and informal methods. A common defining feature is that programmes and activities are developed in dialogue with communities and participants'.
- 27 The Christie Commission was an independent inquiry commissioned by the Scottish Government on the Future Delivery of Public Services. It concluded by highlighting the need to focus on prevention, partnership and delivery with and through communities.
<http://www.gov.scot/About/Review/publicservicescommission>
- 28 <http://www.gov.scot/Topics/Government/local-government/CP/soa>
- 29 <http://www.scottishruralparliament.org.uk/about-us/>
- 30 <http://www.scottishruralparliament.org.uk/rural-parliament/>
- 31 <http://www.localdemocracy.info/wp-content/uploads/2014/08/Final-Report-August-2014.pdf>
- 32 <http://www.readyscotland.org/ready-government/ncr/>
- 33 There was some discussion about the levels of resources available in comparison with the rhetoric and high-level outcomes being proposed:
<http://www.communitydevelopmentalliancescotland.org/frontpage/mixed-messages-from-new-regeneration-strategy>
- 34 <http://www.dtascommunityownership.org.uk/about-coss>
- 35 The Coalfields Regeneration Trust is an independent regeneration organisation established in 1999 to improve the quality of life in Britain's coalfield communities:
<http://www.coalfields-regen.org.uk/>
- 36 <http://news.scotland.gov.uk/News/Boost-to-community-led-regeneration-projects-b03.aspx>
- 37 <http://www.gov.scot/Resource/0050/00504445.pdf>
- 38 <http://www.scdc.org.uk/what/supporting-communities/>
- 39 <http://www.dtascommunityownership.org.uk/about-coss>
- 40 <http://www.communitydevelopmentalliancescotland.org/frontpage/empowering-communities-fund>
- 41 <http://news.scotland.gov.uk/News/Regenerating-communities-20c4.aspx>

- 42 <http://www.legislation.gov.uk/asp/2015/6/contents/enacted>
- 43 <http://www.gov.scot/Topics/People/engage/CommEmpowerBill>
- 44 Policy Memorandum, Community Empowerment Bill, 2014, p.2 <http://www.gov.scot/Resource/0045/00457535.pdf>
- 45 To include Skills Development Scotland, the Integration Joint Board (IJB), Scottish Natural Heritage, Scottish Environment Protection Agency, Historic Environment Scotland, a National Park Authority (Cairngorms or Loch Lomond and Trossachs), Scottish Sports Council, Visit Scotland, and regional education representation. "Near-final" Guidance and Regulations was issued on 25th October 2016: <http://www.gov.scot/Resource/0050/00508518.pdf>
- 46 <http://www.gov.scot/Topics/People/engage/CommunityEmpowermentBillFAQs>
- 47 [http://www.parliament.scot/S4_Bills/Community%20Empowerment%20\(Scotland\)%20Bill/b52s4-introd-pm.pdf](http://www.parliament.scot/S4_Bills/Community%20Empowerment%20(Scotland)%20Bill/b52s4-introd-pm.pdf)
- 48 <http://www.legislation.gov.uk/asp/2016/18/contents/enacted>
- 49 Final Report of the Land Reform Review Group, 2014: <http://www.gov.scot/Resource/0045/00451597.pdf>
- 50 <http://www.gov.scot/Resource/0046/00464455.pdf>
- 51 [http://www.parliament.scot/S4_Bills/Land%20Reform%20\(Scotland\)%20Bill/b76s4-introd-pm.pdf](http://www.parliament.scot/S4_Bills/Land%20Reform%20(Scotland)%20Bill/b76s4-introd-pm.pdf)
- 52 <http://www.gov.scot/Resource/0050/00505210.pdf>
- 53 <http://www.voicescotland.org.uk/>
- 54 <http://www.voicescotland.org.uk/launch-event/>
- 55 <http://www.voicescotland.org.uk/voice/>
- 56 <http://news.scotland.gov.uk/News/-1-5m-for-Community-Choices-Fund-2c21.aspx>
- 57 <http://pbscotland.scot/>
- 58 In 2013, three islands-only local authorities (the Councils of the Shetland Islands, Orkney Islands and Comhairle nan Eilean Siar) launched a campaign: "Our Islands, Our Future", followed by the Lerwick Declaration. Also in 2013, the Scottish Government established an Islands Areas Ministerial Working Group (made up of Scottish Government and islands Councils), to examine increased empowerment for the islands. In June 2014, the Scottish Government published "Empowering Scotland's Island Communities". The Consultation on a future Islands Bill took place from September to December 2015, with the analysis of responses published in March 2016. Of the 192 responses to the Consultation, 91% of those who expressed a view about the Islands Bill were in favour. Among the perceived benefits are: the existence of specific issues impacting on the islands; the need for a tailored approach to legislation, policy and services; other benefits, such as joint working, understanding of islands issues, economic benefits. (Consultation response: <https://consult.scotland.gov.uk/islands-team/islands-bill-consultation/results/j421958.pdf>).
- 59 <http://www.gov.scot/resource/0046/00464455.pdf>
- 60 <http://www.gov.scot/Resource/0048/00484439.pdf>
- 61 <http://www.gov.scot/Resource/0050/00505210.pdf>

