Scotland's Rural College

The Rural Report 2017-18: The Impact of Change on Rural Businesses 2017 – 2020 - Evidence from non-agricultural businesses in Aberdeenshire, Dumfries & Galloway, the Scottish Borders and Tayside

Thomson, SG; Atterton, J; Barnes, AP; Harcus, SH

Print publication: 01/10/2018

Rural Report 2017/18

The Impact of Change on Rural Businesses 2017 – 2020

- *Evidence from non-agricultural businesses in Aberdeenshire, Dumfries & Galloway, the Scottish Borders and Tayside*

Authors:
Steven Thomson, Jane Atterton, Andrew Barnes & Stephanie Harcus

Land Economy, Environment and Society Research Group

Rural Report 1

October 2018

This research was funded by Scottish Enterprise, The Scottish Government and Scottish Land and Estates. The Scottish Government funding is part of the Scottish Government's Strategic Research Programme 2016-2021, Theme 2, Work Package 2.4 Rural Industries.

SRUC

Executive Summary

1. The role of the land-based sector within local economies is often claimed to be significant, yet it is unclear from the existing evidence how important farming, forestry and estates are as contributors, or catalysts, to rural wealth creation and employment. Alongside this, there is a lack of detailed evidence about rural businesses operating across Scotland's rural areas relating to: the diversity and range of businesses; operating turnover; employees; planned investment; debt and credit terms given; business confidence and expectations – particularly in-light of Brexit.
2. This research aims to fill these evidence and knowledge gaps. In particular, the work focuses on assessing if, how and the extent to which, the wider regional business base may be reliant on the land based sector and the related challenges faced in dealing with the sector during a period of changing (and delayed) support payments. In addition, business, and business owners' characteristics and perceptions are assessed, in particular with regard to Brexit and the challenges and opportunities it may bring. The survey focused on the South and North East regions of Scotland and is the first of three surveys that will provide a longitudinal analysis of the rural business population as we move through this period of Brexit uncertainty.

The Importance of Rural Businesses

3. Rural Scotland is an important component of Scotland's national economy with significant amounts of activity in the tourism, farming, forestry, fishing, food, drink and renewables sectors, in particular. Indeed the food and drink sector has been one of the fastest growing sectors of the Scottish economy in recent years, generating significant economic impact in rural areas and beyond.
4. There were over 52,000 rural businesses, with a workforce of over 300,000 people generating £38 billion in turnover in 2017. Small towns also are home to an additional 20,000 businesses with a workforce of 58,000 generating £16 billion in turnover in 2017.
5. Family-owned businesses are very important in rural Scotland, accounting for 79% of small and medium sized enterprises (SMEs) in remote rural areas and 77% in accessible rural areas. Many rural businesses are small, and indeed micro enterprises, with over 40% of rural private sector enterprises having no employees in 2017. 44% of the remote rural workforce and 34% of the accessible rural workforce were engaged in businesses with less than 10 employees in 2017. Large businesses, with over 250 employees, accounted for 21% and 32% of the remote and accessible rural workforces respectively, compared to 56% of the urban workforce.
6. The SME population in accessible rural areas is growing at a faster rate than any other rural-urban category. This growth is driven by an increasing number of businesses in the service sector, including professional, scientific and technical activities.
7. Whilst micro businesses dominated the total number of businesses in rural areas, businesses with less than 10 employees only accounted for 23% of turnover generated by accessible rural businesses in 2017. 45% of rural businesses income was generated by large businesses with more than 250 workers.

Business Sectors

8. Agriculture, forestry and fishing enterprises in rural Scotland account for around one quarter of SME private sector businesses in accessible rural areas, and just over one third in remote

rural areas. Viewed another way, three quarters of private sector businesses in accessible rural Scotland, and two thirds in remote rural Scotland, operate outside the primary sector.

9. The primary sector accounted for 17% of private sector employees in remote rural areas and 13% in accessible rural areas in 2017. Accessible rural areas had a greater reliance on manufacturing jobs (16%) than remote rural areas (10%) with tourism related jobs much higher in remote areas, with 18% of the workforce employed in accommodation and food services in these areas compared to 9% in accessible rural areas.
10. In terms of revenue generation, the primary sector accounted for 16% of private sector turnover in remote rural areas compared to 10% in accessible rural areas. Manufacturing was very important for income generation in accessible rural areas, accounting for 28% of turnover in 2017 compared to only 16% in remote rural areas. Despite accommodation and food services being important in employment terms in remote rural areas, it only accounted for 7% of turnover, with mining, quarrying and utilities being twice as important for turnover generation.
11. Overall, the largest sectors of the rural economy in terms of Gross Value Added were distribution, wholesale and retail (including transport), the public sector, and manufacturing (including food manufacturing), although this does vary considerably across different rural areas. These three sectors accounted for 56% of the rural economy as a whole in 2015.

Rural Business Characteristics

12. Evidence in the literature points to the greater resilience of rural firms compared to their urban counterparts, at least once they become established. Part of the reason for that resilience is the close interlinking of rural businesses and households, enabling businesses to cope with periods of business downturn and stress.
13. Moreover, rural businesses often rely on a loyal, stable local customer base who may continue to buy goods and services locally despite being able to source goods and services more cheaply elsewhere.
14. The evidence also suggests that rural businesses are less susceptible to external changes, being more embedded in the local environment. However, a high degree of local embeddedness can also be a constraint for firms in buoyant times, if they become too tied into strong local networks at the expense of developing new networks which extend beyond their local economy.
15. Two assumptions still tend to prevail about the rural economy. Firstly, that the rural economy is dominated by agriculture. Secondly, that rural economies are unable to generate their own growth, and are dependent on trickle out effects from urban areas for their development. This survey provides evidence relating to these assumptions in order to improve our understanding of the characteristics and contributions of rural businesses.

The Common Agricultural Policy and Rural Economies

16. Over the current five year period from 2015 to 2020, CAP schemes will inject more than £3.3 billion into Scotland's agricultural sector through direct farm payments. Further, a budget of over £1.35 billion is helping to support the priorities of the Scottish Rural Development Programme. This funding is vitally important in sustaining farm businesses in the rural economy but also, it is argued, in sustaining a wider array of rural businesses that service/supply farmers.
17. The Scottish Government estimated that in the 2013-17 period average Scottish agricultural output was £3 billion per annum with agricultural support payments averaging £497 million per annum, whilst annual costs averaged £2.7 billion. The money that farm businesses spend

supports economic output and jobs in a wide range of upstream businesses that supply goods and services required for producing farm outputs. Livestock feed accounted for a fifth of all expenditure, with reinvestment in fixed capital (depreciating buildings and machinery) estimated to account for 16% of total expenditure, and hired labour accounting for 14%.

18. The contribution of primary sector activities to rural economies in terms of employment and GVA is relatively small and has declined in recent years, particularly as service sector activities have increased in importance. Nevertheless, the extent of the upstream and downstream linkages of businesses in the land based sector, means that these activities remain important to the sustainability of rural Scotland's communities, particularly in remoter areas where there are fewer employment alternatives.
19. Research in 2016 found rising levels of farm borrowing in the UK, with increasing numbers of farm businesses unable to pay-off their short term debt. The findings also revealed that many farmers were (at the time) experiencing cashflow issues, largely driven by low farm gate prices and exacerbated by delays in CAP payments to farmers. However, this research argued that farm price volatility filters through to the upstream supply industries and intermediaries, and their business performance is inextricably linked to that of farming. The research noted that the full extent of these linkage effects are not well understood and further research is required to improve our knowledge in this area.

The Survey

20. During the summer of 2017 a telephone survey was undertaken with 1,500 non- land-based (farm, estates and forestry sectors) rural businesses across Aberdeenshire, Dumfries and Galloway, the Scottish Borders and Tayside. Using a database of 20,000 businesses the sample was drawn to ensure widespread coverage by business-size, business-sector (Standard Industrial Classification – SIC--code) and geography – with 1,000 of the sample thought to be in sectors that potentially could have relationships with land-based businesses.

Survey Results – Business Characteristics

21. Much is written about the average age of farmers being high, yet the age profile of the business survey respondents suggests that those individuals running the wider rural business base have a similar age profile. 64% of the survey respondents were 50 years old and over, 30% were 60+ years old, and 8% were over 70 years old. Only 13% of the respondents were under 40 years of age and less than 3% were under 30 years of age.
22. The long term nature of many rural businesses, including some intergenerational operations, suggests that many of these businesses are fairly resilient. The surveyed businesses had over 40,000 years of collective experience behind them. 40% of the surveyed businesses had been established for over 25 years, including 14% that had been operating for over 50 years. Only 25% of the businesses were under 10 years old, with 11% under 5 years old.
23. The highest level of educational attainment was school for 30% of the survey respondents. Trade/technical and vocational training was the highest level of education for nearly a quarter of owners/partners and directors, which may reflect the self-employed 'trades' nature of many businesses. About 20% of senior staff interviewed had undergraduate degrees.

Survey Results – Turnover & Employment

24. The surveyed businesses were mostly small-scale employers, with over 80% having less than 10 employees in 2017. 11% of the businesses had no employees, and 55% had 1-4 employees. Only 5% of the businesses surveyed had more than 50 employees. It was

reported that 89% of the workforce was from the UK, with 3% from the Republic of Ireland and 8% from the rest of the EU. The median number of full time workers was three.

25. Reflecting the small-scale nature of many rural businesses, 9% of the businesses generated less than £25,000 turnover per year and a further 9% generated between £25,000 and £50,000. In contrast, nearly a third generated more than £0.5 million turnover in 2017.

Survey Results – Operating Environment and Plans

26. The majority (70%) of the businesses reported that they had a good operating environment in 2017, with 24% stating that it was very good. Only 10% of businesses surveyed rated their 2017 operating environment as poor, with less than 5% saying it was very poor.
27. A third of the businesses thought that their operating environment would improve within 2017/18 and 37% believed that things would continue to be better over a 5 year period. Only 2% of the respondents thought they would retire in 2017/18 but that proportion increased to 11% within the next 5 years. 18% of the businesses were unsure what the long term future holds for their business and 10% of businesses were pessimistic about their short-term future, thinking they would be worse off.
28. Recent business performance significantly influences the outlook of a business. There was a positive 5-year outlook in over half of the business that had improved turnover between 2016 and 2017, compared to only 27% of those with static turnover, and 31% of those with declining turnover. Nearly 20% of those businesses with turnover that had recently fallen expected to retire by 2022 compared to 11% of those with steady turnover and only 6% for those with improved turnover.
29. Nearly half the surveyed businesses had no plans to make any investments in their business during 2017/18, with a large proportion (44%) believing that they would not make any investments in the 2017 to 2022 period. A quarter of businesses felt that they would be reinvesting in equipment in the next five years, with about a fifth investing in land/buildings and machinery over the same period. Only 15% of businesses thought that they would invest in staff. Businesses with links to the land-based sector, or that had recent turnover improvement, were more like to have plans to invest in their business.

Survey Results – Links to Land-based Sector

30. Over half of the 1,000 business with SIC codes thought to be part of the land-based sector supply chain, actually reported some degree of business reliance on the land based sector (many had links to more than one sector). Only a quarter of the wider rural business base (from the untargeted supply-chain SIC codes) had any business relationship with the land-based sector.
31. 42% of the surveyed businesses had some links to the land-based sector, with 35% having business links with farming, 17% with estates and 22% with forestry. Two-thirds of the businesses with links to the farming sector either purchased goods from them (15%) or supplied them (51%), with about a third having more indirect relationships with the sector. 44% of businesses with links to the forestry sector were upstream suppliers with 15% reporting downstream purchases and 41% indirect links. There were 345 businesses with links to the estate sector with 55% providing goods and services to the sector, 10% buying from them and 35% with more indirect relationships.
32. The farming sector contributed an average of 43% of turnover for 509 businesses. 28% of these businesses were over 70% reliant on farming. For 57% of businesses linked to estates and 62% linked to forestry, there was less than 10% reliance on the respective sector for business turnover. The findings reveal how the fortunes of agriculture, in particular, have

wider rural economy impacts through the upstream suppliers, downstream purchasers and indirect reliance on the sector.

33. 54% of businesses linked to farming had noticed cashflow problems in the sector between 2015 and 2017. 32% of the businesses with estate links had noted cashflow problems amongst estates, but only 16% of those linked to forestry reported cashflow issues in this sector. Businesses that are regularly faced with cashflow problems amongst their clients face knock-on impacts from the problem. 16% of the business linked to the farming sector, 10% linked to estates and 7% linked to forestry reported a change in their business relationship with the land based sector in the 2015-17 period. Some of these businesses reported that they had diversified their business base to become less reliant on the land-based sector).

Survey Results - Brexit

34. A quarter of all the businesses surveyed felt negative towards Brexit, with 7% very negative. A quarter of the businesses thought that Brexit would be positive for their business, with 4% very positive. Half the businesses were unsure of what Brexit would mean for their business. Many of the neutral responses came from businesses that genuinely felt it would have limited impact on their sector (e.g. garages, hairdressers), but also from those that struggled to come to an informed conclusion until they knew "what the terms of Brexit are" with others simply willing to "suck it and see".
35. The very smallest businesses were least optimistic and the largest business most optimistic about the impacts of Brexit on their business. Only 17% of businesses with turnovers less than £25,000 had Brexit optimism, with 59% unsure what the impacts would be on their business. Nearly a third of those generating over £500,000 turnover thought Brexit would be positive for their business with 42% uncertain of the impacts.
36. Businesses in the real estate and the professional, scientific & technical activities sectors were most likely to think Brexit would be negative for their business (only 18% of the professional, scientific & technical activities sector had a positive opinion about Brexit). Businesses in the other services sector had the greatest degree of Brexit uncertainty (69% unsure). The transport and storage sector had the highest proportion of Brexit optimism (35%) and lowest level of Brexit pessimism (11%).

Acknowledgements

The SRUC research team would like to acknowledge the funding provided for this survey by the Scottish Government, Scottish Enterprise and Scottish Land and Estates. We would also like to thank the 1,500 rural businesses who took the time to take part in our survey and provide their views. Finally, we would like to thank Roger Turner for his helpful comments on an earlier draft of this report.

Contents

Background & Rationale for the Study

Scotland’s rural areas are an important component of Scotland’s economy with significant amounts of economic activity in sectors such as tourism, farming, forestry, fishing, food, drink and renewables. Indeed some of the fastest growing sectors of the Scottish economy in recent years, such as the food and drink sector, have a significant presence in rural areas. There are over 50,000 registered (2017) rural businesses in Scotland[1] and they play an important role in providing employment and wealth generation. Many of these businesses will be integral to local rural economies and a proportion of them may rely on the direct expenditure or multiplier effects arising from farming, forestry and estate (the land-based sector) activities. However, little is known about the extent of any such relationships, nor the relative importance of the land-based sector to local economies.

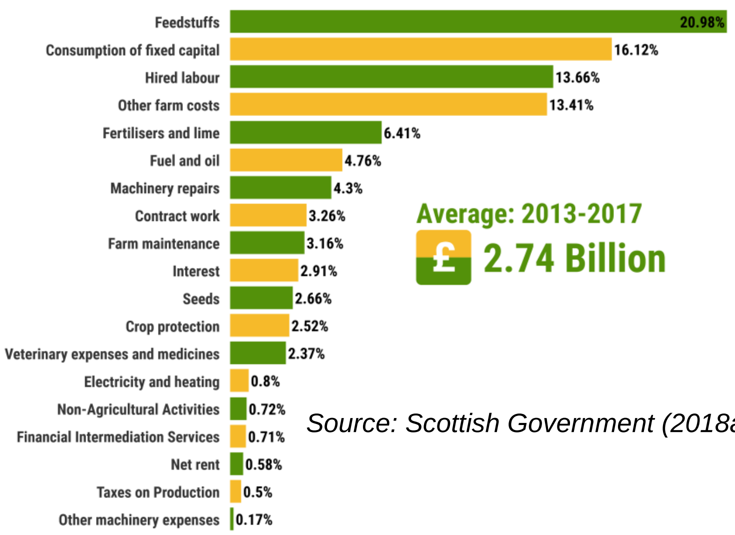
The Scottish Government regularly monitors changes in the agriculture and forestry sectors, and collects (under EU requirements) data on farm incomes and the role that the Common Agricultural Policy (CAP) plays in supporting the sector. However, to-date, there has been little assessment of the impact of these payments, or changes in the levels of levels of support, on other rural businesses and the wider rural economy. The role of the land-based sector within local economies is often claimed to be significant, yet it is unclear from the existing evidence if farming, forestry and estates are indeed important contributors to, or catalysts of rural wealth creation and employment.

The Common Agricultural Policy

The CAP currently provides financial support to land managers and rural communities across Scotland, via direct support measures (Pillar 1) and rural development measures (Pillar 2). Between 2013 and 2017, the Scottish Government (2018) estimated that on average Scottish agricultural output was £3 billion per annum with agricultural support payments averaging £497 million per annum, and annual costs averaging £2.7 billion.

The CAP support received by most land based businesses is essential to maintaining profitable and viable businesses, and therefore in sustaining wider economic activity. Figure 1 reveals how Scottish farm businesses’ purchases on goods and services within the rural economy were made, on average, between 2013 and 2017. This money supports economic output and jobs in a wide range of upstream businesses that supply goods and services required for producing farm outputs. Livestock feed accounted for a fifth of all expenditure on average, with reinvestment in fixed capital (depreciating buildings and machinery) estimated to account for 16% of total expenditure and hired labour accounting for 14%.

Figure 1 Average Scottish Agricultural Expenditure (2013-2017)



Source: Scottish Government (2018a)

This direct farm based expenditure, coupled with spending of retained business profits by the farming family, and downstream business impacts (e.g. markets, abattoirs, maltsters, mills, and the wider food and drink manufacturing sectors) lead to local and regional multiplier effects as value is added throughout

[1] http://www.gov.scot/Topics/Statistics/Browse/Business/Corporate/UrbanRuralTables/table9

the food and drink supply chain. Beyond supporting the agriculture sector, the £1.35 billion 2014-2020 Scottish Rural Development Programme (SRDP) also provides support for rural communities, rural businesses and other land managers (e.g. forestry and estates), and levers private investment into rural areas, thereby creating further economic impacts.

CAP Reform

Reforms of the CAP have meant that the methods of supporting agriculture across the EU have been constantly evolving over the last 50 years. This has meant that farmers have had to regularly adjust to new CAP mechanisms and regulations. The latest major CAP reforms came into effect in 2015, with significant changes to the way support was distributed – moving from a support system largely based on historic production levels to a system where payments are converging on three 'regional payment rates' based on what the land is used for (e.g. arable and grassland are classed as region 1 and rough grazing is split into region 2 and region 3). Initial estimates suggested that regions with historically intensive cattle and cereal production would lose out, principally in areas across the South of Scotland, and the North East[2]. However, the 2015 evolution of coupled support payments for beef production in Scotland, alongside windfall gains from a weakening Sterling, has meant that many farmers have never had to feel the full effects of the 2015 CAP reform package and the transition to the 'new' Basic Payment Scheme.