- 62 <http://www.gov.scot/Resource/0047/00472389.pdf>
- 63 <http://www.gov.scot/resource/doc/159130/0043280.pdf>
- 64 <http://www.gov.scot/Resource/Doc/925/0051662.pdf>
- 65 <http://www.gov.scot/Resource/Doc/47007/0025631.pdf>
- 66 <http://www.gov.scot/Resource/Doc/47043/0025548.pdf>
- 67 <http://www.gov.scot/resource/doc/206218/0054797.pdf>
- 68 <http://www.gov.scot/Resource/Doc/161991/0044016.pdf>
- 69 Performance Improvement Framework:
<http://www.ssc.govt.nz/pif-reports-announcements> (last updated June 2016). Plus the model used by the Commonwealth of Virginia in the United States.
- 70 <http://www.readyscotland.org/>
- 71 http://www.audit-scotland.gov.uk/uploads/docs/report/2016/s22_160930_scottish_gov.pdf
- 72 http://www.audit-scotland.gov.uk/uploads/docs/report/2014/nr_141127_community_planning.pdf
- 73 http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr_160303_community_planning.pdf
- 74 http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr_160714_economic_growth.pdf
- 75 https://www.royalsocead.org.uk/cms/files/advice-papers/2013/AP13_08.pdf
- 76 http://www.sruc.ac.uk/info/120428/rural_scotland_in_focus/1265/2014_rural_scotland_in_focus_report
- 77 <http://www.gov.scot/Resource/Doc/47034/0030398.pdf>
- 78 <http://www.gov.scot/resource/doc/173061/0048277.pdf>
- 79 <http://www.gov.scot/Resource/Doc/319168/0102002.pdf>
- 80 <http://www.gov.scot/Resource/Doc/344246/0114504.pdf>
- 81 <http://www.gov.scot/Resource/0049/00497493.pdf>
- 82 <http://www.evaluationsupportscotland.org.uk/media/uploads/resources/supportguide1.2logicmodelsjul09.pdf>
- 83 <http://fyi.uwex.edu/programdevelopment/logic-models/>
- 84 <http://fyi.uwex.edu/programdevelopment/logic-models/bibliography/>
- 85 EXAMPLES: Growing Community Assets:
https://www.biglotteryfund.org.uk/prog_growing_community_assets; DTAS COSS:
<http://www.dtascommunityownership.org.uk/case-studies>; Evaluation of Scottish Land Fund:
<http://www.gov.scot/Resource/0050/00503840.pdf>; Community Land Scotland Social Impact:
<http://www.communitylandscotland.org.uk/wp-content/uploads/2014/06/CLS-Social-Impacts-Pilot-Survey-Final-Report-for-Release-290115.pdf>; Community Land Scotland Economic Indicator Data:

<http://www.communitylandscotland.org.uk/wp-content/uploads/2014/06/FINAL-Community-Land-Scotland-Economic-Data-Report-140414-For-Release.pdf> ;

Place-based Approaches to Joint Planning, Resourcing and Delivery: An overview of current practice in Scotland, Improvement Service (2016)

<http://www.improvementservice.org.uk/documents/research/place-based-approaches-report.pdf>;

Scottish Sustainable Communities Initiative Charrette Series <http://www.gov.scot/Topics/Built-Environment/AandP/Projects/SSCI/SSCICharretteSeries> and Report: <http://www.gov.scot/resource/doc/260590/0105938.pdf>;
Bynner, C. (2016) What Works Scotland Working Paper: Rationales for Place-Based Approaches in Scotland <http://whatworksscotland.ac.uk/wp-content/uploads/2016/07/RationalesforPlacebasedApproachesinScotland.pdf>

- 86 <http://www.jitscotland.org.uk/action-areas/personal-outcomes/>
- 87 <http://ihub.scot/>
- 88 <http://www.jitscotland.org.uk/action-areas/personal-outcomes/>
- 89 <https://meaningfulandmeasurable.wordpress.com/>
- 90 <http://ihub.scot/a-z-programmes/personal-outcomes/>
- 91 <http://www.gov.scot/Topics/Built-Environment/Housing/warmhomes/fuelpoverty/fuel-poverty-task-force>
- 92 <http://www.gov.scot/resource/0039/00398762.pdf>
- 93 <http://www.scottishruralparliament.org.uk/>
- 94 Stiglitz J, Sen A and Fitoussi J-P (2009) *Report by the Commission on the Measurement of Economic Performance and Social Progress* http://www.stiglitz-enfitoussi.fr/documents/rapport_anglais.pdf
- 95 <http://www.carnegieuktrust.org.uk/carnegieuktrust/wp-content/uploads/sites/64/2016/02/pub1455011589.pdf>
- 96 http://www.legislation.gov.uk/anaw/2015/2/pdfs/anaw_20150002_en.pdf
- 97 <http://gov.wales/topics/people-and-communities/people/future-generations-act/?lang=en>
- 98 <http://thewaleswewant.co.uk/sites/default/files/150623-guide-to-the-fg-act-en.pdf>
- 99 <http://thewaleswewant.co.uk/future-generations-commissioner>
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Conclusions Section 4

Creating and Implementing a Strategy for Rural Scotland

In our 2016 Report, we have examined agricultural sectors and their trends, the multiple outcomes of diverse estates, the feasibility of woodland and forestry goals, the economic significance of wider rural businesses, and the policy landscape surrounding community resilience outcomes.

We have highlighted complexities, trends, drivers, inhibitors and enablers. We have described directions of travel, exploring how and whether these have delivered (or could deliver) higher-level outcomes, together with the need for adaptation. We have reflected on timelines dating back many decades. These reflections have enabled us to assess where rural has come from, where and how drivers and priorities have changed, and – by projecting forward, even in these times of heightened uncertainty – we have explored potential future options.

Our 2014 *Rural Scotland in Focus* Report concluded with the unequivocal call for a rural strategy. The evidence we have presented in this, our fourth, report serves only to substantiate further the need for such an over-arching approach. Based on our analysis across rural sectors, we continue to see a persistent need for **a coherent, measurable rural strategy situated within a national policy framework, which builds on the innovation and creativity of those in rural Scotland**. Such a strategy would bring together the resources, needs, opportunities, conflicts, threats, drivers and wider policy context within a **collective, single frame of reference**.

Given this cumulative evidence base, and given the opportunities and challenges facing rural Scotland, we propose that the rural strategy would have **three aims**:

1. To set out **the vision for rural Scotland**, and identify how different **rural programmes and initiatives** deliver to that vision;
2. To monitor, evaluate and review **how national policies are supporting, or hampering, delivery of that rural vision**, potentially using a type of “rural proofing” approach;
3. To develop **ways of measuring progress** in order to track how rural is delivering to (a) its vision and (b) the Outcomes of the National Performance Framework.

These interlinked aims collectively ensure that the rural strategy would not lead to rural becoming siloed or separated. Rather, the role of both national and rural-specific interventions in supporting (or hindering) the vision of rural Scotland would be tracked, and the integral contribution of rural to Scotland’s National Outcomes would be “mapped”.

It is important to note that these three strategy aims encompass the ten characteristics that we recommended for a rural strategy in our 2014 *Rural Scotland in Focus* report: **Comprehensive** (brings together economic, social and environmental outcomes within one coherent vision); **Strategic** (includes measures of progress and timeframes for delivery); **Appropriate** (uses appropriate indicators); **Significant** (has influence and status); **Integrative** (relates to National Outcomes); **Collaborative** (partnership-based); **People-centred**; **Holistic**; **Dynamic**; and **Innovative**. The three strategy aims take this thinking further, based on our additional analysis since publishing our 2014 report.



Aim 1: To set out the vision for rural Scotland, and identify how different rural programmes and initiatives deliver to that vision

1.1 The case for the rural vision

In our previous *Rural Scotland in Focus* reports, we have noted that, although there have been five rural statements during the period 1999-2011, there has been, and currently is, **no coherent 'vision' for rural Scotland**. In the annual Programmes for Government (2007 to 2016), there are sections setting out specific initiatives for rural Scotland. However:

- they are not set within a framework of measurable, linked goals for rural as a whole;
- they do not have a set of underpinning indicators of progress or interim outputs to show steps towards (or away from) delivery of a rural vision;
- there is an absence of clear, strategic links-to-delivery with other rural, regional or national strategies, frameworks and programmes;
- they are not specifically tied to delivery of National Performance Framework Outcomes.

This means that there is no coherent journey towards, for example, “the vision of rural Scotland in 2030”, resulting in multiple, parallel (sometimes conflicting) policy areas delivering to a range of (sometimes conflicting) goals.

By establishing “the vision for rural”, rural and national interventions would be designed or attuned to deliver to this, and would then be assessed against the extent of their delivery. As we set out in our 2010 report, tensions between policy areas would then be openly explored, with identified pathways to resolution. People, communities, organisations and businesses could also identify how best to deliver their resources, innovativeness and entrepreneurship to this over-arching vision, through active stakeholder engagement and partnerships.

The persistent challenges facing rural Scotland form the real-life context within which the rural vision would have to be achieved. Such challenges would need to be fully and systematically taken into account, with policies and initiatives being tailored to deliver the vision.

Setting out the vision for rural Scotland need not, and indeed cannot, take place in a vacuum. There is a great deal of ‘rural learning’ to be built upon from within the policy sphere – both rural-specific, *and* the ways in which national policies are experienced in rural areas. Past, current and up-coming examples include:

- Rural statements from the past 17 years, both the five distinct ones (2000, 2002, 2007, 2010 and 2011, referred to in Sections 2 and 3 in this report) and the rural sections within the Programmes for Government (2007-2016)¹ and the Government’s Economic Strategies (2007, 2011, 2015)²;
- The reporting from successive LEADER Programmes in Scotland since 1991;
- Evaluations of successive Scottish Rural Development Programmes (SRDPs);
- The OECD’s review of Scotland’s Rural Policy (2008)³;
- The Road Ahead For Scotland: Final Report of the Inquiry Into Future Support For Agriculture In Scotland (2010)⁴;
- The Future of Scottish Agriculture Discussion Document (2015)⁵;
- The Land Use Strategy (2011-2016, 2016-2021)⁶;
- National Planning Framework 3 (NPF3)⁷, Scottish Planning Policy (SPP)⁸, and the 2015/16 Planning Review^{9 10};
- National Marine Plan (2015)¹¹;
- The 2020 Challenge for Scotland’s Biodiversity - A Strategy for the conservation and enhancement of biodiversity in Scotland (2013)¹²;