CAP Futures Programme

At the same time as the introduction of the Basic Payment Scheme and Greening payments in 2015, a new Scottish Government IT administrative system for the CAP was launched – the CAP Futures Programme[3]. The development of the CAP Futures Programme faced a series of technical difficulties that led to delays in the full implementation of the new administrative system that eventually led to the much publicised delays in processing claims, and in farmers receiving their support payments. Historically, the main farm support payments were made each December, following a May submission of claim forms from farmers. However, the 2015 payments were delayed by around 4 to 6 months for the majority of farmers (some faced even lengthier delays) due to technical and verification problems.

Many stakeholders at the time claimed that the payment delays were leaving a "*black hole in the rural economy*", as farmers struggled to pay bills on time, and took a step back from reinvesting in their capital equipment. For example, Alex Fergusson (then an MSP) suggested in a Parliamentary debate that[4]: "*we need only talk to machinery dealers, fencers, drainers, feed merchants and the host of rural businesses that are needed to support the sector and which do so much to feed the rural economy, to realise that farmers are not spending right now.*" SRDP delays also impacted on wider rural land managers, as there were delays in getting grant aid for a series of activities, such as new woodland / forestry creation, peatland restoration, etc. Stakeholder and political pressure around the delayed £300+ million from the rural economy led to the introduction of a number of loan schemes[5] by the Scottish Government from February 2016. These loans provided farmers with cash flow injections and a degree of certainty in their receipt of support. Fergus Ewing, Cabinet Secretary for Rural Economy and Connectivity said, at the time, that the loan scheme was designed to[6]: "*provide as much certainty as we can, not just for farmers and crofters, but for the wider economy in our rural communities*." Whilst not

---

[2] http://www.gov.scot/Topics/farmingrural/Agriculture/ARD-Stakeholder-Group/ARDStakeholderGroup-Meetings2017
[3] http://www.audit-scotland.gov.uk/report/common-agricultural-policy-futures-programme-an-update
[4] https://www.theyworkforyou.com/sp/?id=2016-03-09.21.0
[5] https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/national-loan-schemes/
[6] http://news.gov.scot/news/farm-support

specifically focusing on rural businesses, evidence from the Federation of Small Businesses[7] supports this conclusion, reiterating that delayed payments can have significant impacts on small businesses, through: cashflow problems; forced overdrafts; slowdown in profit growth; business closures, etc.

Brexit

More generally, following a long wider economic downturn, the UK's 2016 decision to leave the EU, and the activation of Article 50 in March 2017, has meant that there is considerable uncertainty over the future levels, and nature of, funding for agriculture and rural development. Uncertainty over future trade agreements means that business uncertainty arising from Brexit is enhanced. The implications of Brexit are complex, and likely to strongly influence farming and wider rural business confidence. Whilst some businesses may benefit from weakened Sterling (e.g. export businesses, tourism businesses), others will already have faced increased costs if they are reliant on imported goods.

Filling the Evidence Gaps

Given this uncertainty and the evolving context, under its Inclusive Growth priorities, the Scottish Government's Economic Strategy (2017) confirms 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"*. This survey research ultimately aims to support this aim by improving our evidence and knowledge on the characteristics, contributions and ambitions of Scotland's rural businesses, highlighting the wider potential impacts on growth and employment. Whilst there may be anecdotal evidence regarding the "*black hole in the rural economy*" relating to delayed CAP payments in 2016, there has been limited research which has verified the interactions and reliance of the wider rural business base on the land based sector, and the ways in which changes and delays in farm support payments affect the wider rural business base and wider rural economy.

Given the significance of rural businesses to the national economy, understanding better their characteristics, contributions and ambitions will support the Scottish Government, its Enterprise Agencies and the National Council of Rural Advisers (NCRA) to enhance and develop more appropriate support mechanisms for rural entrepreneurs in a rapidly evolving policy and regulatory environment.

This report provides the evidence from the first of three surveys of non-land-based rural businesses which will be undertaken in the Scottish Enterprise area examining the characteristics of the businesses, their linkages to the land-based sector and their attitudes towards Brexit. This work is particularly timely given the Scottish Government's commitments to support the rural economy (as set out in recent Programmes for Government, for example[8]), the work of the National Council of Rural Advisers[9] and the setting up of a new Enterprise Agency for the South of Scotland. The findings of the SRUC survey should be read alongside those from other rural business surveys, including those from outwith Scotland. For example, the Rural Business Surveys undertaken by the Centre for Rural Economy, Newcastle University in 2000 and 2010, and their ongoing work in the Rural Enterprise UK project, including their (rural) analysis of the UK Government's Longitudinal Small Business Survey[10].

---

[7] FSB (2016) Time to Act – The Economic Impact of Poor Payment Practice http://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-report---late-payments-2016-(final).pdf

[8] See for example, the Scottish Government's 2018-19 Programme for Government, p. 47-9: https://www.gov.scot/programme-for-government/

[9] More information on the NCRA (including their draft and final reports) can be found here: https://www.gov.scot/groups/national-council-of-rural-advisers/

[10] For more information, see: https://research.ncl.ac.uk/ruralenterpriseuk/

Literature Review

Introduction

Over the last few decades, Scotland's rural economies have become increasingly diverse as the range of businesses located there has expanded. While here has been a decline in the contribution of the agricultural sector in terms of employment and turnover, the contributions of other sectors, most notably service sector activities and small-scale manufacturing, have increased.

Nevertheless, the primary sector continues to play an important role in the economies of Scotland's rural areas, particularly in more remote locations. When the extensive upstream and downstream linkages of agricultural businesses are taken into account – such as with feed merchants, machinery suppliers, vets and meat processors – the impacts are even greater. However, relatively little is known or understood about the nature and extent of the linkages between agricultural firms and those operating in other sectors, nor how these linkages contribute to the performance and growth of the economies in which the firms are located.

Rural businesses have faced unprecedented changes in their funding and policy landscape in the last few years. One reason for this was the delays to Scottish farmers' CAP payments as a result of difficulties experienced with implementing the new CAP Futures Programme between 2014 and 2017. A further reason is the broad shift in CAP payments (over the 2014 to 2019 transition period) away from more intensively farmed areas (such as Aberdeenshire and Dumfries and Galloway) to less intensively farmed areas (such as the north and west of Scotland) as a result of the 2014 CAP reform package[11]. Most recently, the UK's decision to leave the EU in June 2016 has brought considerable uncertainty for both the land based sector and wider rural businesses as negotiations continue in order to shape the country's future outside the EU. Considerable uncertainty remains over the design of measures and the associated budget to support agriculture, rural development and regional development projects. Uncertainty may cause individual businesses to stop investing and/or to postpone growth plans, with obvious knock-on impacts to other related businesses. Again, however, these knock-on impacts are not well understood.

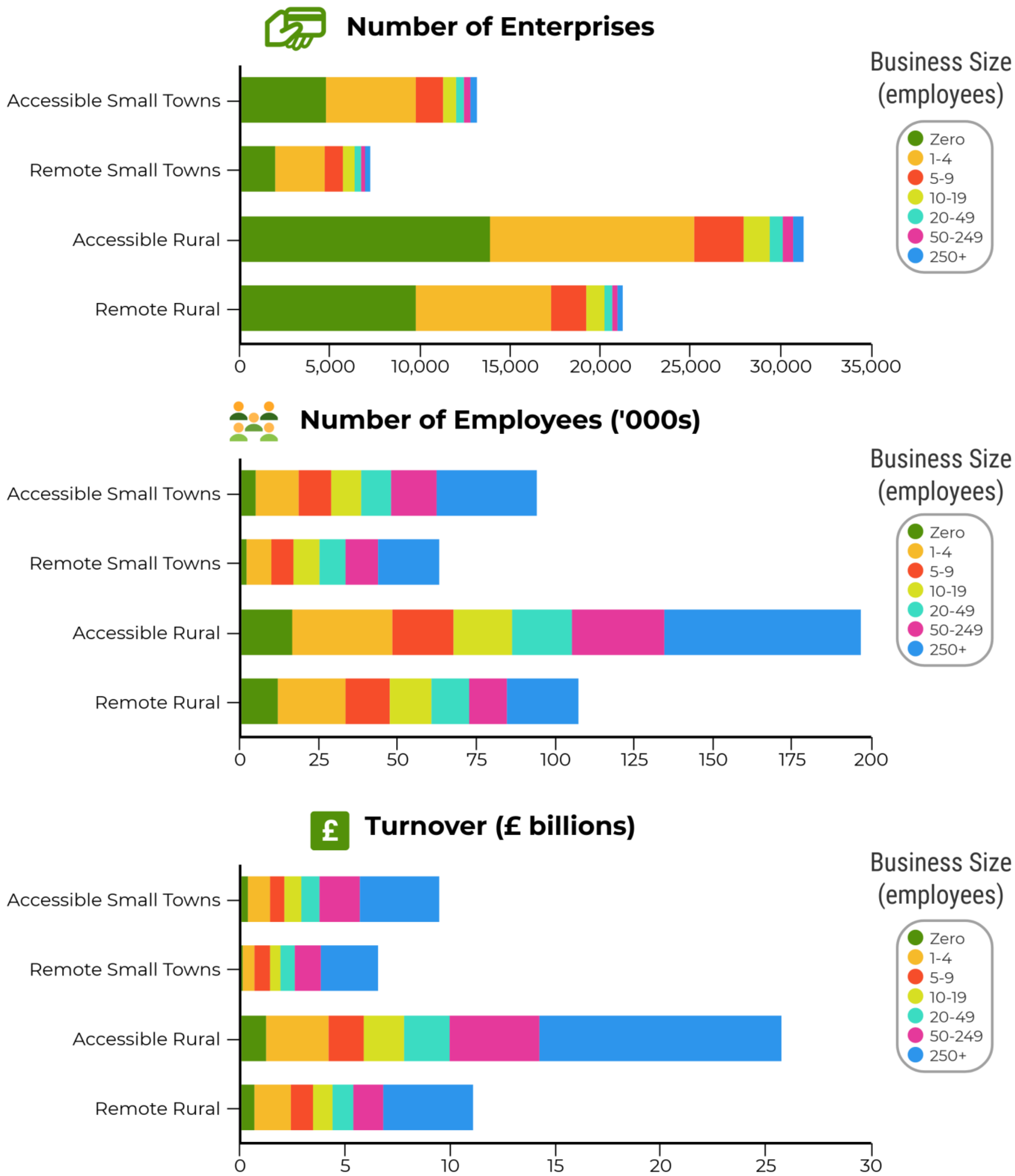
Drawing on existing survey work from across Scotland (and beyond where appropriate), this literature review briefly summarises the existing evidence on the key topics covered by the current survey, including the characteristics and contributions of rural businesses, their strengths and challenges, business confidence, ambitions and future plans, the Common Agricultural Policy and Brexit, and linkages between rural businesses operating in and outside the land-based sector.

The characteristics of rural businesses in Scotland

According to the 2017 Businesses in Scotland publication (which reports data from the Inter Departmental Business Register) there were 176,400 private sector enterprises in Scotland in 2017, employing a total of 1,921,100 people and generating £264 billion. Figure 2 below reports the breakdown of these businesses by rural-urban categories and by employee number.

[11] Support is moving away from the historically based Single Farm Payment to a fully regionalised basis under the Basic Payment Scheme and Greening Payments

Figure 2: Number of enterprises[12] in Scotland by urban/rural classification and employee size band and their total Scottish employment, 2017



There were 21,000 remote rural businesses (12% Scottish total) with a workforce of 108,000 people (6%) generating £11.1 billion (4%) in 2017. Accessible rural Scotland had 31,000 (18%) businesses with a total workforce of 197,000 (10%) people generating £27 billion (10%). There was a further 20,000 businesses in small towns with 158,000 workforce and generating £16 billion. As Figure 2 shows, a high proportion of private sector enterprises across Scotland had no employees (38%), but the proportion is highest in remote rural areas (46%) followed by

[12] Excludes central and local government. The IDBR data only includes businesses which are registered for VAT or which submit PAYE income tax returns. It therefore excludes sole trader enterprises below the VAT threshold. It also excludes central and local government. It is worth noting that the majority of farms are registered for VAT even if their turnover is below the VAT threshold in order to reclaim VAT where eligible.

accessible rural areas (44%). Accessible and remote small towns had the highest proportion of private sector businesses with 1-4 employees (both at 38%), and remote small towns also had the highest proportion of businesses with 5-9 employees. Enterprises with 50 or more employees (and particularly with 250 or more employees) made up a relatively small proportion of the businesses across Scotland, but the proportions were lowest in Scotland's rural areas. Looking at changes over time confirms that the SME population (businesses with up to 250 employees) of accessible rural areas is growing at a faster rate than any other rural-urban category. This growth is driven by an increasing number of enterprises in the service sector, including professional, scientific and technical activities (Copus 2016).

In remote rural Scotland 12% of the workforce were engaged in businesses without any employees (just unpaid family labour) with the corresponding figure for accessible rural areas 9%, falling to 5% in towns. 44% of the remote rural workforce (and 34% of the accessible rural workforce) were in businesses with less than 10 employees. Large businesses, with over 250 employees, accounted for 21% and 32% of the remote and accessible rural workforces respectively – which compared to 56% of the urban workforce.

Whilst micro businesses dominated the number of businesses in rural areas, businesses with less than 10 employees only accounted for 23% of turnover generated by accessible rural businesses with 45% being generated by large businesses with more than 250 workers. The corresponding figures for remote rural areas were 32% and 38%.

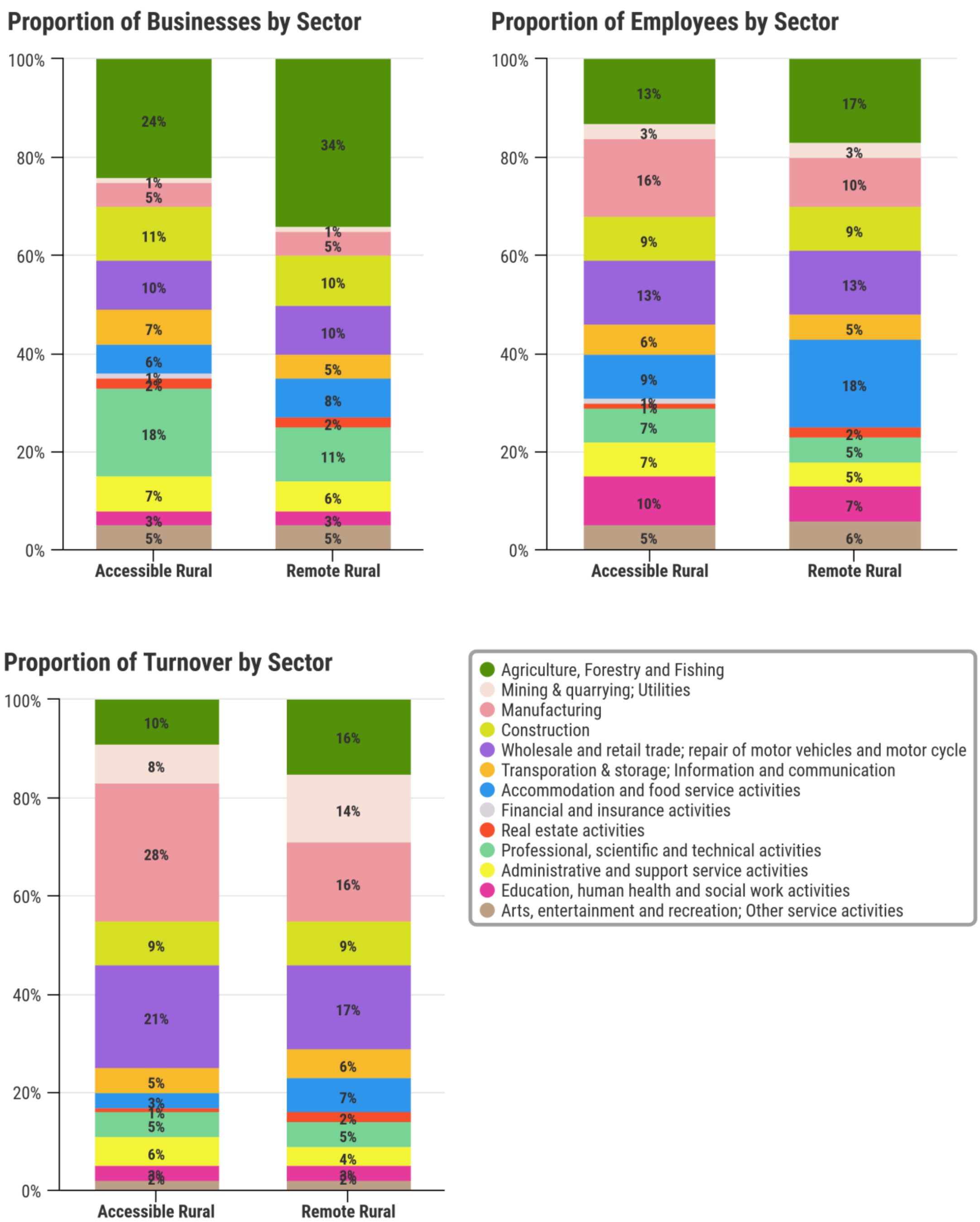
In terms of sectors, as expected, Scottish Government data (2017) demonstrates the continued relative importance of agriculture, forestry and fishing businesses in rural Scotland (see Figure 3). These businesses account for around one quarter of SME private sector enterprises in accessible rural areas, and just over one third in remote rural areas: or, viewed another way, three quarters of private sector enterprises in accessible rural Scotland, and two thirds in remote rural Scotland, operate outside the primary sector.

The primary sector accounted for 17% of the private sector employees in remote rural areas and 13% in accessible rural areas. Accessible rural areas had a greater reliance on manufacturing jobs (16%) than remote rural areas (10%), with tourism related jobs much higher in remote areas – 18% of the workforce employed in accommodation and food services in remote areas compared to only 9% in accessible rural areas.

In terms of revenue generation, the primary sector accounted for 16% of private sector turnover in remote rural areas compared to 10% in accessible rural areas. Manufacturing was very important for income generation in accessible rural areas, accounting for 28% of turnover in 2017 compared to only 16% in remote rural areas. Despite accommodation and food services being important for employment in remote rural areas, it only accounted for 7% of turnover, with mining, quarrying and utilities being twice as important for turnover generation. It is also important to note, however, the importance of the public sector in rural Scotland (which is not included in the Businesses in Scotland data), which accounted for 18% of employment in remote rural Scotland and 15% in accessible rural Scotland in 2014 (Scottish Government 2015).

The *Businesses in Scotland* publication also demonstrates that, in terms of employment by sector, accessible rural Scotland has shown a strong increase in professional, scientific and technical jobs (which are generally highly skilled and highly productive sectors) since 2010. Reflecting the financial crisis, it is unsurprising that rural Scotland saw a strong decline in financial services employment over the same period. Declines were also observed in the utilities, mining and quarrying and construction sectors, again reflecting broader economic trends. In remote rural Scotland six sectors experienced a decline in employment over the 2010-2016 period (compared to only three in accessible rural Scotland). They were: agriculture, fisheries and forestry, accommodation and food services, financial services, real estate, (private sector) education, human health and social work, and arts and entertainment. As in accessible rural areas, the decline in financial services was most severe but employment growth was observed in the professional, scientific and technical, construction and transportation sectors.