- Scottish Forestry Strategy (2006)¹³, Implementation Plan (2015-18)¹⁴ and Indicators (2015-16)¹⁵;
- The National Centre for Resilience (2014)¹⁶ with a focus on rural resilience and preparedness for climate-change-related weather events;
- “The Land of Scotland and the Common Good” – the Final Report of the Land Reform Review Group (2014)¹⁷;
- Scottish Rural Parliament¹⁸, which held two main events in 2014 and 2016, and is developing an Action Plan and a Manifesto (2016/17);
- The 1M Acres in Community Ownership by 2020 Short Life Working Group Report (2015)¹⁹;
- “National conversations”, including around a Fairer Scotland (2015)²⁰, which have had a rural dimension with analysis of findings;
- The Community Empowerment (Scotland) Act 2015²¹ and the Land Reform (Scotland) Act 2016²² - both in the process of starting their implementation, with associated Guidance in different stages of development;
- Public Service Reform and Community Planning Partnerships (CPPs)²³;
- An Action Plan to Deliver Affordable Warmth in Rural Scotland - the Rural Fuel Poverty Task Force final report (2016)²⁴;
- The Enterprise and Skills Review (2016/17)²⁵;
- A series of Rural Economy Summits to be held by the Rural Economy and Connectivity Cabinet Secretary across Scotland (2016/17)²⁶;
- The Rural and Island Housing Funds (2016/19)²⁷;
- The up-coming Scottish Rural Infrastructure Plan;
- The beginnings of the Islands Bill²⁸;
- Stakeholder discussions around a Local Democracy Bill and a “refresh” of the National Performance Framework Outcomes;
- Scottish Parliamentary Committees: The archived documents and Legacy Papers of the: Rural Affairs and Environment Committee; and Rural Affairs, Climate Change and Environment (RACCE) Committee; and the current work programmes of the: Rural Economy and Connectivity Committee; and Environment, Climate Change and Land Reform Committee.
- The implications of the Scotland Acts 2012²⁹ and 2016³⁰, Brexit, and potential further constitutional and governance changes at national and local authority levels.

These are only a **few examples**. Nonetheless, they highlight the pressing need for fundamental coherence around “the vision for rural”, since many of these have independent frameworks and timeframes for delivery, with some having separate visions, outcomes and targets, as well as distinct stakeholder networks and engagement processes, geographies and administrative boundaries. Within this multi-layered landscape, an over-arching rural vision would ensure that:

- issues, communities and people do not “fall between policy gaps”;
- opportunities are anticipated and realised due to coordinated behaviour, rather than multiple initiatives operating in parallel;
- rural policies, strategies and action plans, while not being “shoe-horned” into a uniform delivery mechanism, are nonetheless tested for their “fit” with, and delivery to, the over-arching vision;
- resources of rural Scotland are then collectively mobilised to deliver to larger, strategic, coherent national outcomes.

Having such a vision would therefore address what was seen as **the main weakness of Scotland’s rural policy**, as identified by the OECD in 2008 in their review: *the lack of integration between agriculture/ environmental policies and all the other socio-economic policies for rural areas*. The review team recommended that:

“Scotland aim for a distinct vision of policy for all rural areas, one that is comprehensive and integrated, capable of mixing sectoral and territorial approaches and developing linkages and exchanges, between the agricultural sector (farmers and land managers) and the other sectors of the rural economy.”

1.2 The focus of the rural vision

The rural vision would represent a shift from a “needs-based” picture of rural, towards one that is **forward-thinking, ambitious, innovative, creative, confident and inclusive** – a shift that is also reflected in the two versions of the Cork Declaration.

1996: The Cork Declaration – A Living Countryside³¹

The ten point rural development programme for the European Union focused on the complexities and needs of Europe’s rural areas, and what should be put in place to support Europe’s agriculture and wider rural communities to fulfil their potential across economic, environmental and social objectives. The language is largely “needs-based”, for example: **Rural Preference** to be given to rural areas in terms of a fairer allocation of funds to enable sustainable development; an **Integrated Approach** focused on co-financing for those areas “most in need”; and **Diversification** described in terms of the necessary supporting framework to promote viable development.



This needs-focused language is echoed over ten years later in the Scottish Government’s 2007 *Rural Scotland: Better Still, Naturally*³², where we read: “Our approach has been to mainstream the *needs* of rural areas wherever possible, so that the *needs* of rural Scotland are not set apart as something different or a ‘special case’ – but rather something that all departments, agencies and service providers should take seriously” (p.4; emphasis added).