Figure 3: Number of enterprises, workforce and turnover [13] in rural Scotland by sector, 2017



Using Gross Value Added (GVA) to describe the characteristics of Scotland's rural economies results in a different picture. Overall, the largest sectors of the rural economy in terms of GVA are distribution, wholesale and retail (including transport), the public sector and manufacturing (including food manufacturing), although this does vary across different rural areas. Together, in 2015, these three sectors accounted for 56% of the rural economy as a whole (and 51% of the

[13] Excludes central and local government. The IDBR data only includes businesses which are registered for VAT or which submit PAYE income tax returns. It therefore excludes sole trader enterprises below the VAT threshold. It also excludes central and local government. It is worth noting that the majority of farms are registered for VAT even if their turnover is below the VAT threshold in order to reclaim VAT where eligible.

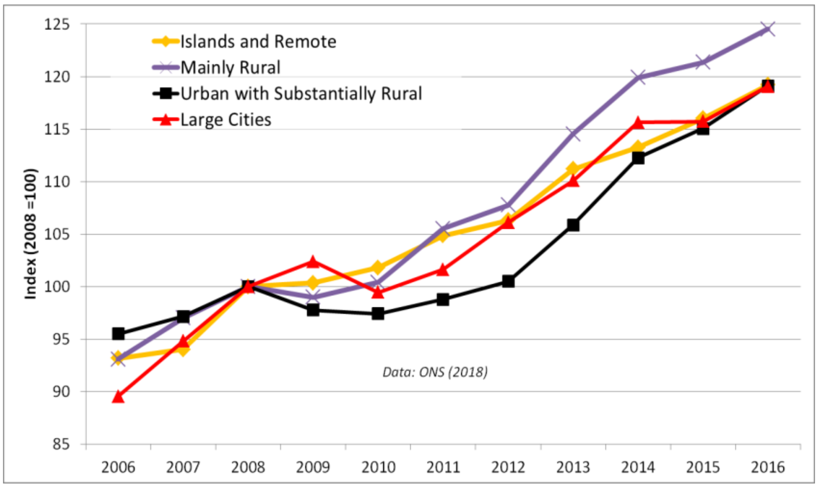
urban economy). Despite its importance in terms of the number of enterprises, the agriculture, forestry and fishing sector only accounted for 3% of the rural economy in Scotland in terms of GVA.

Using data from the Inter Departmental Business Register to explore the geography of businesses in rural Scotland shows that, as at March 2016, Aberdeenshire had the highest number of business units with 12,415, representing an increase of nearly 2,000 units since 2008 (the fastest expansion of any rural local authority over this period). This local authority also had one of the lowest unemployment rates in rural Scotland. Over the same period, both Dumfries and Galloway (with approximately 5,000 units) and the Scottish Borders (slightly smaller, with approximately 4,000 units) experienced a decline in the number of business units. Aberdeenshire also had the largest number of private sector employees of all rural local authority areas (88,000), compared to Dumfries and Galloway with 42,000 (where the total has fallen between 2008 and 2014), and Scottish Borders with approximately 30,000, which also experienced a slight fall over this period.

Existing data also confirms the importance of home based businesses and family businesses in rural Scotland. For example, the Small Business Survey 2015 found that family-owned businesses accounted for 79% of SMEs in remote rural areas and 77% in accessible rural areas. In terms of home based businesses, the same survey found that 43% of businesses in accessible rural areas were home based, compared to 40% in remote rural areas and 17% in the rest of Scotland. These proportions were found to be even higher amongst landowning businesses in England and Wales by the CLA (2016) who found that 96% of all landowning businesses in rural England and Wales were family-owned and 78% were unincorporated. In terms of employment (rather than number of businesses), in 2015, homeworkers (people who work mainly in their home or in different places using home as their base in their main job) accounted for 24% of employed people in remote rural areas, 19% in accessible rural areas and 9% in the rest of Scotland (Scottish Government 2015).

The contributions of rural businesses

Figure 4: Local Authority balanced GVA growth index by RESAS rurality indicator[14]



Source: ONS (2018)

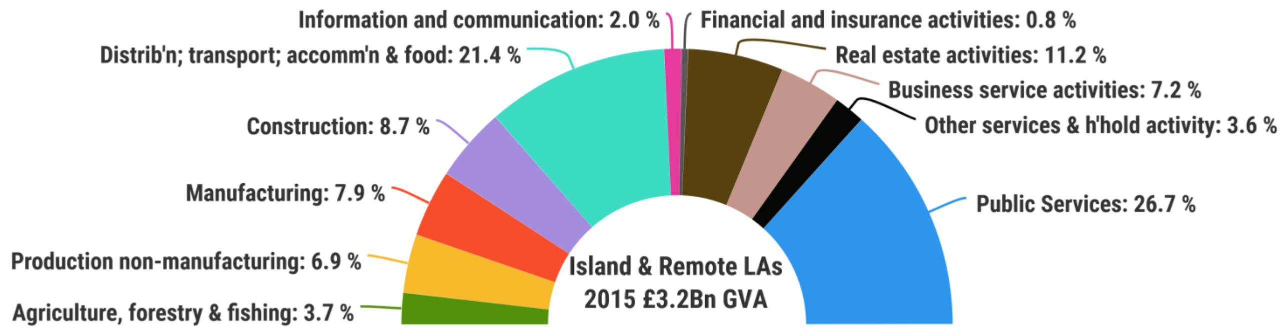
Overall, between 1998 and 2016 the economy of Scotland's Islands and Remote local authorities grew from £2 billion to £3.5 billion (74% growth). This compared to Mainly Rural local authorities' growth from £17 billion to £33 billion (93% growth), Urban with Substantially Rural (79%) and Large Cities (103%). Since the economic downturn in 2008, Mainly Rural areas have demonstrated strongest economic performance with Island and Remote areas performing at a similar level to the more urban local authorities.

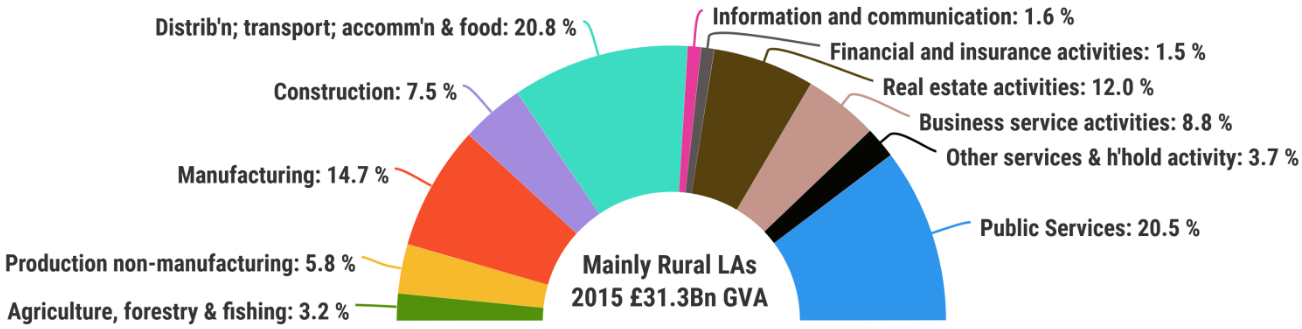
Figure 5 shows how different sectors of the economy contributed to total GVA (income approach) of the Island & Remote and Mainly Rural local authorities. The key differences relate to higher

[14] See Scottish Government (2018b) for a definition of RESAS' rurality indicator.

reliance on public sector contributions in the Islands and Remote rural areas (27%) than in Mainly Rural areas (21%) and the much greater contribution that manufacturing plays in the Mainly Rural areas (15%) compared to the Islands and Remote areas (8%), which could be related to peripherality.

Figure 5: Sectoral contribution to rural local authority GVA using RESAS rurality indicator, 2015





Source: ONS (2017) Regional Gross Value Added (Income Approach) by Local Authority in the UK

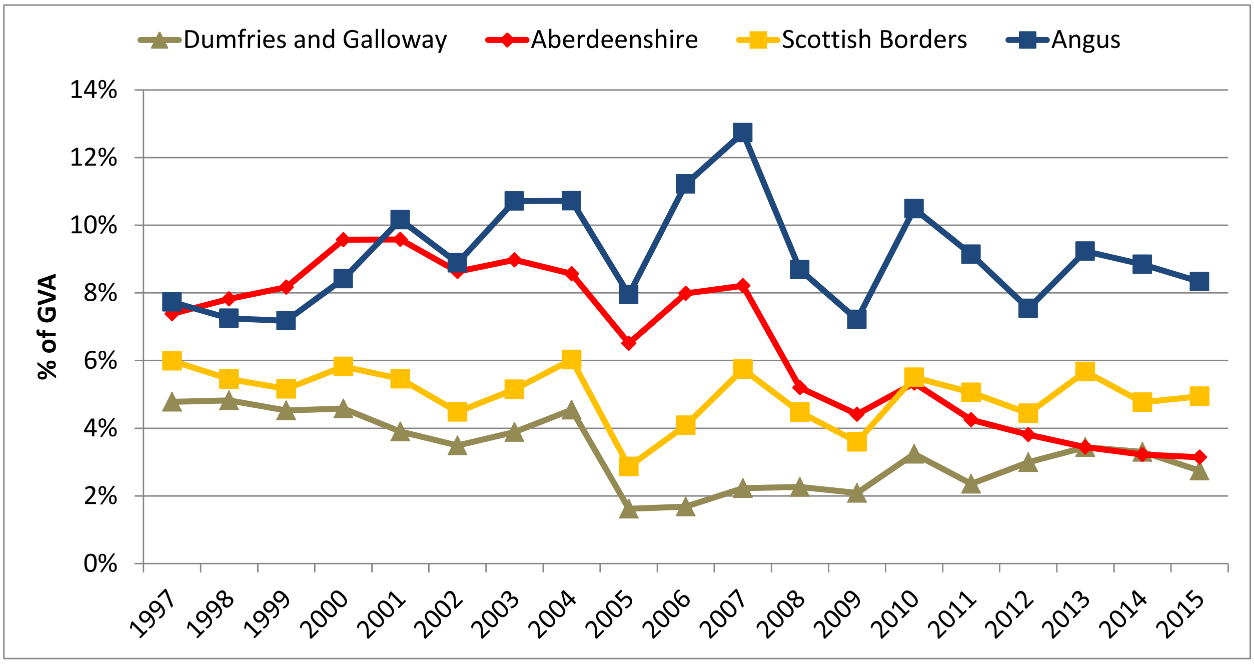
In the Mainly Rural areas the best long-term GVA growth (in percentage terms between 1997 and 2015) was in the business services activities (182% growth), other services and activities of households (149% growth), construction (122% growth) and public services (124% growth). In the Islands and Remote areas construction GVA grew by 131%, followed by information and communication (116%)[15] and business services activities (114%). The contribution of agriculture, forestry and fishing sectors did not grow between 1997 and 2015 in the Islands and Remote areas (a real decline after inflation is accounted for) and had the lowest growth rate in the Mainly Rural areas (26%). Broadly, the relative economic importance of sectors is similar for both rural and urban Scotland in terms of the importance of the top five sectors: distribution, wholesale and retail, public, manufacturing, real estate and business services.

- In Aberdeenshire, the three most important sectors in terms of GVA in 2015 were distribution transport accommodation and food (21%), manufacturing (18%) and business service activities (15%).
- In Angus public services dominated (22%), followed by manufacturing (20%) and distribution transport accommodation and food (17%).
- In Dumfries and Galloway, the three most important sectors were distribution transport accommodation and food (24%), public services (23%) and manufacturing (15%).
- In the Scottish Borders, the three most important sectors were public service (24%), distribution transport accommodation and food (19%) and real estate (15%)[16].

[15] Albeit from a small starting base
[16] This may reflect a buoyant housing market from those commuting to Edinburgh

These GVA figures, compared with the data on enterprise and employment in the previous section, confirm the importance of sectors other than the primary sector to the performance and growth of Scotland's rural economies (and therefore the national economy). However, two false assumptions still prevail: 1) that the rural economy is dominated by agriculture and 2) that rural economies are not able to generate their own growth and are dependent on trickle out effects from urban areas for their development. Whilst agriculture, forestry and fishing remain important in some areas (for example Angus, as illustrated in Figure 6) growing the evidence base about the characteristics and contributions of the wider rural businesses base will help to dispel these false assumptions[17].

Figure 6: GVA contribution from agriculture, forestry and fishing sectors for study area local authorities



Source: ONS (2017) Regional Gross Value Added (Income Approach) by Local Authority in the UK

Strengths and challenges of rural businesses

As has been done in previous surveys, this rural business survey asked owners to provide information on the key strengths of their business and the key challenges that their business is facing and how they might be overcome.

Work by Anderson et al. (2009) noted that small rural firm survival depends on an ability to respond to the threats and opportunities presented by their external environment. Their small size, combined with the limitations of their rural environment, means that rural businesses might be expected to be more vulnerable to economic downturn. However, other work that has studied the impact of economic downturns and recessions on rural firms has found that the overall impact was less than anticipated. It is argued that this demonstrates the greater resilience of rural firms compared to urban firms, at least once they become established (see for example, Irvine and Anderson 2004; Smallbone et al., 1999; North and Smallbone 1996; Duchesneau and Gratner 1990).

The rural business survey conducted by Newcastle University in 1999/2000 (Raley and Moxey 2000) in northern England revealed that one of the main strengths of businesses was the close intertwining of businesses and households. This helped businesses to be resilient enough to cope with the downturn and challenges associated with the foot and mouth disease outbreak. For

[17] For more information on this see: Scottish Government (2018b), Turner and Atterton (2015) and Atterton (2016).

example, business owners relied on the incomes and/or savings of household members, or temporarily reduced the wages paid to family members or used them as a flexible employment reserve to get the business through a period when its profit and turnover was lower (Phillipson et al. 2004; Oughton et al. 2003; Wheelock et al. 2003; Bennett et al. 2001, 2002).

For many business owners, their rural location is a core strength of their business as it differentiates them from competitors and helps when advertising their business and its goods/services (Johnson and Rasker 1995). There is evidence from rural England that those who have re-located or set up their business in a rural location have done so to take advantage of the benefits of a rural location. Other surveys have also revealed that rural businesses often rely on a loyal, stable (albeit smaller) local customer base who may continue to buy its goods and services locally even though they may be found more cheaply elsewhere (Anderson et al. 2009). Research has also found that some rural firms benefit from a local labour pool which is more reliable, committed and flexible with a lower level of unionisation than is the case in urban areas (North and Smallbone 1996; Smallbone et al. 1993; Green 2006).

Anderson et al. (2009) also found that small rural firms were less likely to be dependent on external finance and be more reliant on internal financing, which is a key strength particularly in a period of economic downturn (see also Cosh et al. 2008). In short, smallness may create more independence and, coupled with distance from external markets, this may insulate rural firms from external challenges.

However, a rural location can also prove challenging for business owners, in terms of physical and digital connectivity constraints for example (which manifest themselves in terms of a greater distance to markets), a shortage of skilled labour and training opportunities locally, and a lack of customers and suppliers located close to the firm (Anderson et al. 2009; Keeble et al. 1992). Results from HIE's business panel survey in September 2017 revealed that 88% of respondents had experienced an increase in their costs in the last 12 months, including in terms of goods imported from outside the UK, utilities, goods sourced from within the UK, labour, business rates, exports and premises. Most businesses that had seen an increase in costs reported that they had absorbed these internally although for some businesses the increased costs meant increasing the prices of their goods/services.

Surveys have revealed a range of other challenges that rural businesses face, including limitations imposed by the planning system and a lack of business support provision locally. A rural location may also encourage firms to be perceived as peripheral or backward (Patterson and Anderson 2003) and may result in firms being excluded from positive dynamics associated with regional or national innovation systems. For example, work done for the Scottish Government in 2006 found that there was a profound distinction between the situation of firms in the Central Belt and Tayside/Grampian regions of Scotland and companies in the Highlands and Islands and the more rural areas of the Borders and Dumfries & Galloway. In the latter two regions, businesses were largely excluded from the Scottish Innovation System (Roper et al. 2006). More positively, other work has found that the challenges that rural businesses face have resulted in some being more innovative than their urban counterparts (Keeble et al. 1992).

Business confidence, ambitions and future plans

The previous section outlined research which found that, although rural firms tend to be smaller and to operate in resource-poor environments, they can be more resilient to economic downturn or recession than urban firms. Anderson et al. (2009) in their study of FSB members consistently found that rural firms were doing better than urban firms. They were found to be less susceptible to external changes, with their embeddedness in the local environment acting as support in less prosperous times (see also Jack and Anderson 1997; Chell and Baines 2000). At the same time, other research has found that a high degree of local embeddedness may be a constraint for firms in more buoyant times as they become too tied into strong local networks at the expense of developing new networks which extend beyond the local area and provide a source of information, knowledge and other resources (see for example, Atterton 2007).

A key factor undermining business confidence, and therefore investment decisions, is uncertainty. Part of the role of government and its stakeholders is providing a stable environment for businesses to make their investment decisions. The CLA's (2016) report on landowning businesses in England and Wales found that a number of factors are taken into account by businesses in terms of their motivations to make future investments, including national taxation policy and local planning policy (which businesses often find to be unnecessarily costly, time consuming and bureaucratic). Certainty that policies will continue to support investment in the rural economy is important for businesses in making investment decisions; sudden and dramatic changes in policy are a particular risk.

A further factor found by the CLA (2016) study to influence the investment plans of a business is having a succession plan in place. As well as ensuring that the investment is sound, knowing the business will continue after it is passed onto another family member is a key factor when rural businesses are deciding whether or not to invest. Respondents in the CLA survey cited particular barriers to investment including family not being able to agree (10% of respondents) and having no one to take over the business (9% of respondents).

Further work in Ontario in Canada has also emphasised the importance of business succession planning for the future vitality of rural Ontario communities as 75% of owners had declared that they will exit their business before 2022 (Chamberlain 2017). Chamberlain's work on enterprise succession postulates that, rather than focusing on the individual business and its plan once the owner retires, a broader place-based perspective is useful which argues that enterprise succession needs to focus on the continuation of the entire local business community (for example through cooperative or community enterprise ventures).

For some businesses, investment is also held back by not having a formal investment plan in place. In the CLA study, only 13% of landowning businesses had a formal investment plan in place, leading to the conclusion that significant untapped potential exists in the form of those businesses which cited no plans to invest due to a lack of formal planning. The lack of planning and taking an informal approach to running a business tends to contribute to a general cautiousness that holds many businesses back from fulfilling their potential.