2016: The Cork 2.0 Declaration – A Better Life in Rural Areas³³

In contrast, twenty years later, the language is far more focused on innovation and the contribution that rural areas make to the wider economy, society and environment of the European Union, with the **starting-point** being: “the key role of rural areas and communities in implementing the United Nations Sustainable Development Goals (SDG) as well as ... the United Nations Framework Convention on Climate Change (UNFCCC)” (2016, p.1). We read of: the **value** of rural **resources**; the **importance** of rural areas in Europe’s heritage; fostering **innovation and entrepreneurship** in traditional rural domains as well as **new sectors** of the economy; agricultural and forestry value chains being **engines of growth** providing **jobs and livelihoods to millions**; the importance of farmers as **stewards** and **principal providers** of environmental **public goods**. This all culminates in ten “**innovative, integrated and inclusive** rural and agricultural policy” priorities around: prosperity; value chains; viability and vitality; environment, climate change and climate action; boosting knowledge, innovation and rural governance. The two-day conference itself held a Panel debate on “innovative and alternative delivery mechanisms”, with the conference as a whole recommending that policy makers of the European Union: “improve public awareness of the **potential of rural areas and resources to deliver on a wide range of economic, social, and environmental challenges and opportunities benefitting all European citizens**” (p.5).



This stance is reflected in our 2016 report, where we have examined how **rural Scotland is an innovative and entrepreneurial environment**, sometimes as a direct result of challenges faced by individuals, businesses and communities, such as distance from markets, services and difficulties of transport. We have explored the resilience of rural communities, of agricultural sectors (such as dairy and sheep production systems, and the soft fruit sector), and have provided evidence of economic growth sectors, diversification within and beyond agriculture, and the rich diversity of the private sector, including in energy, biomaterials, high quality food production and digital services. We have also highlighted the need for *greater* innovation, for example in: (i) designing support for rural enterprises to fit their size and entrepreneurial behaviour which can be different from their urban counterparts; and (ii) leadership within the woodland and forest sectors to ensure

more resilient woodlands/forests and greater integration of woodland management into farming systems. In our reporting, we have presented a **balanced assessment**. That is, whilst it is fundamentally important to examine and articulate the significant positive contributions that rural Scotland makes to the wider economy, society and environment, it is also crucial that awareness is simultaneously maintained of the **difficulties and challenges which persist for many**. Examples include: rural poverty and particularly fuel poverty; the multiple, “layered” higher costs of living; significant lack of affordable housing; mental health challenges; the potential for projects and programmes to ‘empower the already-empowered’, leaving others further behind; and the social justice impacts of lack of next generation broadband – themes we have reported in our biennial *Rural Scotland in Focus* Reports since 2010.

Clearly, the vision for rural Scotland must be **inclusive**. This demands at least two sets of actions. Firstly, as presented in this and previous *Rural Scotland in Focus* reports: (i) analysis of how policies and programmes are and are not delivering to the poor and disadvantaged in rural Scotland must continue; and (ii) there must be an on-going examination of the **Scottish Index of Multiple Deprivation** (SIMD), exploring proposals for alternative measures and indicators, and, as a minimum, the “rural sensitising” of the SIMD. Secondly, it is essential to create evidence of how rural Scotland’s people and resources, for example through **place-based entrepreneurship and innovation**, are already addressing local needs; this knowledge-base would underpin a way forward for learning and development, feeding into a more **complete vision** for rural Scotland.

Aim 2: Monitor, evaluate and review how national policies are supporting, or hampering, delivery of that rural vision, potentially using a type of “rural proofing” approach

This second strategy aim is based on our cumulative evidence and analysis over the past four *Rural Scotland in Focus* Reports since 2010. It is also echoed in two key points from the **Cork 2.0 Declaration 2016**.

2.1 Integration of rural within the national policy landscape

The first point is that: “*Rural and agricultural policies must interact with the wider context of national and regional strategies and work in complementarity and coherence with other policies*” (p.4).

As we stated in our 2014 report, there needs to be deliberate, designed coherence between policy areas, in two specific ways. Firstly, there is a need to collectively analyse **rural-focused strategies and commitments**, such as those listed above (including the Land Use Strategy, Scottish Forestry Strategy, Scottish Rural Infrastructure Plan, Islands Bill), in order to assess **the extent to which they are delivering to the same rural vision**.

Of equal significance is bringing the rural vision into the heart of the **national policy landscape**, to ensure that national policy goals can “talk to” the rural vision, and vice versa. The national landscape is made up of four broad elements:

- policy-related **measures and strategies**, such as the National Planning Review, Enterprise and Skills Review;
- **legislation**, such as Community Empowerment (Scotland) Act 2015, Land Reform (Scotland) Act 2016, and the up-coming Local Democracy Bill;
- working with **multiple stakeholders** across government, Non-Departmental Public Bodies (NDPBs), NGOs, Arm’s Length External Organisations (ALEOs)³⁴, CPPs, public, private and third sectors to understand their delivery priorities, approaches and mechanisms;
- most significantly, integrating the rural vision with the **National Performance Framework** (NPF), since it is absolutely critical that “rural” is not marginalised due to having its own, tailored vision.