Reflecting previous surveys, the most recent results from HIE's business panel survey (for which no urban-rural breakdown in respondents is available) in September 2017 (HIE 2017) showed that businesses were generally positive about their own performance in the last 12 months with 79% saying that they had either performed well or remained steady. Around 19% of respondents said that they had struggled in the last 12 months. Larger businesses and those operating in the tourism sector were most likely to report that they had performed well. Around half of respondents to the HIE survey reported that they had invested in the growth or development of their business in the last year, with food and drink and larger businesses most likely to have done so. The survey found that, overall, businesses remain cautious about future investment; with two thirds of respondents saying they were unlikely to invest in the next two years. As in previous surveys, for many businesses, remaining debt-free was a key concern. Echoing the findings of the CLA study, economic stability and certainty were key factors in influencing businesses' future investment decisions, along with favourable borrowing terms. 78% of businesses in the HIE survey in September 2017 reported that they felt optimistic for their business prospects over the next 12 months, while 89% anticipated growth or stability in the next year or two.

The Common Agricultural Policy and Brexit

The UK's vote to leave the EU in June 2016 has created considerable uncertainty for businesses operating in both rural and urban areas. Indeed, the FSB Small Business Confidence Index at the end of 2016 showed a long decline in UK small business confidence and performance that has not been helped by the Brexit vote (FSB 2016). For rural Scotland, which has received a considerable amount of European funding for farmers and other land managers through the CAP (as well as additional European money through, for example, Structural Funds) which is now at risk, this uncertainty is perhaps particularly acute.

Supporting the rural economy is one of the six stated objectives of the CAP, as defined by the European Commission, to *'encourage a vibrant rural economy by fostering growth and jobs in rural areas and encouraging generational renewal'.* Over the current five year period from 2015 to 2020, CAP schemes will inject more than £3.3 billion into Scotland's agricultural sector through direct farm payments, and a budget of over £1.35 billion to support the priorities of the SRDP. This funding is vitally important in sustaining farm businesses in the rural economy but also, it is argued, in sustaining the wider array of rural businesses that service/supply farmers.

In 2016, 19,674 Scottish businesses received a CAP payment from European Commission funds. Of these, 18,435 received £405.51 million in direct support payments through Pillar 1 with 7,537 receiving £242.3 Million through Pillar 2 (Scottish Rural Development Programme) schemes.[18] In 2017, it was estimated that farmers spent some £1.8 billion on all inputs and a further £416 million on hired labour (Scottish Government, 2018a). The Scottish Government (2018a) data shows that, amongst other inputs, during 2017 Scottish farmers were estimated to have spent: £126.5 million on machinery repairs; £126 million of fuel; £65 million on veterinary expenses and medicines; £88 million on contract work, £82 million on crop protection; £24 million on electricity and heating; etc. Through this upstream expenditure and through downstream processing activity the NFUS[19] currently estimates that 360,000 non-farm jobs are dependent on agriculture. It is not yet known what level of funding will be available after the UK leaves the EU, nor whether/how this money will be targeted at farmers or the wider rural economy.

Alongside the issue of funding, leaving the EU presents both challenges and opportunities for rural businesses operating across all sectors, both in the short- and longer-term. While some businesses may benefit from the weakening of Sterling (including exporting and tourism businesses), others will face rising costs if they are reliant on imported goods. There may be an opening up of new markets to trade with, new and better ways of supporting rural economic activities, including farming, and new regulations, which may provide more security and certainty for businesses. There are also potential challenges, not least in terms of the shape of new trading relationships with the EU and with non-EU countries and the length of time it may take for deals to be done, uncertainty in the short term about future legislation, funding and policies for (rural) business (which may discourage investment), and the future of EU workers which are vitally important across a number of rural sectors, including agriculture, tourism and health and social care.

The September 2017 HIE business panel survey (HIE, 2017) revealed an increasing recognition of the importance of free movement of people across the EU (79% of respondents), and access to the European single market for the Scottish economy (74%), by businesses in the Highlands and Islands region. Interestingly, this varied across different sectors, with the creative sector and food and drink businesses most likely to say membership of the European single market was important to their own business.

It is worth noting that Brexit is not the only source of uncertainty or potential challenges and opportunities for rural businesses. There are a number of other ongoing processes which will also bring change – positive and negative – including demographic ageing, changes to health and social care provision, technological advances such as digital connectivity, a shifting climate, and

---

[18] https://www2.gov.scot/Topics/farmingrural/Agriculture/grants/LatestPayments
[19] https://www.nfus.org.uk/farming-facts.aspx

evolving public and consumer expectations. As far as they can, rural businesses need to be proactive and adapt to this changing world and in fact, for some of these shifts (such as demographic ageing), rural businesses can be at the forefront of positive responses. This adaptation can be supported (or otherwise) by the government ensuring that the needs of rural areas are factored into long-term planning.

Linkages between businesses and the farming, forestry and estates sectors

As established earlier in this review, the contribution of primary sector activities to rural economies in terms of employment and GVA is relatively small and has declined in recent years, particularly as service sector activities have increased in importance. Nevertheless, the extent of the upstream and downstream linkages of businesses in agriculture, forestry and fishing, means that these activities remain critically important to the sustainability of rural Scotland's communities, particularly in remoter areas where there are fewer employment alternatives.

Again, as discussed earlier in the background and rationale section of this report, there was a significant change from the Single Farm Payment to the Basic Payment Scheme in 2015, and then farm businesses experienced further change with the 2014/5 introduction of the new IT system, the CAP Futures Programme. This introduction was fraught with difficulties and delays in full implementation which led to significant delays in farmers receiving their CAP payments[20]. Historically the main farm support payments were made in December, following a May submission of claims from farmers, but the 2015 payments were delayed by around 4 to 6 months for the majority of farmers (with some facing even lengthier delays) due to CAP Futures system problems.

As discussed earlier, the potential impacts of delayed payments for farmers and the businesses with which they are related were widely discussed at the time, including in the Scottish Parliament in March 2016, where the delayed payments were described as leaving a 'black hole' in the rural economy. The Scottish Government responded by introducing a loan scheme to provide land managers with some certainty'[21].

While the Scottish Government (and others) regularly collect information on farm incomes and how they are changing, and on grants and subsidy support for Scottish farming, there is little or no robust assessment of the linkages between agricultural and other firms, and thus of how changes and delays to farm payments may impact on or 'trickle out to' these other rural businesses and therefore the wider rural economy (and ultimately to the Scottish economy as a whole). However, research was undertaken at UK-wide level by the Princes Countryside Fund (PCF) in 2016 to investigate the impact of cash flow pressures at farm level on the wider rural economy. The research reviewed the declining farm gate prices in recent years (especially in cereals, milk and pigs) and the rising levels of borrowing, with more and more farms unable to pay off their short term debt. The survey indicated that, on average, more than half the proportion of respondents' farming customers were currently experiencing cash flow issues with low farm gate prices being the main driver of this at farm level. A further driver was the delay to CAP payments to farmers.

The PCF research argued that the volatility of prices does not just affect farming businesses, but the decreased cash flow filters through to the wider agricultural sector, which means negative impacts for other businesses, including input suppliers, vets, auction marts and consultants. The effects include a reduction in available work, decreasing income and potential staff redundancies,

---

[20] More information about Audit Scotland's work on the CAP Futures Programme can be found online here: http://www.audit-scotland.gov.uk/report/common-agricultural-policy-futures-programme-further-update
[21] http://news.gov.scot/news/farm-support

but the report notes that the full extent of the effects is not well understood and further research is required to improve our knowledge in this area. The PCF survey found that the majority of suppliers interviewed were experiencing a direct impact on their cash flow resulting from the challenges at farm level, with most responding by changing the way that they operate their business and becoming more proactive as a result.

The report offers a number of recommendations for farm businesses, agencies and the wider rural sector, including: improved collaboration and communication between suppliers, banks and farm businesses focusing on the immediate needs to help with budgeting and managing repayments; cross-sector commitment to encourage businesses to engage with the farming help charities and the array of business tools and advice available; support staff to increase their understanding of the range of practical and emotional support available to farmers; timely distribution of payments to farm businesses with clear communication of projected timescales to ease cash flow problems and boost morale in the sector; encourage more farmers to take advantage of opportunities to improve their skills in business planning and financial management through accessing training on business planning, using online tools to evaluate production costs and efficiency savings and seeking advice and guidance to influence decision-making on longer-term investments.

While not focusing specifically on agricultural or rural businesses, research undertaken by the FSB also in 2016, suggested that delayed payments can have a significant impact on small businesses, through cashflow problems, forced overdrafts, slowdown in profit growth, business closures, etc.[22]

The uncertainties faced by businesses related to delayed payments resulting from the introduction of the CAP Futures Programme, are in addition to uncertainties associated with the redistribution of CAP support from historically more intensively farmed businesses (such as Aberdeenshire and Dumfries and Galloway) to historically less intensively farmed businesses. More recently, the vote to leave the EU has led to additional uncertainty related to the future levels and nature of funding for agriculture and schemes such as LFASS and greening payments. As such, Scotland's rural businesses are facing a period of unprecedented uncertainty meaning that it is more important than ever to fully understand the linkages between businesses, as well as their strengths and challenges, confidence and aspirations and future plans. Only then can we fully understand the performance, ambitions and intentions of rural firms and, through their direct and indirect linkages, how their buying and selling relationships change in response to these challenges, and therefore impact on the wider rural economy. Based on this improved understanding, appropriate policies and support measures can be designed.

Summary

This literature review has summarised recent research according to six themes which address the key issues raised with rural businesses in the recent survey. Information about Scotland's rural businesses is available from nationally available datasets, such as the Inter Departmental Business Register. However, this is often not available at small geographical scales (e.g. below local authority level) nor below broad industry sector level. Some data is available through survey work by the NFU Scotland, HIE or the Federation of Small Businesses, but often this is sectorally- or geographically-focused and therefore does not give us an accurate picture of the characteristics and contributions of all of the country's rurally located firms. In other parts of the UK, such as Wales through the Wales Rural Observatory (see for example Wales Rural Observatory 2010, 2008, 2004) and northern England through the rural business surveys by the Centre for Rural Economy at Newcastle University (Raley and Moxey 2000; Atterton and Affleck

[22] For more information, see: http://www.fsb.org.uk/media-centre/press-releases/fsb-report-shows-stopping-late-payments-could-save-50-000-small-businesses

2010), surveys have provided detailed rural business information. While again focused on particular geographical areas, this information has informed both national and regional policies and practice (such as responses to the Foot and Mouth Disease outbreak in 2000-01 and the UK Government's Rural Growth Pilots).

Under its key actions to deliver sustainable growth in Scotland's Economic Strategy, the Scottish Government states that it will: *"Realise opportunities across Scotland's cities, towns and rural areas, capitalising upon local knowledge and resources to deliver more equal growth across the country".* In order to achieve this, a better understanding is required of **all** of Scotland's businesses, including those operating throughout rural Scotland in all sectors and of all sizes.

Scotland's rural economies have become more diverse in recent decades, with an increasing number of businesses operating in service sector activities, including tourism and business and professional services. Some of the fastest growing sectors in Scotland in recent years, perhaps most notably food and drink, have a significant presence in rural areas. However, in many rural areas, particularly in more remote parts of Scotland, agriculture remains a critically important sector, especially when links between farms and their wide range of upstream and downstream linkages are taken into account. The nature and extent of these linkages have not been widely studied in previous research but they are critical to understanding the impacts of ongoing (and likely future) changes in the farming sector on the wider rural economies and communities in which these businesses are located.

At a time when businesses are facing considerable uncertainty as a result of Brexit there is all the more reason to gather accurate, up-to-date data about the challenges and opportunities they are facing. More positively, policy makers and practitioners are already working now to design post-Brexit policies, programmes and schemes to support and grow (rural) businesses and communities (through, for example, the work of the National Council of Rural Advisers in Scotland), and new bodies are being established (most notably the South of Scotland Enterprise Agency). The need for accurate evidence and understanding to inform these policies and organisations has never been greater to demonstrate the needs, challenges, opportunities and challenges of rural businesses.

Data and Methods

The 2017 Rural Business Survey was undertaken with non-land-based businesses across Aberdeenshire, Tayside, the Scottish Borders and Dumfries and Galloway. The rationale for the focus on these regions is three-fold. These areas are within the Scottish Enterprise area (Scottish Enterprise is a main funder for this work and a key catalyst for the project). Also, within these areas, land-based activity is important to the rural economy. Finally, these areas were predicted to be some of the hardest hit regions during the 2015 CAP reforms.

For the purpose of this research, land-based businesses were considered as those primarily undertaking agricultural, estate or forestry activities, but the survey sample included all of the ancillary businesses that make up the wider agriculture, estate and forestry supply chains. A database of 20,000 non-land-based businesses (excluding public sector businesses and major financial and energy businesses, for example) in a defined set of postcodes within these areas was purchased from marketing company (Business Lists UK) that harvest business details from a variety of public sources. The postcodes did not exclude urban areas *per se,* as many of the upstream and downstream businesses that supply and purchase from the land-based sector are located in urban fringes. Moreover, if the Scottish Government's rural urban classification[23] was rigorously applied during survey sampling many of the key "agricultural towns" may have been

[23] See http://www.gov.scot/Topics/Statistics/About/Methodology/UrbanRuralClassification

excluded from the survey. The database was sorted by Standard Industrial Classification codes and included:

- Salutation and contact name
- Company name
- Full postal address
- Telephone number
- Email address
- Age of business
- Turnover Band
- Employees in Business
- Standard Industrial Classification

Using the Scottish Postcode Directory published by National Records of Scotland[24] the businesses were allocated to the appropriate Scottish Government's Rural Urban classification, including a composite "remote" (remote rural and remote towns) and "accessible" (accessible rural and accessible towns) classification used for this research. The database was then stratified by geographic region, rural urban classification and business size - with a target survey quota set for each strata (see Table 1). In order to ensure the research had coverage of the land-based-sector's upstream and downstream supply chain an additional strata was created by filtering businesses by their Standard Industrial Classification (SIC code) [25]. This SIC code prioritisation meant that businesses that would have higher likelihood of servicing or purchasing from the land-based sector (e.g. timber merchants, agricultural suppliers, accountants, builders, hauliers, veterinarians, sawmills, etc.) were identified, and a greater emphasis placed on surveying them compared to the wider business base (e.g. hotels, pubs, antique dealers, van and truck hire). This, therefore, introduced a degree of sampling bias into the survey.

Table 1: Quota for 2017 survey strata

"Region" strata	Supply Chain	Other
Aberdeenshire	300	150
Borders	200	100
Dumfries and Galloway	200	100
Tayside	300	150
"Rural Urban" strata		
Remote Rural	170	100
Accessible Rural	400	175
Remote Small Towns	70	50
Accessible Small Towns	120	100
Other Urban	180	55
Large Urban	40	10
Unknown	20	10
"Size" strata		
Micro	700	375
Small	130	65
Medium	40	15
Large	50	25
Unknown	80	20

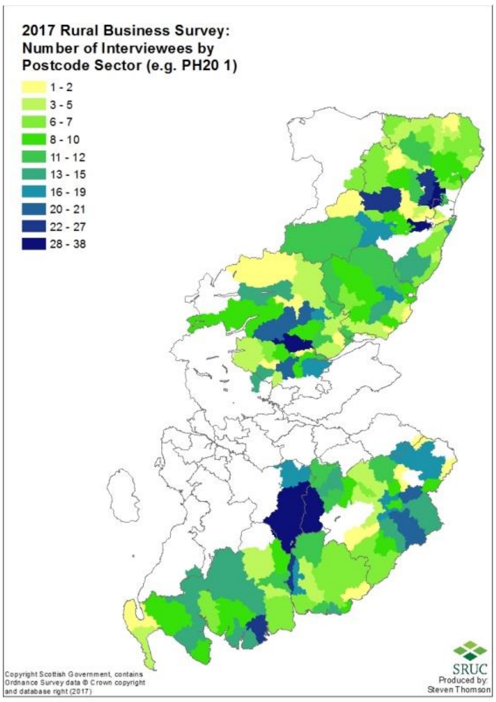
A 20 minute telephone survey was compiled in consultation with the funders and then submitted to the Scottish Government's survey control. The finalised survey was piloted by the tele-marketing company that were contracted to undertake the survey on SRUC's behalf (Pexel Ltd), and feedback was used to make final changes to the questionnaire. The full telephone survey of 1,500 businesses was then conducted during the 2017 summer period; with a target of 1,000 businesses from the potential upstream and downstream agricultural supply chain SIC codes, and 500 from the wider rural business base.

[24] See https://www.nrscotland.gov.uk/statistics-and-data/geography/nrs-postcode-extract

[25] SIC code is the Standard Industrial Classification code used to classify businesses by the type of their activity (see: https://www.ons.gov.uk/methodology/classificationsandstandards/ukstandardindustrialclassificationofeconomicactivities)

2017 Survey Results

Figure 7: Location of survey businesses

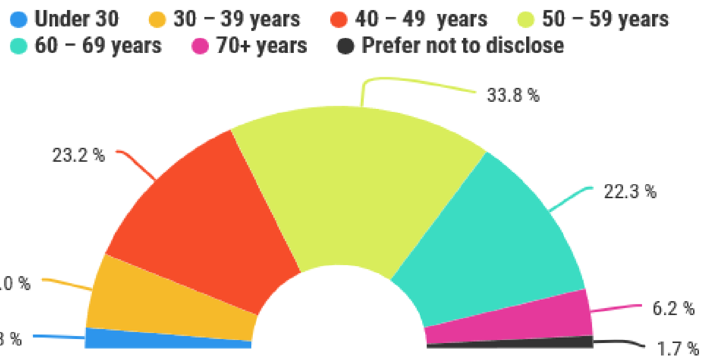


Background characteristics

Overall 1,543 businesses were interviewed across the North East and South of Scotland, with good geographical spread of the businesses (Figure 7). Reflecting its larger business base 62% of the interviewed businesses were in the North East with 38% in the South of Scotland.