The National Performance Framework³⁵ (NPF) is in its tenth year of operation, established in 2007 as “a move away from counting inputs and outputs to measuring longer-term outcomes”. The NPF is innovative and world-leading, with only one other country – New Zealand³⁶ – using a national framework to structure, deliver and measure its policy outcomes. The NPF represented a substantial gear-change, since from 2007 onwards, all policy efforts were to be re-oriented towards the Purpose of Government³⁷ and the 16 National Outcomes, with a “golden thread” linking local-level delivery to national-level outcomes.



The NPF was refreshed in 2011, with the addition of five new Indicators and an Outcome referring to older people. More significantly, in the Community Empowerment (Scotland) Act (2015), there is a **statutory commitment to consult on, develop and publish a new set of National Outcomes**. The fact that the NPF is cited in Part 1 of the Act further elevates its status as a framework now formally recognised within legislation.

However, as the evidence presented in this and previous *Rural Scotland in Focus* reports demonstrates, there is a **disconnect between the multiple policies** that exist across agriculture, land use, planning, environment, health, economic development, infrastructure, community empowerment, etc. and **their direct delivery into the national outcomes of the NPF**. As Audit Scotland states with reference to several of their audits:

“A common theme ... is the potential for greater alignment of resources and actions, including those of public organisations, to the NPF. For example... the NPF measures overall progress towards economic targets and outcomes but does not measure the specific contribution of policies and initiatives to delivering these outcomes...” (2016, p.16)³⁸

The Royal Society of Edinburgh notes that this disconnect means it is **difficult to link spending with outcomes**. In their Advice Paper to the Scottish Parliament’s Finance Committee, they state:

“The long-term nature of many of the desired outcomes set out in the NPF requires annual information on the cost, activity and quality of services delivered. While the Scottish Government does provide an annual report on its progress against the national indicators contained in the NPF, this does not make a direct link between spending allocations and performance. In order to be able to fully assess the effectiveness and efficiency of government performance, it is crucial that these connections are made within the structure of the NPF.” (2013, p.1)³⁹

It is clear that much-improved **alignment and connections** are required across national policies, both in terms of how they relate to one other, and in respect of knowing whether and how they deliver to the NPF. The evidence we have presented in our four *Rural Scotland in Focus* reports confirms the existence of this extremely **complex**, and somewhat **disjointed, policy landscape**. A **unifying vision for rural** would enable the mapping of this complexity, drawing threads together from disparate parts of the policy network.

2.2 Viewing policies through a ‘rural lens’

The **second point** from the Cork 2.0 Declaration is the recommendation to: “systematically review other macro and sectorial policies **through a rural lens**, considering potential and actual impacts and implications on rural jobs and growth and development prospects, social well-being, and the environmental quality of rural areas and communities” (2016, p.5). Again this echoes evidence we have presented in our current and previous Reports, about: (1) the ways in which individuals, communities and businesses across **rural Scotland** are being **differentially impacted upon** by Scotland’s **national** policies; and (ii) the need to know more about such impacts and their implications.

There is a legislative precedent for using this rural lens: the **Rural Needs (Northern Ireland) Act 2016**^{40 41}. The Act states that a **public authority**⁴² **must have due regard to rural needs** when: (a) developing, adopting, implementing or revising policies, strategies and plans; and (b) designing and delivering public services. The Department of Agriculture, Environment and Rural Affairs may take such steps as appear to it to be appropriate to: (a) provide any person with **guidance, advice and information** about issues connected with rural needs or ways of meeting those needs; (b) undertake, commission or support (by financial means or otherwise) research into any matter relating to rural needs. In the Act “rural needs” are defined as the “social and economic needs of persons in rural areas” (Section 6).



The consultation (2014/2015)⁴³ showed support for: putting rural proofing on a **statutory footing**, leading to **better outcomes for rural dwellers**; having a **consistent approach** across central and local government; extending the statutory duty to **non-departmental public bodies**; producing a rural proofing **report**; and increasing co-operation and collaboration between the Department and **other government departments, district councils and other public bodies** on matters concerning the rural proofing of their strategies and policies.

A similar set of conversations around ‘better outcomes for rural dwellers’ took place in Scotland in 2002, with the following conclusion:

“The way in which these issues manifest themselves in rural areas, and therefore the challenge for the Executive and our partners, can be quite different from that in our cities. The realisation of our rural vision will therefore require distinctive policy responses, tailored to rural circumstances” (*Rural Scotland: Taking Stock, 2002, p.2*).

However, in spite of accumulated academic and other policy-related evidence during the intervening 14 years which shows that policies play out in specific ways in rural Scotland, there has been no systematic shift towards rural-proofing⁴⁴.

As we have stated in this and previous *Rural Scotland in Focus* Reports, the outcome is a set of national policies which are largely ‘de-sensitised’ to rural, with little or no systematic learning about the extent to which they do or not deliver within rural contexts. This would appear to run counter to the Cork 2.0 Declaration which supports the **Principle of Subsidiarity** on the basis of the **diversity of rural areas**, and the need for **decentralisation** and **tailoring** within a coherent overall framework.