62% of business owners/partners/directors were over 50 years old, with 29% over 60

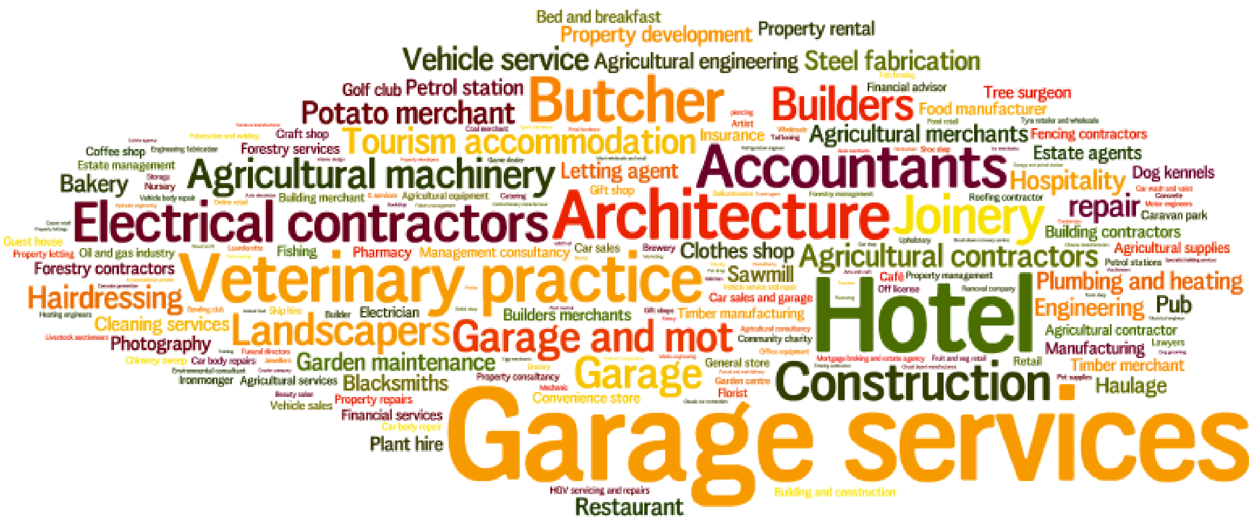
Figure 8: Age profile of business controllers



Of those people interviewed 1,108 were either owners, partners or directors of the business, with 412 managers, supervisors or senior administrators. The age profile of the business owners, directors and partners (see Figure 8) revealed that 30% were 60 years old and over, with 64% aged 50 years old and over. Only 13% were under 40 years of age and less than 30% under 30 years of age. Much is written about the average age of farmers being high, yet this profile suggests that those individuals who are own and manage the wider rural business base have a similar age profile.

The word cloud in Figure 9 shows the variety of business types interviewed during the survey (the larger the word, the more frequently it appeared). There were wide array of business types, ranging from, for example: agricultural contractors; couriers; financial services; golf clubs; landscapers; marine engineers; petrol stations; radio stations, and; tattoo parlours. The types of businesses interviewed reflect: (a) the sampling process; (b) the ease of establishing contact with people of authority in the business, and; (c) their willingness to respond.

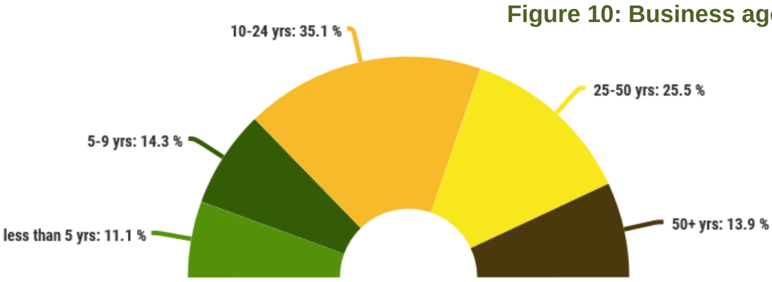
Figure 9: Interviewees' descriptions of their business



This means the sample has inherent biases in it, and how representative the sample is of the wider rural business base is difficult to ascertain. For example, it may over-represent business types where people in authority were more frequently present during working hours, although provision was made for out of normal working hours calls to be made (particularly where call-backs had been requested)..

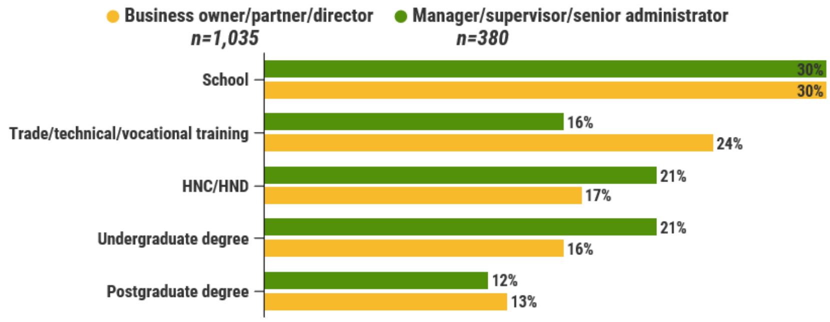
10% of the businesses were less than 5 years old, with 15% between 5 and 9 years old

Figure 10: Business age



Nearly 40% of the surveyed businesses had been established for over 25 years; including 14% that had been operating for over 50 years (see Figure 10). 35% had been running for 10 to 24 years. Only 25% of the businesses were under 10 years old, with 11% under 5 years old. The long term nature of many businesses, including some intergenerational operations, suggests that many of these businesses are fairly resilient. The surveyed businesses had over 40,000 years of collective experience behind them with an average business age of 26 years (lower-quartile= 9; median=19; upper-quartile=32).

School / vocational training was the highest level of education for half, with 30% having a degree



The highest level of educational attainment was school for 30% of the survey respondents (Figure 11). Trade/technical and vocational training was the highest level of education for nearly a quarter of owners/partners and directors compared to 16% for other senior staff – this may reflect the self-employed nature of many businesses. About 20% of senior staff interviewed had further education qualifications, with a further 20% having undergraduate degrees (compared to around 17% for owners, directors and partners). For both groupings (i.e. owners/partners and directors and senior staff) around 13% of interviewees had postgraduate qualifications, with their types of business shown in Figure 12. There are clearly less trades present amongst this group, and more careers that require academic or professional qualifications).

Figure 12: Activities of those with postraduate qualifications

Business Ambitions

The survey respondents had a wide range of ambitions for their businesses, with business growth one of the most popular goals offered (see Figure 13). For many, simply keeping the business going and staying in business was a key aspiration (also denoted by "sustainability"), with others looking to improve or increase

Figure 13: Business ambitions

business turnover and profitability. For some respondents it was clear that retirement was an ambition that some looked forward to - something that that would be expected from a cross-sectional survey of business people anywhere.

Turnover & Employees

A challenge with the business turnover and employees data identified during the data analysis was obvious double counting of businesses where regional offices (e.g. of an aggregates company, or a land agency) reported figures for the business group rather than for their individual branch.[26] Whilst there were limited examples of this in the dataset, it does marginally affect the data for larger businesses. That said, of the 1,188 businesses that reported their turnover bracket, nearly a third generated more than £0.5 million turnover in 2017 (see Figure 14). About 9% of the businesses turned over less than £25,000 per year and a further 9% generated between £25,000 and £50,000. Figure 14 also shows that the surveyed businesses were mostly small-scale employers (with over 80% having less than 10 employees). 11% of the businesses had no employees, with 55% having 1-4 employees. Only 5% of the businesses surveyed had more than 50 employees. As expected, those businesses with less than £350,000 turnover were dominated by businesses which have either no employees or less than 5 employees.

18% had turnovers of less than £50,000 and two-thirds employed less than 10 workers

Figure 14: Business turnover and full-time employees

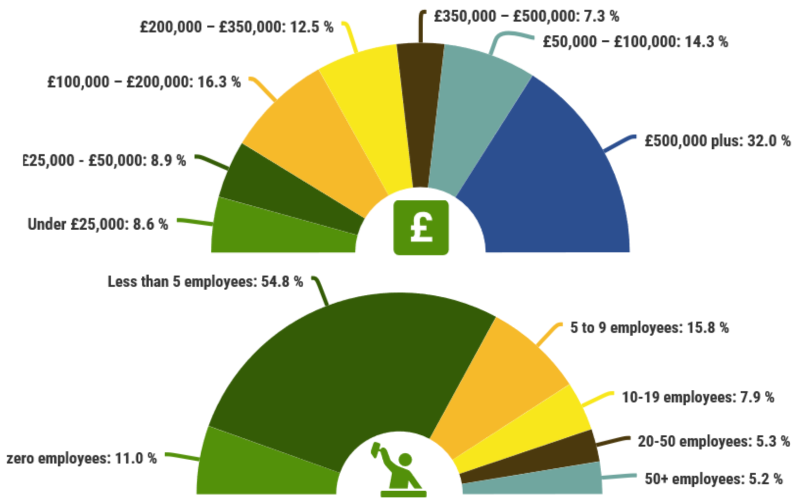


Table 2 shows that turnover increased during the 12 months prior to the survey in 36% of all businesses (1,421) whilst it decreased in 24% of businesses. Overall the numbers of employees fell in 10% of businesses and increased in 16% of businesses. Unsurprisingly, where turnover fell there was a higher likelihood for the number of employees to also fall (5% of total businesses / 76 businesses). The converse was true for the businesses with an increased turnover also increasing their number of employees (11% of all businesses / 154 businesses). Most commonly the number of employees was static regardless of turnover performance.

Turnover improved for 36% and fell for 25%. 16% reduced & 10% increased their workforce

Table 2: Change in turnover and employees between 2016-2017

		Employees			Turnover
		Decreased	Static	Increased	Total
Turnover	Decreased	5%	17%	2%	**24%**
	Static	3%	33%	4%	**39%**
	Increased	2%	23%	11%	**36%**
	Employment Total	**10%**	**73%**	**16%**	**1,421**

Word clouds that illustrate why turnover and employment had changed in the period are provided in Figure 15. For those on a positive trajectory common responses included; business growth; expansion; increased custom/demand; valued staff; new products/services; etc. For those losing

[26] A method of identifying the scale of operation and the coverage of the figures will be built into the 2018 and 2019 iterations of the survey.

staff or having falling turnover the key issues related to: the prolonged downturn in the oil and gas sector; the general economic climate since 2008; staffing issues; input prices; competition; Brexit; business uncertainty, etc.

Figure 15: Reasons for (a) increasing or (b) decreasing turnover and employment

Some of the businesses have clearly reported all employees across the business' UK footprint which makes the 39,000 full time and 9,000 part time employees somewhat questionable.

> The vast majority of businesses were small-scale employers – 11% had no employees

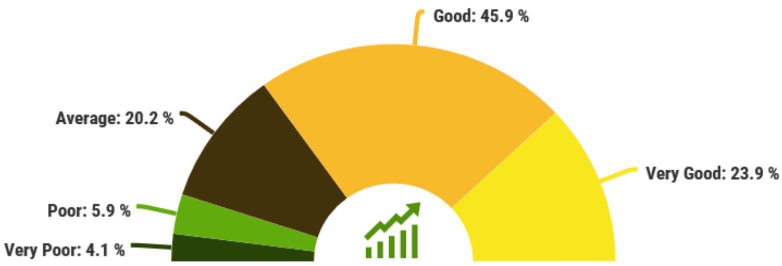
However, it is likely that the proportions of type of worker are reflective of the sample meaning that for every full time employee there were 0.23 part time employees and 0.03 casual and seasonal workers. In term of country of origin of the workforce it was reported that 89% of the workforce were from the UK, with 3% from the Republic of Ireland and 8% from the rest of the EU. The median number of full time workers was 3 (with lower quartile 1 and upper quartile 6). This reiterates that the vast majority of businesses were small-scale employers.

> Nearly a quarter thought their operating environment was very good

Operating Environment & Outlook

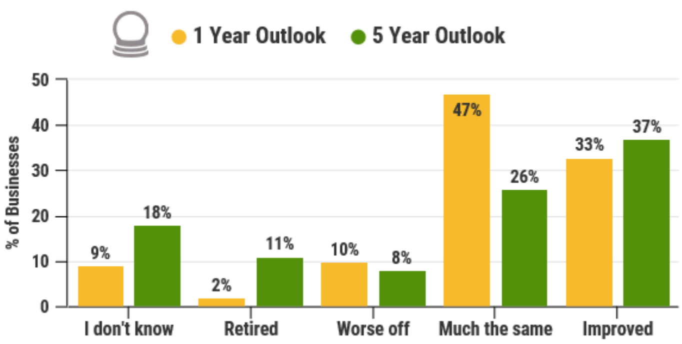
The majority (70%) of the businesses reported that they had a good operating environment in 2017, with 24% stating that it was very good. Only 10% of businesses surveyed rated their 2017 operating environment as poor, with less than 5% saying it was very poor.

Figure 16: Rating of operating environment



> 11% thought they would be retired by 2022, with 37% thinking business would

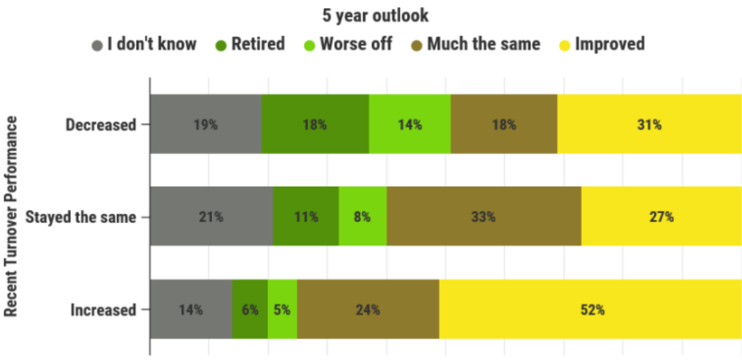
Figure 17: One and five year business outlook



A third of the businesses thought that their operating environment would improve within 2017/18 and 37% believed that things would continue to be better up until 2022 (the 5 year outlook). Whilst nearly half (47%) of the businesses thought that things would stay much the same in 2018, they were less confident of things staying as they were over the next five years. Whilst only 2% thought they would retire in 2017/18 that jumped to 11% within the next 5 years. 18% were unsure what the long term holds for their business. Only 10% of businesses were pessimistic about their short-term future, thinking they would be worse off in 2017/18.

Recent performance affects outlook- 18% with lower turnover expect to retire by 2022

Figure 18: Performance V outlook

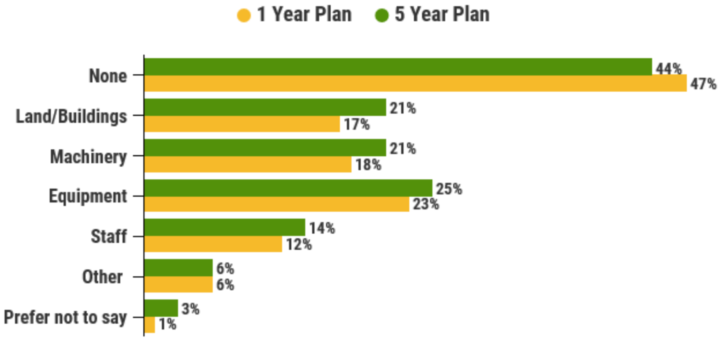


As expected, recent business performance significantly influences a business' outlook. Figure 18 shows that there was a positive 5-year outlook in over half of the business that had improved turnover between 2016 and 2017. This compares to only 27% of those with static and 31% of those with declining turnovers. Nearly 20% of those in businesses with turnovers that had fallen between 2016 and 2017 expected to retire by 2022 compared to 11% of those with steady turnovers and only 6% for those with improved turnovers.

Investment Plans

44% had no plans to invest in their business over the next 5 years

Figure 19: Business investment plans in 1 and 5 years



Related to business outlook perceptions (and business planning) is whether businesses had plans to invest in their business in the short and long run. Figure 19: reveals that nearly half the surveyed businesses had no plans to make any investments in their business during 2017/18, with a large proportion (44%) believing that they would not make any investments in the 2017 to 2022 period. A quarter of businesses felt that they would be reinvesting in equipment in the next five years, with about a fifth investing in land/buildings and machinery over the same period. Only 15% of businesses thought that they would invest in staff during the next five years, although it may be that this was interpreted as expanding their staff base.

Strengths and Challenges

The word clouds in Figure 20: highlight the factors businesses considered to be their key strengths, and the challenges that they face. It is evident (remembering that size of the word represents its frequency in the responses) that there was a relative consistency among the factors considered key business strengths, primarily: good customer service; quality of product/ service; good staff; reliability; flexibility, customer-focused; reputable; being local; family-run; a personal touch, etc. In contrast the challenges these businesses have to address are much more highly varied, with the key issues relating to: competition, uncertainty (particularly around Brexit); getting and keeping customers; getting and keeping good quality staff; rising costs of production; continued impact of the downturn in the oil sector; legislation / regulations; wider economic performance; weather; market access, etc.

Figure 20: Expressed business (a) strengths and (b) challenges

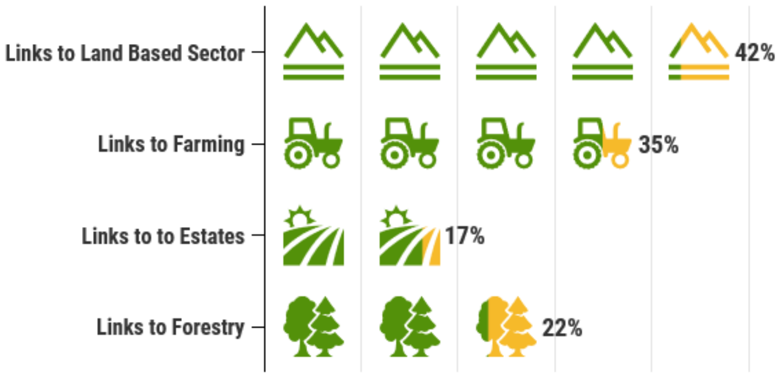
(a) Strengths (b) Challenges

Links to the Land-based Sector

42% of the surveyed businesses had some links to the land-based sector, with 35% having business links with farming, 17% with estates and 22% with forestry (see Figure 22). It must be reiterated that the sampling framework was weighted to sectors that were more likely to be associated with the land-based sector (either as upstream suppliers or downstream purchasers), in order to address the project objectives. Over half of the 1,000 business with SIC codes thought to be part of the land-based sector supply chain, actually reported some degree of business reliance on the land based sector (many had links to more than one sector). Only a quarter of the wider rural business base (from the untargeted supply-chain SIC codes) had any business relationship with the land-based sector. The nature of the relationships with the land based sector were highly varied, but for two-thirds of the 546 businesses with links to the farming sector they either purchased goods from them (15%) or supplied them (51%) with about a third having more indirect relationships with the sector. Some 44% of businesses with links to the forestry sector were upstream suppliers with 15% reporting downstream purchases and 41% indirect links. There were 345 businesses with links to the estate sector (they self-identified as such) with 55% providing goods and services to the sector, 10% buying from them and 35% with more indirect relationships.

50% of the targeted supply-chain businesses had links to the land based sector – only 25% of the wider rural businesses did

Figure 22 Links to the land based sector



Upstream suppliers were the largest type of linkage (e.g. half of the farming links) with relatively few downstream businesses.

Figure 21: Indirect relationships

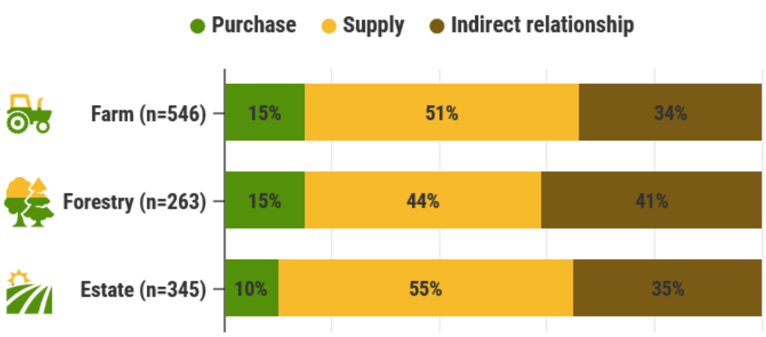


Figure 23: Indirect relationships with land-based sector

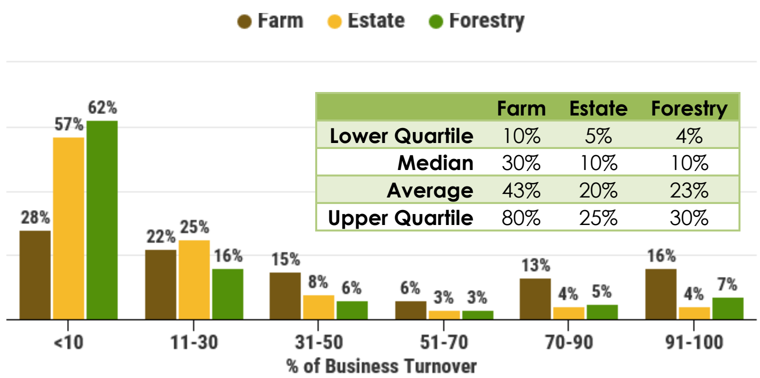
The types of indirect relationship with the land based sector were highly varied and the key words used to describe those links are summarised in Figure 23. Many of these indirect links refer to servicing the land based sector, but not as specific target market for the business. Some of the relationships include: renting of land or buildings; purchases of local meat/timber through butchers/sawmills; animal welfare inspections; accountancy work; planning permission / architecture; vehicle maintenance; access arrangements; sporadic service provision; machinery repair; rodent control; waste disposal; labour supply; property rental/sale; renewable energy; photography, etc.

The farming sector contributed an average of 43% of turnover for 509 businesses. 28% of them were over 70% reliant on farming.

Reliance on the land-based Sector

Figure 24 shows the contribution of the land-based sector to the turnover of businesses that reported having financial links to farming (n=509), estates (n=318) and forestry (n=241). For 57% and 62% of businesses with links to estates and forestry, respectively, there was less than 10% reliance on the sector for business turnover. For those with links to estates only 20% of turnover, on average was generated from the sector (median 10%, with lower quartile 5% and upper quartile 25%). Similar figure existed for those with links to the forestry sector, with 23% average reliance on the sector for turnover (median 10%, lower quartile 4% and upper quartile 30%). However, those businesses with links to farming tended to have a higher degree of reliance on the sector. On average the 509 businesses linked to farming relied on the sector for 43% of their overall turnover (median 30%), with a wide range (lower quartile 10% and upper quartile 80%). 143 businesses (9% of the overall sample and 28% of those with links to farming) were more than 70% reliant on the sector for business) with 79 businesses (16% of those with farming links) more than 90% reliant on the sector. These findings reveal how the fortunes of agriculture, in particular, have wider rural economy impacts through the upstream suppliers, downstream purchasers and indirect relationships with the sector.

Figure 24: Importance of land-based sector to turnover



	Farm	Estate	Forestry
Lower Quartile	10%	5%	4%
Median	30%	10%	10%
Average	43%	20%	23%
Upper Quartile	80%	25%	30%

54% of businesses linked to farming noticed cash flow problems between 2015 & 2017

Figure 25: Witnessed cashflow issues within sectors 2015-17

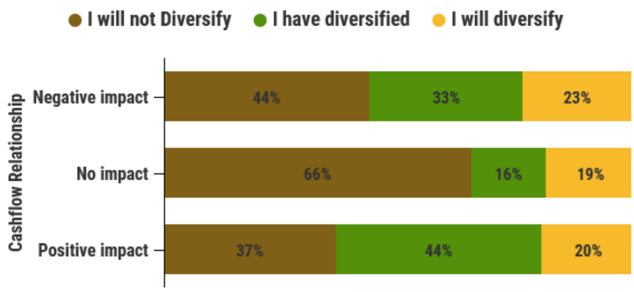
Cashflow issues in the land-based sector?

The businesses that were reliant on the land-based sector were asked if they had witnessed cashflow problems in the land based sector in the previous 2015-2017 period (coinciding with CAP reforms and the challenging implementation of the new

Futures IT system, and subsequent CAP payment delays). Figure 25 illustrates that more than half (54%) of the 541 businesses with links to farming had noted cashflow problems in the farm businesses they deal with. For the 381 businesses with estate links 32% noted cashflow problems but only 16% of the 311 businesses linked to forestry reported cashflow problems. Overall, 159 businesses reported a change in their working relationship with the land based sector in the 2015-17 period (16% of the business linked to the farming sector, 10% for estates and 7% for forestry). Figure 26 shows that not all the cashflow issues that were experienced in the land based sector led to negative consequences for businesses in the wider supply chain. Indeed, the fact that 28% of this group have diversified their activities as a consequence, with a further 20% planning to do so in the futures illustrate how adaptive the wider rural business base is to changing economic circumstances.

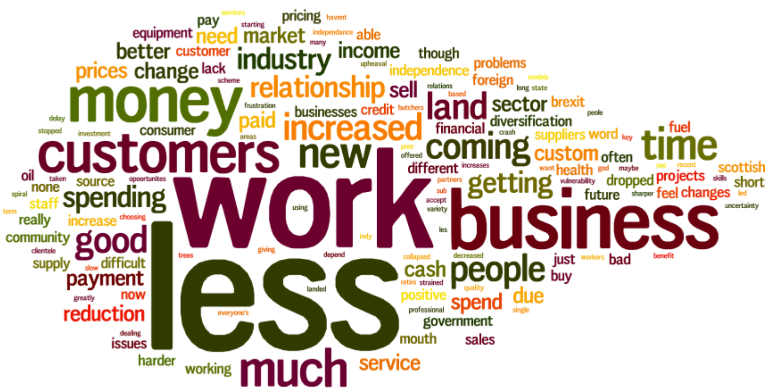
28% of those with changed relationships with land-based sector have diversified their activity – 20% will do so in future

Figure 26: Consequence of changing relationships



For those that noted having witnessed cashflow issues amongst the land-based sector, a quarter believed that it had led to positive outcomes for their business (with nearly two-thirds having, or contemplating diversification of their business activity). For a third of these businesses the cashflow problems experienced on some farms, estates and forestry businesses had negative impacts on their business - with 56% of these businesses opting to diversifying (already, or in the future). Figure 27 provides key words related to how those with changed relationships with the land-based sector reacted, with for example: less land-based sector work being undertaken; new customers sought; tighter credit control measures; reduced stock holding, etc. Some businesses, however, indicated that they had experienced more business from the land based sector since 2015 (the year when new CAP rules and the IT system were introduced), suggesting that some of confidence had returned to parts of the land-based sector by 2017. Some direct quotes from the survey respondents included:

Figure 27 Consequences of cashflow issues in land-based sector



- *"Customer enquiries dropped during Independence and Brexit."*
- *"Tighter credit control, short term it was more difficult for the farmer to cope but it's now easier to manage."*
- *"We dropped off a few customers who couldn't pay, [we] now only sell to farms able to pay."*
- *"We are not as busy as we should be."*
- *"Well we've had to decrease our margins to the farming community to help them."*
- *"Positive - as I have a whole new clientele and variety of work."*
- *"They are not changing their machinery as often."*
- *"Some positive effects - being more creative with financing models, and choosing business partners more prudent."*
- *"New different kind of services, more profitable."*

For those that had diversified, or were thinking about diversifying, in reaction to changed relationships with the land based sector there were a number of new opportunities and different approaches being taken (Figure 28). For example:

Figure 28: Word cloud relating to business diversification

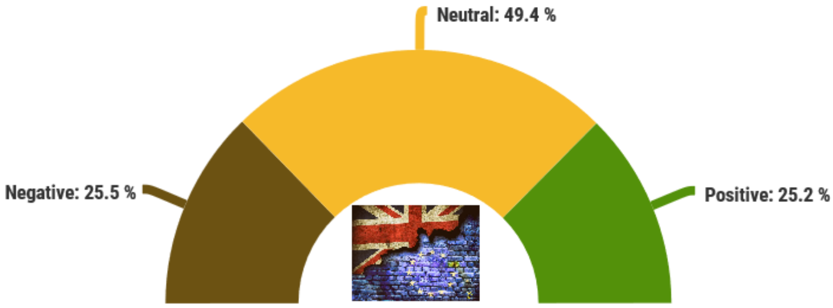
- “*Before we had 80% agriculture but we have moved away and diversified into other sector and now we only have 10% on the agriculture side.*”
- “*Increased product range servicing need.*”
- “*Changed more to equine side of business - less wholesale and more direct selling.*”
- “*Supplying other products for different market sectors.*”
- “*We now also supply equipment to other industries, for example for helicopters*”
- “*Identifying niche markets where we can operate without the competition knowing.*”
- “*New business supplying fencing materials.*”

Brexit opinions

25% of businesses were positive and a 25% negative about the impacts of Brexit, with 50% unsure how Brexit will impact on their business

There was remarkable symmetry in businesses’ perceptions of the overall impacts of Brexit on their business. A quarter of all the businesses were negative towards Brexit (with 7% very negative). A quarter of the businesses thought that Brexit would be positive for their business (with 4% very positive), whilst half were unsure of what Brexit would mean for their business. Many of the neutral responses came from businesses that genuinely felt it would have limited impact on their sector (e.g. garages, hairdressers), but also included those that genuinely struggled to come to an informed conclusion until they knew “what the terms of Brexit are” with others simply willing to “*suck it and see*.”

Figure 29: General opinions of Brexit



The very smallest businesses were least optimistic, and largest business most optimistic, about the impacts of Brexit on their business

Figure 30: Brexit opinions and turnover

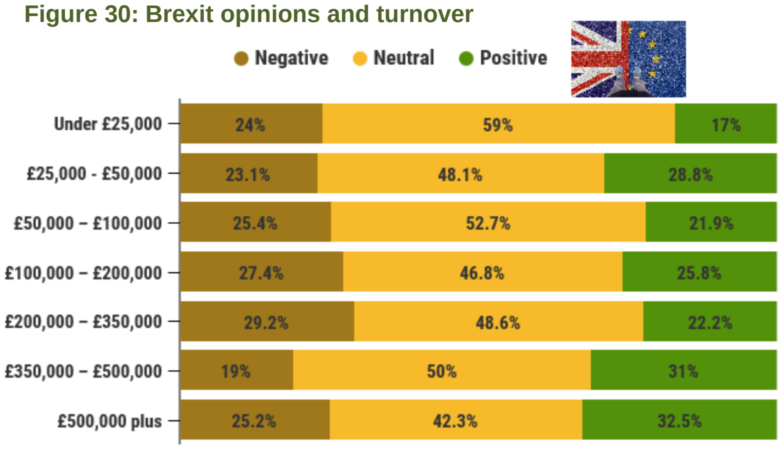
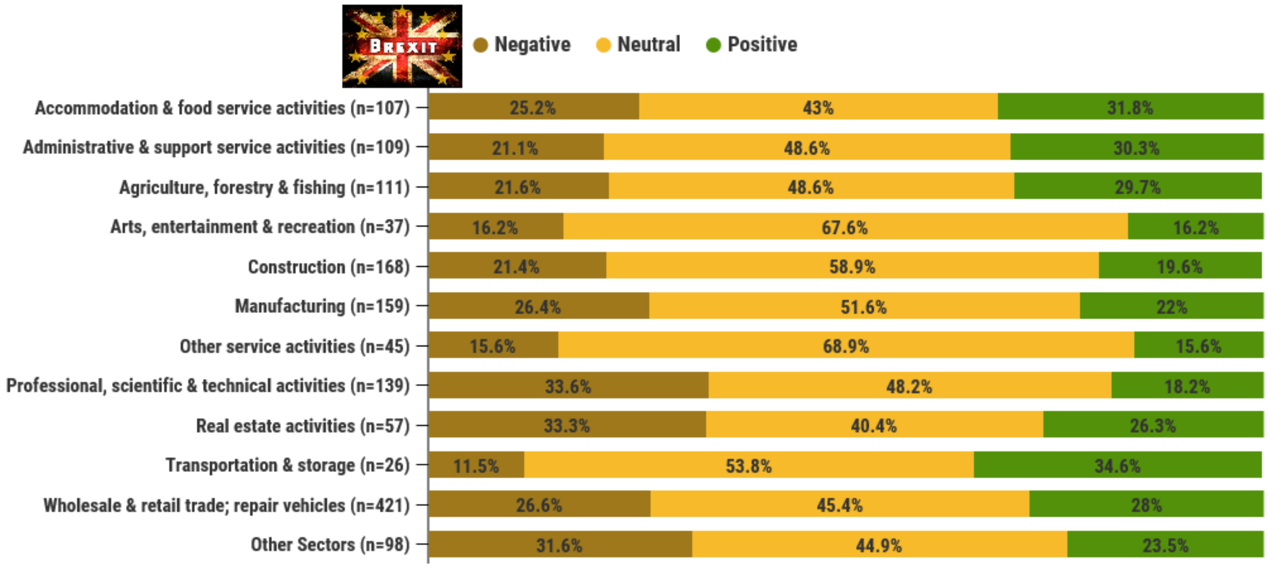


Figure 30 reveals that very small businesses, with turnover under £25,000 were least optimistic about the impacts of Brexit on their business, and only 17% were optimistic (with 59% unsure). In direct contrast, the largest businesses (with turnover over £500,000) were the most optimistic group, with nearly a third thinking Brexit would be positive for their business (this grouping also had the lowest level of uncertainty – 42%, perhaps reflecting greater capacity to think about the implications and opportunities under Brexit).

When the perceptions of Brexit were considered against SIC code sector some interesting patterns emerged. Figure 31 illustrates that businesses in the *real estate* and the *professional, scientific & technical activities* sectors had the highest proportion (a third of businesses) that thought Brexit would be negative for their business. Whilst in the *real estate* sector a quarter of the businesses thought Brexit would bring positive impacts, for the *professional, scientific & technical activities* sector only 18% had positive opinions on Brexit. This contrasts with the *transport and storage* sector which had the highest proportion (35%, albeit a small sample) of optimistic businesses and lowest level of pessimistic businesses (11%) regarding Brexit outcomes and their business. Businesses in the *other services* sector had the greatest degree of uncertainty (69% unsure) regarding how Brexit might impact on their business. In the a*griculture, forestry & fishing* sector 30% of the businesses had a positive Brexit outlook; with only 20% thinking it will be negative (with nearly half the sector uncertain). Overall, the figure reiterates the high level of uncertainty that surrounds how Brexit will impact on businesses across rural Scotland.

There is considerable sectoral variation in perceptions of how Brexit will impact on business

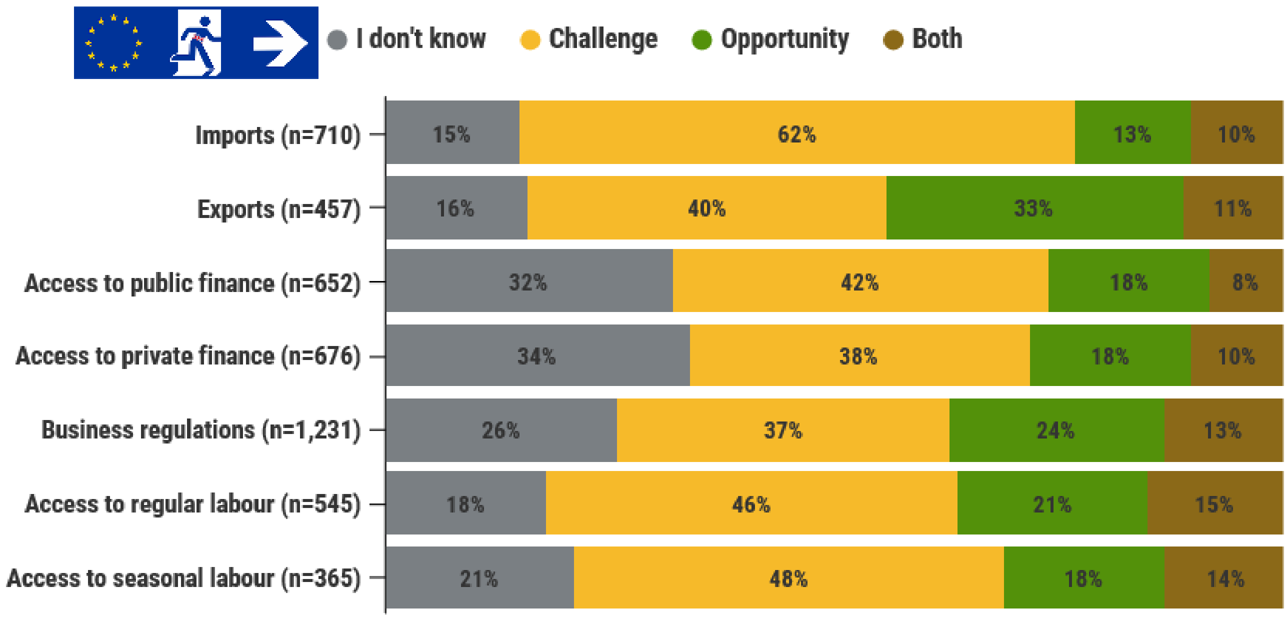
Figure 31: Brexit opinions by business sector



To get below the surface of Brexit sentiments Figure 32 shows how the surveyed businesses perceived different aspects of their business would be impacted by Brexit. 62% of 710 businesses thought that importing goods and services would become more challenging post-Brexit, perhaps as a result of having already experienced a weakening of Sterling that has led to more expensive imports. In contrast exports were considered as a Brexit opportunity for a third of the 457 businesses to whom exports were relevant, although 40% thought that it would become more challenging (perhaps due to customs and tariffs). Some of the highest levels of Brexit uncertainty related to how access to public or private finance might be affected (over a third of businesses were unsure). Despite a lot having been made of a post-Brexit opportunity to reduce the regulatory burden on businesses only a 24% thought that it would be a realistic future opportunity, with 37% thinking it would still be a challenge (with 13% thinking there would be both opportunities and challenges). 46% of 545 businesses thought that Brexit would make accessing regular labour more challenging with a fifth thinking it would become an opportunity for their business to draw-in foreign workers. Nearly half of 365 businesses thought that access to seasonal labour would become more challenging post-Brexit, with 18% thinking it would lead to more opportunity to access seasonal migrant workers.