This ‘rural de-sensitisation’ also appears to be the case for the **National Performance Framework** itself. It is not possible to demonstrate how the NPF is playing out in rural areas, that is, the extent to which the Outcomes are being realised, the direction-of-travel of the Indicators and what this actually *means* for individuals, communities and businesses **in rural Scotland**. As we stated in our 2012 Report, this assessment is important in and of itself, in terms of efficient and intelligent resource allocation. It will also become much more critical as different types of policy and resource prioritising may need to take place in the light of Brexit and other constitutional and financial changes taking place in the short to medium term.

The statutory commitment to refreshing the NPF Outcomes therefore creates an exciting and critically important **opportunity to establish their rural dimensions, by re-viewing them through a rural lens**, making them ‘**fit for purpose**’ for rural Scotland.

Aim 3: To develop ways of measuring progress in order to track how rural is delivering to (a) its vision and (b) the Outcomes of the National Performance Framework.

3.1 The centrality of evidence

As with all our previous reports, *Rural Scotland in Focus 2016* is underpinned at its core by the theme of “evidence”. We analyse data and provide commentary on a range of pertinent and evolving issues across rural Scotland. We describe what is **known**, what is **not** known, and the **implications** of this state of knowledge for informing options and next steps on-the-ground, as well as policy at regional and national levels.

Firstly, when exploring **changing land management**, the evidence pointed to: the impact of uncertainty across agricultural sectors, and how different sectors respond in particular ways; how increases in technical efficiency and viability are required, which may be achieved via entrepreneurial, market-focused approaches as well as through intergenerational transfer of farms and crofts to a younger age cohort. In relation to rural estates (private, community, NGO), data show delivery of outcomes including long-term viability, economic development, conservation, community capacity and confidence, employment, housing and a reduction in outmigration. When considering the future of woodland and forestry, we presented evidence around the challenges in reaching targets, the existence of guidance yet the persistent need for leadership in order to deliver the national goals.

The fact that current evidence around the **wider rural economy** is partial at best means that assumptions persist concerning the limited contribution of wider rural businesses relative to cities, which are still seen as the engines of growth on which rural areas depend. The analysis showed there is still much evidence required about the impact and opportunities of Brexit and Scotland’s new financial powers etc., as well as how to match support to the specific characteristics, profile and future plans of rural businesses.

When examining **rural community resilience policies**, we pointed to the lack of accumulated national evidence over a 17 year period, meaning that we do not know which policies have succeeded. Evidence is

being produced in different locations and levels for multiple projects and programmes. The lack of coherence in this evidence-base prohibits comparison, benchmarking, and assessment over time in relation to delivery of national outcomes, and dramatically reduces the learning and evidence that would otherwise inform future policy design and investment.

3.2 Using evidence to track policy impact

In our reporting, we have, therefore, emphasised the importance of **knowing**, and the impact of **not** knowing. This has also been highlighted by others, specifically in relation to policies affecting rural Scotland. For example, almost ten years ago, we read that:

“Rural Scotland is not homogeneous and evidence is not always unequivocal or robust. There is a need to develop further the evidence base and the ability to measure progress and success – with a clearer focus on the impacts (outcomes) of policies and actions and to take account of regional, local and other variations. Better comparative, including international, data and analysis are needed” (*Rural Scotland: Better Still, Naturally*, 2007, p.v).

This shows a key purpose of knowing: being able to **track change** due to **policy**; being able to **measure progress** and **success** due to the implementation of particular measures (actions/policies/programmes) at multiple levels; and being able to assess **outcomes**. Such evidence is also critical in being able to understand what is **not working**, where success is **not** being delivered and why, and then using evidence to identify location-specific and system-wide constraints.

This particular quote also points to the importance of **international data**, based on **comparative** assessments, which would require **benchmarking**, establishing **baselines** from which to measure, and the creation of a series of **indicators**.

Almost ten years later, we again see the recommendation for evidence being used to **improve performance and accountability of rural policies**:

“Policies must be accountable and fit for purpose. Public support to agriculture and rural areas must be subject to a credible monitoring and evaluation system. This should cover the benefits of actions, the efficiency of expenditure, and assess the delivery against policy objectives. Stakeholders must get a stronger role in assessing performance through peer learning and performance reviews. Citizens and taxpayers expect to be informed about the performance and achievement of the policy. This expectation must be met.” (Cork 2.0 Declaration, 2016, p.5)

This newer perspective points to **accountability** to the public and citizen as a **strong driver** for the existence of **robust evidence**, with “benefits”, “efficiency”, “performance” and “achievements” of policies being appropriate citizen expectations. The landscape and language has changed to one of citizen rights, empowerment and knowledge. Indeed, in this quote, we see the recommendation for stakeholders carrying out their *own* assessments, producing **their own evidence** of performance in order to inform decisions and actions.

Such a shift is echoed within the **Community Empowerment (Scotland) Act 2015**, where citizen perspectives are to be given greater credence and value in the wider (public) decision-making system. Further, in the recently-revised **National Standards for Community Engagement**⁴⁵, there is a new Standard around **Impact** which seeks to track the impact of citizen engagement actions through systematic evidence (see Section 3 in this report for a discussion of these policy trends).

Coupled with this gathering momentum, there is a growing expectation that not only will existing evidence allow for the tracking of progress and assessment of policies, but, if used appropriately and iteratively, it will lead to the actual **re-framing of assumptions and questions**, and the asking of **new questions** – ones which did not exist before the evidence was brought into the frame, potentially leading to **new “starting-points”**, bringing in **new players** and **stakeholders**. This is **the feedback loop of policy evaluation** at its most fundamental, where the **evidence** can lead to **radical re-shaping and re-routing** of policy and practice options through **deliberation and dialogue**.

3.3 Creating a rural assessment framework through the use of accumulated rural evidence

In order to deliver an **appropriate assessment framework for the rural strategy**, it is critically important to begin to **harness the accumulated rural knowledge** with the **purpose of monitoring and tracking policy and programme delivery**. By “corralling” this evidence into a framework:

- A rural vision can be developed (Aim 1);
- The extent of rural policies’ progress in delivering to the rural vision can be monitored (Aim 1); and
- National policies’ impacts on the rural vision (both positive and negative) can be tracked (Aim 2).

Further, this evolving and maturing evidence base can enable greater rigour to be applied to assessing rural Scotland’s contribution both to the rural vision itself, and to the National Performance Framework (NPF) Outcomes (Aim 3).

Currently, it would appear that the Indicators and Outcomes of the NPF are not sensitised to rural, and are not reported according to rural Scotland or with reference to rural contextual factors (such as settlement size, distances, population density). Under the Community Empowerment (Scotland) Act 2015, the NPF Outcomes are currently being discussed as part of the statutory commitment to consult on, develop and publish a **new set of National Outcomes**. This presents **the opportune time to sensitise the Framework Outcomes, Indicators, and the data sets which underpin the Indicators**, making the most of the wealth of data, evidence and commentary that already exists across the breadth of rural Scotland’s sectors and communities, filling gaps where they exist and providing additional intelligence. This evidence comes not only from our reports, but also from a wealth of academic writing – including from the Scottish Government-funded Strategic Research Programmes⁴⁶, publications, reports and evaluations from the public, private and third sectors, which comprise an invaluable source over many decades.

Smart use of this evidence-base would deliver at least three outputs. Firstly, it would make it possible to examine **how rural Scotland could enhance its delivery to the rural vision**. Secondly, by systematically exploring and “mapping” the contribution of rural in ways that are proportionate and appropriate, it will also be possible to organise a coherent evidence base which shows how the **rural vision** is directly delivering to the **national outcomes** and the **national purpose of the NPF**. Thirdly, it would be possible to reflect on **what policy measures** would need to be put in place to **maximise coherent delivery** to those outcomes.

4. The need to know

By building on the rich evidence-base that does exist, rural Scotland is in an immensely strong position to reflect and then move forward in relation to what we **do know** (the “known knowns”), what we **do not know**, (the “known unknowns”), and then to make space for the “unknown unknowns” – what we **do not yet know that we do not know**.

In addition to **being much smarter about how existing data are used**, moving into these “unknowns” and uncertainties may require **new data, new frameworks and new indicators**. It may require the framing of **new questions with new stakeholders, having new conversations from new perspectives**. Shifts to address existing **data gaps** may occur, when they are seen as critical holes in our knowledge-base.

This progression may require shifts in resource. However, if we look back to 1999, to the establishment of the Scottish Parliament and to the launch of the first Social Justice Strategy, we read of the absolutely central importance given to evidence, so that **“Scotland will know** if we are moving towards a fairer, more just nation” (1999, p.2). **“Scotland knows”** is a compelling phrase – one which is full of promise, excitement and insights. It is worth reaching for.

Section Endnotes

- 1 <http://www.gov.scot/About/Performance/programme-for-government>
- 2 <http://www.gov.scot/Topics/Economy/EconomicStrategy>
- 3 <http://www.gov.scot/Publications/2008/02/14143544/0>
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- 40 <https://www.daera-ni.gov.uk/articles/rural-proofing>
- 41 <http://www.legislation.gov.uk/nia/2016/19/schedule>
- 42 Defined in the 2016 Act (and to be confirmed/refreshed at least every three years) as: A NI Department, a District Council, the Chief Constable of the Police Service NI, the Council for Catholic Maintained Schools, the Education Authority, a Health and Social Care Trust, Invest NI, the NI Fire and Rescue Service Board, the NI Housing Executive, the NI Library Authority, the NI Tourist Board, the Regional Agency for Public Health and Social Well-Being, the Regional Health and Social Care Board, and the Sports Council for NI.
- 43 <http://www.niassembly.gov.uk/assembly-business/legislation/2011-2016-mandate/primary-legislation-current-bills/rural-needs-bill3/rural-needs-bill-explanatory-and-financial-memorandum-further-consideration-stage/>
- 44 The exception being the establishment of the cross-Directorate Rural Policy Group in the Scottish Government.
- 45 <http://www.gov.scot/Topics/People/engage/NationalStandards/NationalStandards2016>
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