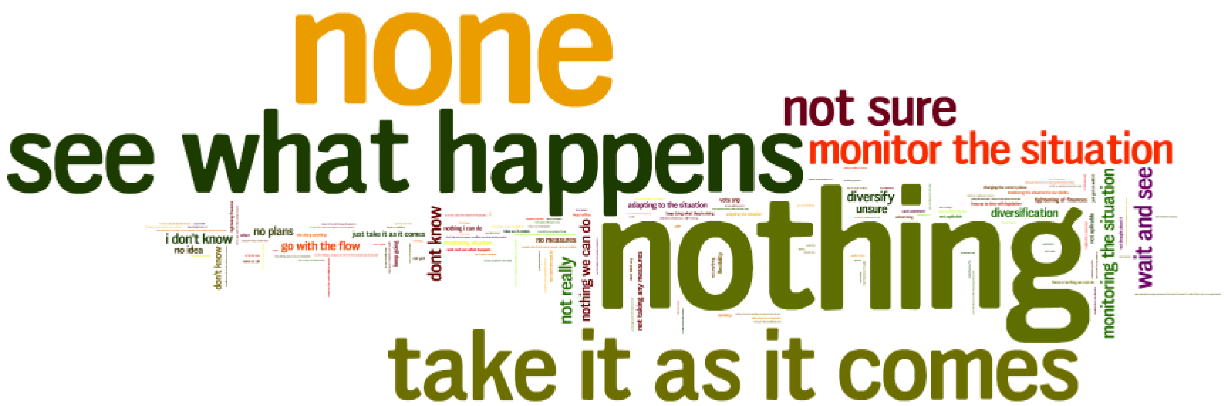
Post-Brexit importing and access to regular & seasonal labour were considered the largest challenges. Exporting was considered the largest post Brexit opportunity

Figure 32: Challenges and opportunities that Brexit may present



There was considerable uncertainty as to how to prepare for Brexit given there was still absolute uncertainty over the UK's EU withdrawal negotiations in 2017, and there was little understanding of how / if any of the impacts that had been discussed during and after the EU Withdrawal referendum would become a reality. It is therefore perhaps unsurprising that the most common response to how businesses are preparing for Brexit was equivalent to "let's wait and see".

Figure 33: Business preparations for Brexit



That said, a number of businesses have been planning and making changes in advance of Brexit, for example:

- *Looking to help the employees from EU to remain (if they wish)*
- *Put up timber prices*
- *Broadening client base*
- *Contingency planning*
- *We are trying to diversify into a wider product range*
- *Cut back on investment in exports*
- *Keeping up the quality service*

- *Lobbying MP's on security of EU nationals in our labour force already*
- *Tighter financial control*
- *Market intelligence*
- *Convert to British staff*
- *keep up to date with changes in regulations*
- *No idea what we need. Our problem will be import and export regulation with EU.*
- *Seeking opportunities overseas*
- *Reducing our investments*
- *Diversification into more pet services*
- *Possibly pay people off*
- *Moving to France or maybe Ireland*
- *Be prepared for increase in import prices*

Many of the issues addressed throughout this short report are addressed in more detail under five themes in the infographics in Appendix1. These short infographics cover: (i) Links to the Land-based Sector (ii) Rural-Urban Businesses (iii) Gender Profiles of Business; (iv) Business by Turnover Change; and (v) Brexit & Business.

Conclusions

This report presents the results of the first of three rural business surveys. The survey of 1,500 rural businesses in the North East and South of Scotland focused on exploring the characteristics of these businesses and their owners, their plans, aspirations and ambitions, particularly in relation to Brexit, and their links with the land-based sector. The evidence collected through this survey makes a significant contribution to improving our understanding of Scotland's rural businesses, at a time when rural economies are receiving policy attention, for example: in the Scottish Government's Programme for Government; through the establishment of the new South of Scotland Enterprise Agency (due for launch in April 2020); the Scottish Government's collaboration with the UK Government on the Borderlands Growth Deal, and; the work of the National Council of Rural Advisers on future support for Scotland's rural businesses.

The survey results demonstrate the contributions and diversity of businesses operating in two rural regions of Scotland, helping to tackle the assumptions that 'rural = agriculture' and that rural economies are only dependent on urban centres and not able to generate their own growth. This is not to argue that land-based activities are insignificant; they remain critically important to Scotland's rural and national economy, in terms of their economic contribution but also their role in delivering a wide range of public goods.

This survey explores for the first time in such a detailed way, the linkages between land-based and non-land-based businesses, and the implications for the current/future cashflow and investment plans of businesses across these supply chains. One area for future research might be to explore the geography of these relationships, and how they contribute to urban-town-rural linkages, as well as the contributions of the full range of businesses in delivering a wide range of public goods.

At the same time as exploring these linkages, the survey has also demonstrated the wide range of businesses that operate in Scotland's rural economies and this must be acknowledged and supported by policy-makers, through both sector strategies (i.e. recognising that businesses in particular sectors operate in both rural and urban locations) and territorial strategies (i.e. which should not over-focus on one sector, such as agriculture, while ignoring others). It is critical that business support agencies recognise the breadth of business types in rural Scotland (and how these vary across different geographical locations), and support all of these businesses appropriately, in terms of their business planning, marketing, exporting and so on.

The survey has also demonstrated the uncertainty around Brexit and the lack of planning by many rural businesses. While this is understandable given the timing of the survey in summer 2017, in order to support rural businesses' future planning and the extent and nature of their investment decisions – and the subsequent knock-on impacts for the wider economies in which they are situated - this uncertainty needs to be minimised as far as possible, not least by providing businesses (and indeed other actors) with as much information as possible as negotiations on exiting the EU progress so that they can plan accordingly. The survey has shown that the extent of businesses' optimism for the future varies depending on owners' age, level of education and gender, age and recent performance of the business and outlook on the businesses' future. The future business support offer will need to be tailored to take account of these differences so as to maximise the potential contribution of all rural businesses in future.

As mentioned, this was the first in a series of three rural business surveys which will be undertaken. This work will significantly add to our knowledge about Scotland's rural businesses and their substantial and varied contributions, and it can be analysed in conjunction with other business survey work undertaken by others, including the Rural Enterprise UK work. Although this work is focused on England, taken together these will help to ensure that the rural business evidence base improves so as to more effectively inform future policy and practice across the UK. In particular within Scotland, this evidence base can be used to inform the design and delivery of the NCRA's recommended Rural Economy Action Plan, but also specific sectoral (e.g. food and drink) or other strategies, such as the Framework and Action Plan for Women in Enterprise[27].

[27] For more information, see: https://www.gov.scot/publications/scottish-framework-action-plan-women-enterprise/

References

Anderson, A.R., Drakopoulou Dodd, S., Jack, S.L. (2009), "Aggressors; Winners; Victims and Outsiders, European Schools' Social Construction of the Entrepreneur", *International Small Business Journal,* Vol.27 No.1, pp. 126-136 Atterton, J. (2007) The 'strength of weak ties': Social networking by business owners in the Highlands and Islands of Scotland, *Sociologia Ruralis* 47(3), pp. 228-245.

Atterton, J. (2016) Scotland's rural economies – looking beyond the land-based sector, *Rural Scotland in Focus 2016,* Section 2. Available online: https://www.sruc.ac.uk/info/120428/rural_scotland_in_focus/1735/2016_rural_scotland_in_focus_report

Atterton, J. and Affleck, A. (2010) Rural Businesses in the North East of England: Final Survey Results 2010, *Centre for Rural Economy Research Report* (June 2010), Available online: http://www.ncl.ac.uk/cre/publish/researchreports/index.htm, accessed 30 January 2015.

Beale, G., Henderson, N and Davidson, N. (2018) Understanding the Scottish Rural Economy, *RESAS Working Paper* (July), Scottish Government. Available Online at: https://beta.gov.scot/publications/understanding-scottish-rural-economy/

Bennett, K., Phillipson, J., Lowe, P., Ward, N., 2001. The Impact of the Foot and Mouth Crisis on Rural Firms: A Survey of Microbusinesses in the North East of England. Centre for Rural Economy, University of Newcastle.

Bennett, K., Carroll, T., Lowe, P., Phillipson, J., 2002. Coping with Crisis in Cumbria: the consequences of Foot and Mouth Disease. Centre for Rural Economy, University of Newcastle.

Chamberlain, P. (2017) Rural Business Succession: Innovation Opportunities to Revitalise Local Communities, Rural Ontario Foresight Papers, Rural Ontario Institute, Guelph, Canada. Available online: http://www.ruralontarioinstitute.ca/foresightpapers

Chell, E. and Baines, S. (2000) Networking, entrepreneurship and microbusiness behaviour, *Entrepreneurship and Regional Development* 12, pp. 195-215.

CLA (Country Land and Business Association) (2016) Rural Business 2030, Unlocking Investment, unlocking potential, CLA, London (December). Available online: https://www.cla.org.uk/conference2016

Copus, A. (2016) SMEs in the Small Towns and the Rural Areas of Scotland, The James Hutton Institute Research Note (March). Available online: http://www.hutton.ac.uk/research/groups/social-economic-and-geographical-sciences/SEGS-research-notes

Cosh, A., Hughes, A., Bullock, A., Milner, I. (2008) Financing UK Small and Medium-Sized Enterprises, A Report from the Centre for Business Research, University of Cambridge. Available online: https://www.cbr.cam.ac.uk/fileadmin/user_upload/centre-for-business-research/downloads/research-projects-output/sme-finance-report-final.pdf

Duchesneau, D. and Gartner, W. (1990) A profile of new venture success and failure in an emerging industry, Journal of Business Venturing, Vol, 55, pp. 297-312.

FSB (2016) http://www.fsb.org.uk/standing-up-for-you/national-offices/scotland/press-releases/research-18-month-slide-in-scottish-business-confidence

Green, A. 2006 Employment and the older person in the countryside. In P. Lowe and L. Speakman (Eds.) *The ageing countryside: The growing older population of rural England* (pp. 94-118), London: Age Concern.

HIE (2017) HIE Business Panel Survey Summary Findings – September 2017, Highlands and Islands Enterprise. Available online: http://www.hie.co.uk/regional-information/economic-reports-and-research/archive/hie-business-panel-survey---2017.html

Irvine, W., Anderson, A.R. (2004) Small tourist firms in rural areas: agility, vulnerability and survival in the face of crisis, *International Journal of Entrepreneurial Behaviour and Research*, Vol. 10 No. 4, pp. 229-246.

Jack, S. and Anderson, A. (1999) The effects of embeddedness on the entrepreneurial process. Paper presented at the 9th Annual Global Entrepreneurship Research Conference, New Orleans (April).

Johnson, J. and Rasker, R. (1995) "The Role of Economic and Quality of Life Values in. Rural Business Location" Journal of Rural Studies. Vol. 11(4), pp. 405-416.

Keeble, D., Tyler, P., Broom, G. and Lewis, J. 1992 *Business Success in the Countryside: The Performance of Rural Enterprise,* HMSO: London.

Lightfoot, W., Burke, J., Craig-Harvey, N., Dupont, J., Howard, R., Lowe, R. Norrie, R. and Taylor, M. (2017) *Farming Tomorrow: British Agriculture After Brexit*, The Policy Exchange, London.

North, D. and Smallbone, D. 1996 "Small business development in remote rural areas: the example of mature manufacturing firms in northern England", *Journal of Rural Studies,* 12(2), pp. 151-167.

Oughton E.A., Wheelock J. and Baines S. Micro-businesses and social inclusion in rural households: A comparative analysis, *Sociologia Ruralis* 2003, **43**(4), 331-348.

ONS (2018) Regional Gross Value Added (Balanced) by Local Authority in the UK https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedbalanceduk/1998to2016

Patterson, H. and Anderson, D. 2003 "What is really different about rural and urban firms? Some evidence from Northern Ireland", *Journal of Rural Studies,* 19, pp. 477-490.

Phillipson, J., Bennett, K., Lowe, P. and Raley, M. (2004) Adaptive responses and asset strategies: the experience of rural micro-firms and Foot and Mouth Disease, *Journal of Rural Studies,* 20 pp. 227-243.

Prince's Countryside Fund (2016) The cash flow crisis in farming and its implications for the wider rural economy, The Prince's Countryside Fund, London (April). Available online: http://www.princescountrysidefund.org.uk/research/research

Raley, M. and Moxey, A. (2000) *Rural Microbusinesses in North East England: Final Survey Results,* Centre for Rural Economy Research Report RR00/3, University of Newcastle.

Roper, S., Love, J., Cooke, P. and Clifton, N. (2006) The Scottish Innovation System: Actors, Roles and Actions, Report prepared by Aston University and Cardiff University for the Scottish Government (January). Available online: http://www.gov.scot/Publications/2006/01/18151934/0

Scottish Government (2015) Rural Scotland Key Facts 2015, the Scottish Government: Edinburgh. Available online: http://www.gov.scot/Publications/2015/03/5411/downloads

Scottish Government (2018a) Economic Report on Scottish Agriculture 2018 Edition. Available online: https://www2.gov.scot/Topics/Statistics/Browse/Agriculture-Fisheries/PubEconomicReport/ERSA2018

Scottish Government (2018b) Understanding the Scottish Rural Economy, Scottish Government Social Research. Available online: https://beta.gov.scot/publications/understanding-scottish-rural-economy/pages/3/

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, pp. 79-131.

Smallbone,D., North,D. and Kalantaridis, C. (1999) Adapting to peripherality: a study of small rural manufacturing firms in northern England. Entrepreneurship & Regional Development 11 (2), 109-127

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 2015/11 (August). Available online: https://www.sruc.ac.uk/downloads/file/2621/2015_scotlands_rural_enterprises_what_do_we_know_and_where_are_the_information_gaps

Wales Rural Observatory (2004) Rural Business Survey, Wales Rural Observatory.

Wales Rural Observatory (2008) Rural Business Survey, Wales Rural Observatory.

Wales Rural Observatory (2010) Rural Business Survey, Wales Rural Observatory.

Wheelock J., Oughton, E.A. and Baines S. (2003) Getting by with a little help from your family: Toward a policy-relevant model of the household, *Feminist Economics* 2003, **9**(1), 19-45.

Appendix 1 Infographic Summaries

Rural Business Survey 2017
- Infographic 1

Links to the Land-based Sector

Rural Businesses in the North East & South of Scotland: 2017

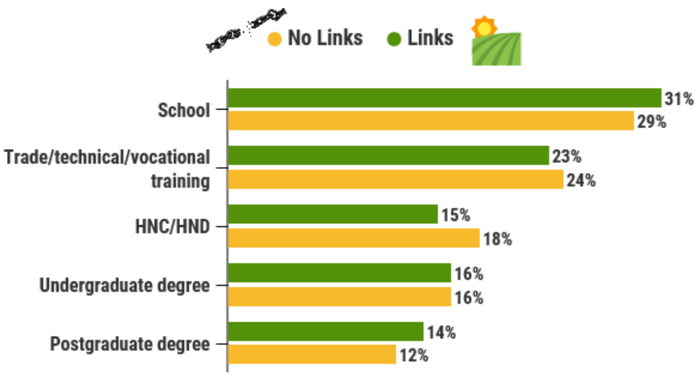
42% of surveyed businesses had links to the land-based sector

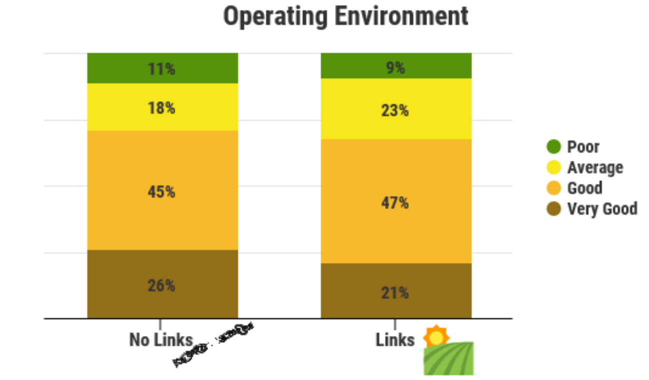
Businesses with land-based linkages

This research was undertaken within the Scottish Government's Strategic Research Programme 2016-2021, Work package 2.4 Rural Industries

SEFARI — Leading ideas for better lives
The Scottish Government
Scottish Enterprise
Scottish Land & Estates — Landowners Working for the Countryside

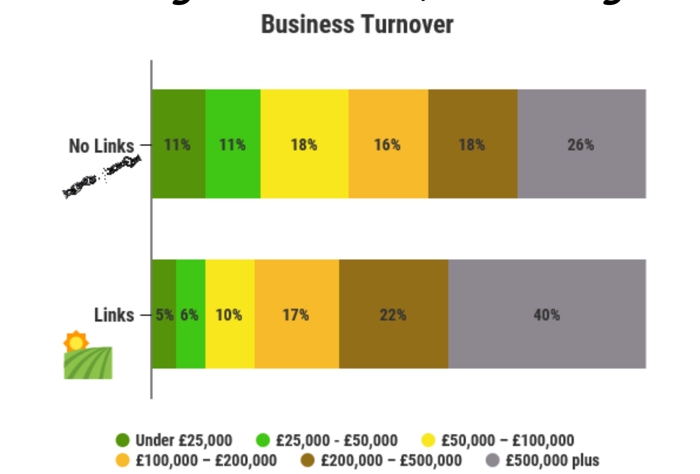
Business people with links to land-based sector had similar educational attainment to those without links

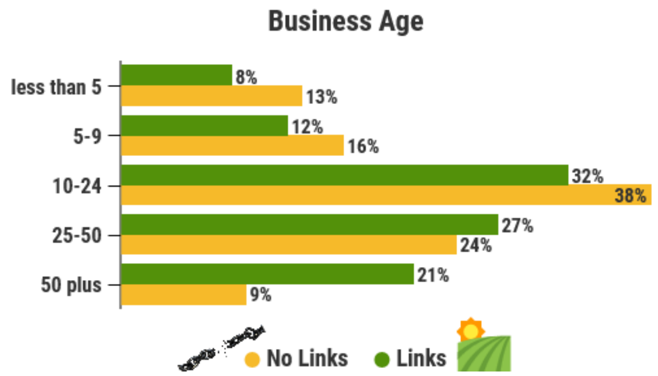




Businesses linked to the land-based sector were less likely to classify 2016-17 as a very good year

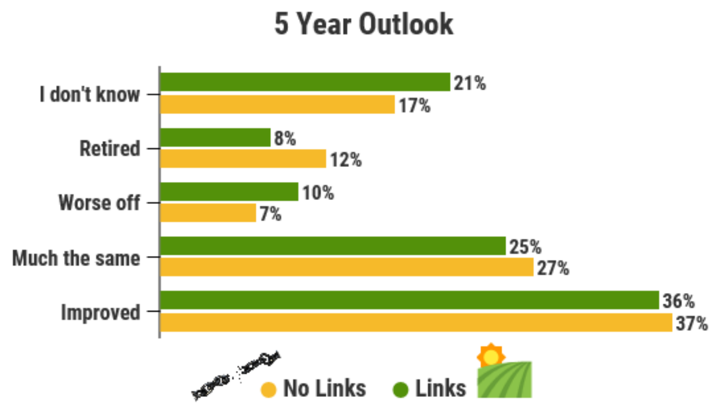
Those linked to the land-based sector had larger turnovers, on average

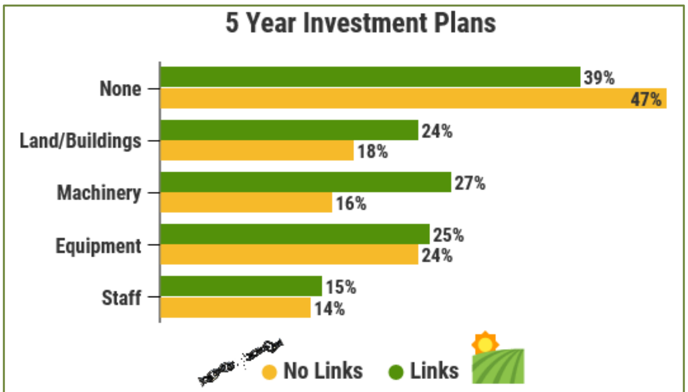




Businesses with links to the land based sector were generally longer established, with 20% over 50 yrs

Those linked with the land-based sector were less positive about the future, but were less likely to retire by 2022

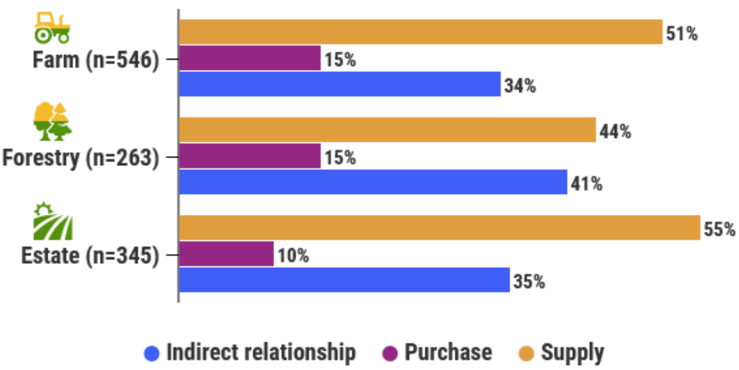




Businesses linked to the land-based sector were more likely to invest in their business by 2022, particularly in land & buildings and machinery

Links to Land-based Sector

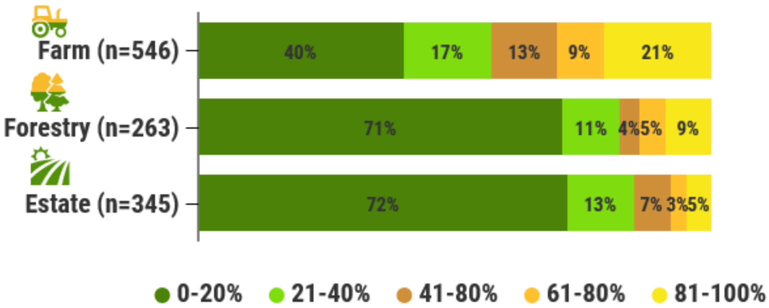
Nature of the Relationship



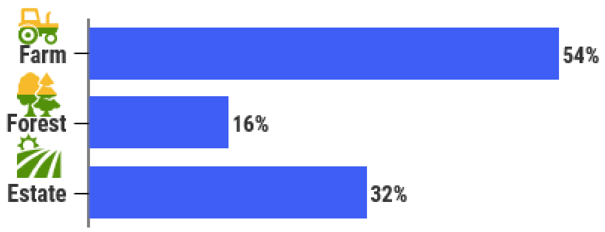
The most common form of linkage to the land-based sector was as suppliers. In each sector about 30%-40% of businesses had indirect relationships. About 10%-15% of businesses with links were purchasing goods and services from the land based sector.

Businesses linked to farming tended to have a higher reliance on the sector – i.e. they specialised in servicing farming. 1/5 of those with links to farming were more than 80% reliant on it for their turnover. 3/4 of those linked to forestry and estates got less than 20% of their business turnover from these sectors.

% Business Turnover from Sector



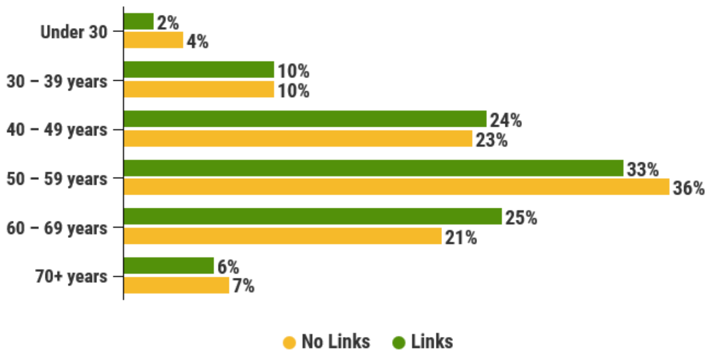
Sectoral Cashflow Problems

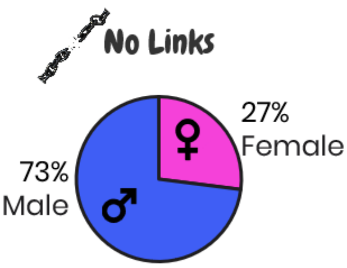


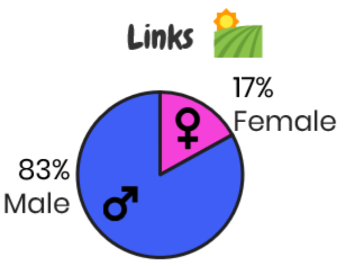
Of those with links to the land-based sector, 54% had witnessed cashflow problems in the farming sector between 2015 and 2017. Only 32% had seen problems in the estate sector and only 16% in the forestry sector. About 55 businesses said these issues had negative impacts on their business performance.

There was little difference in the age profile of the owners, partners and directors of those linked to the land-based sector and those that were not.

Age of Owners / Partners / Directors

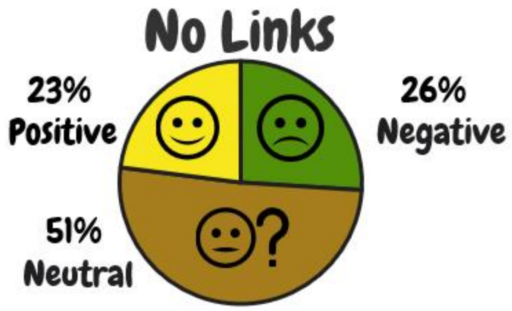


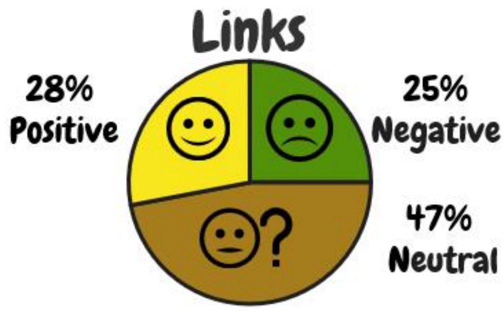




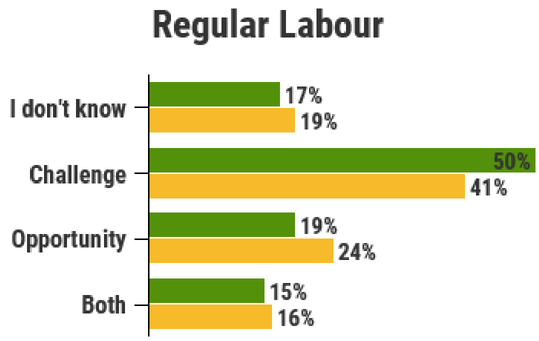
Women accounted for only 17% of the business owners / partners / directors with links to the land-based sector, but 27% of those without links.

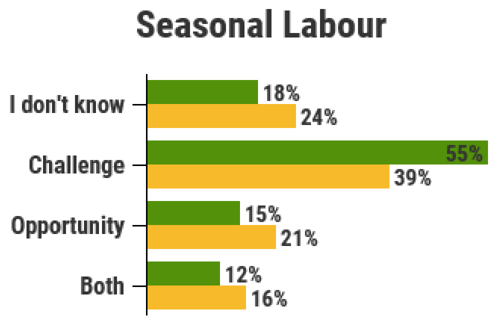
BREXIT



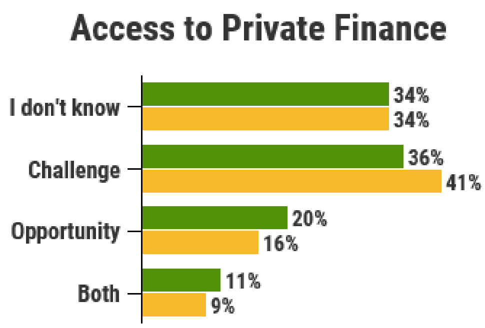


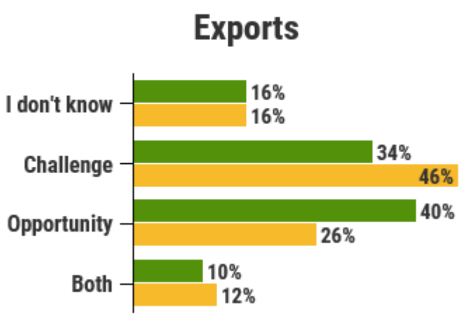
Businesses with land-based sector links were slightly more optimistic about the impacts of Brexit on their business

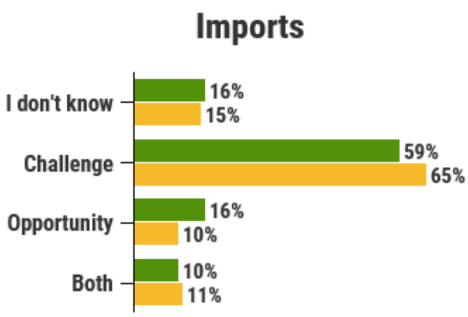


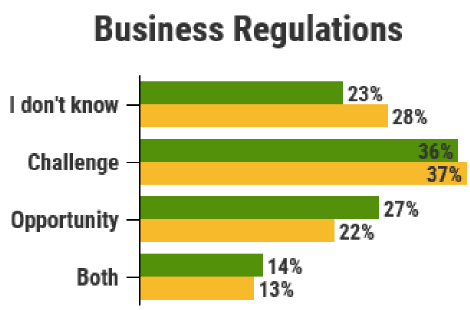


More than 50% of the businesses with links to the land-based sector perceived post-Brexit access to regular and seasonal labour as a challenge (compared to about 40% of those without links). Those linked to the land-based sector were more optimistic about post-Brexit opportunities for exports although 59% thought importing would be more challenging. A lot of uncertainty remains over access to finance and business regulations









For further details please contact:
Steven Thomson:
☎: +44(0)131 535 4192; 🖮: steven.thomson@sruc.ac.uk
Jane Atterton:
☎: +44(0)131 535 4256; 🖮: jane.atterton@sruc.ac.uk
Full report from: www.sruc.ac.uk/ruralbusinesssurvey

SEFARI
LEADING IDEAS FOR BETTER LIVES

Rural Business Survey
- *Infographic 2*

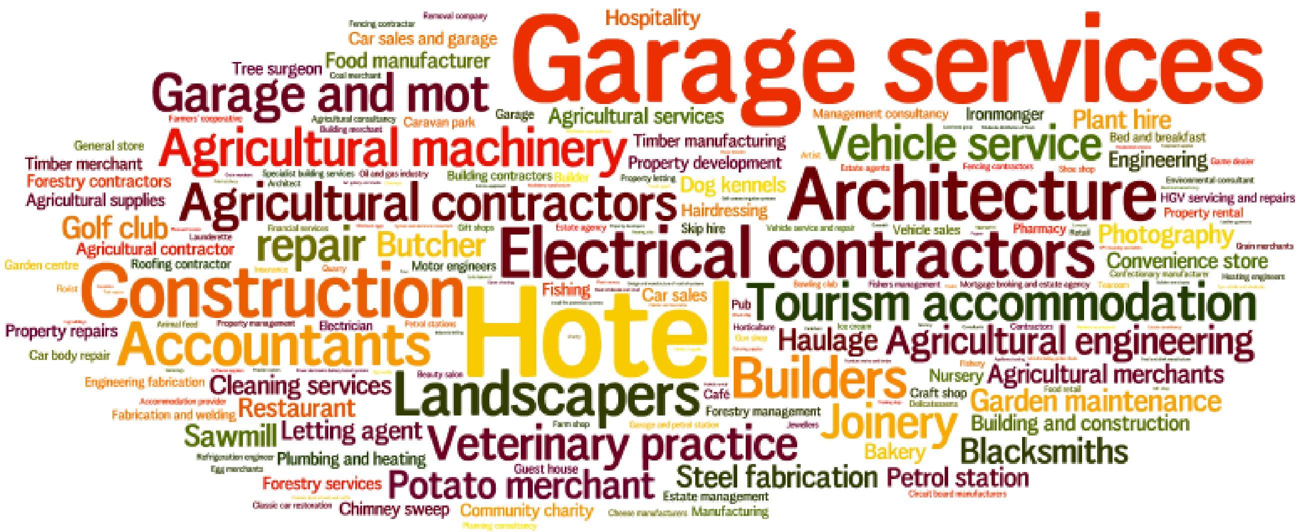
SRUC

Rural / Urban Businesses

Rural Businesses in the North East & South of Scotland: 2017

61% of surveyed businesses were in rural areas with 24% in towns and 15% in urban areas

Rural Businesses



This research was undertaken within the Scottish Government's Strategic Research Programme 2016-2021, Work package 2.4 Rural Industries

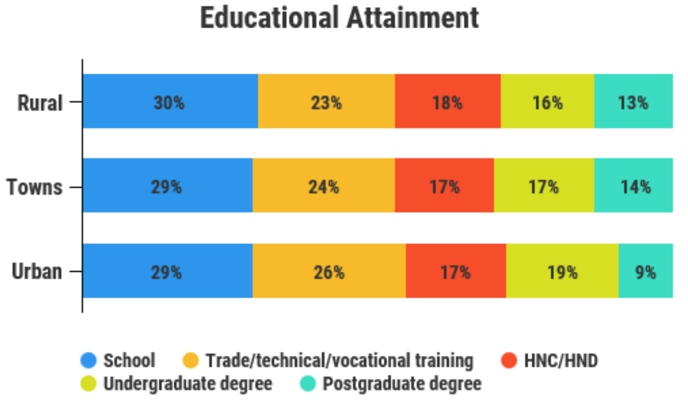
SEFARI LEADING IDEAS FOR BETTER LIVES

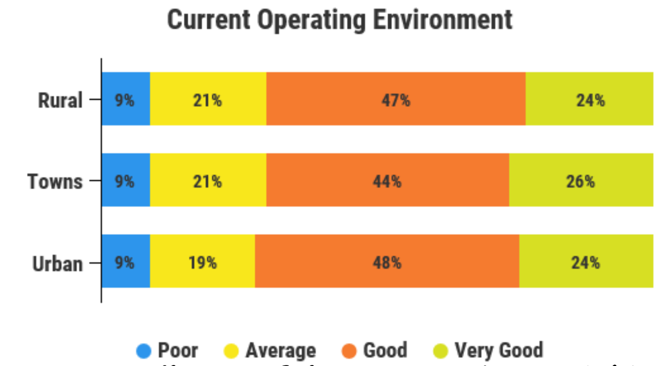
The Scottish Government

Scottish Enterprise

Scottish Land&Estates

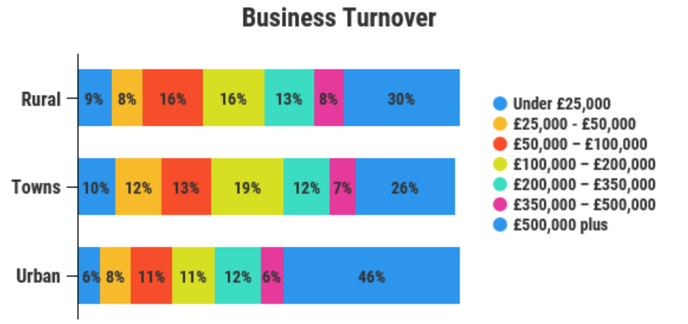
There were slightly higher postgraduate qualification levels amongst business owners in rural areas and towns

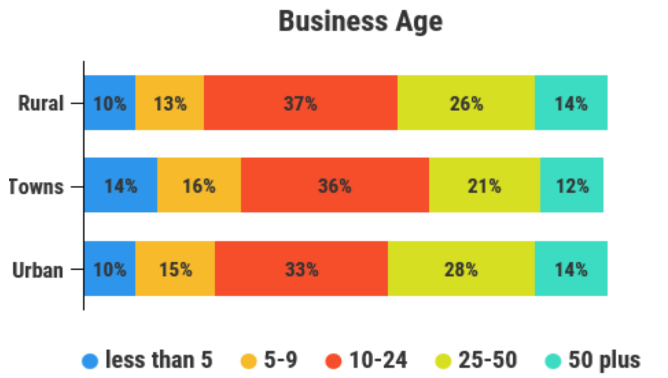




Regardless of location about 1/4 reported their 2017 operating environment as very good

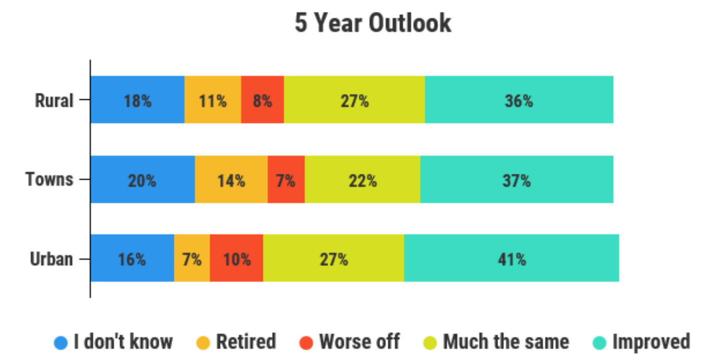
Businesses in towns were more likely to have turnovers over £0.5 million. 1-in-3 rural and town based businesses had turnovers under £100,000

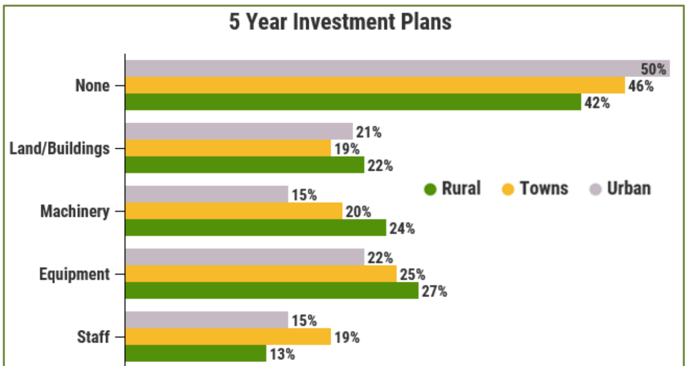




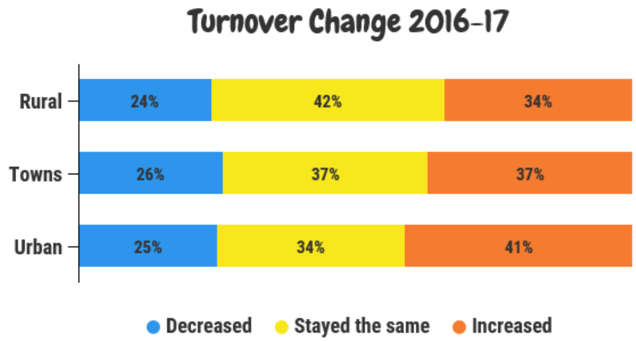
14% of businesses from towns were less than 5 years old. Rural businesses tended to be older than in towns

20% of businesses in rural areas & towns were uncertain of their future, but over 35% expected their business to improve. Retirement expectations were highest in towns (14%) & rural areas (11%)



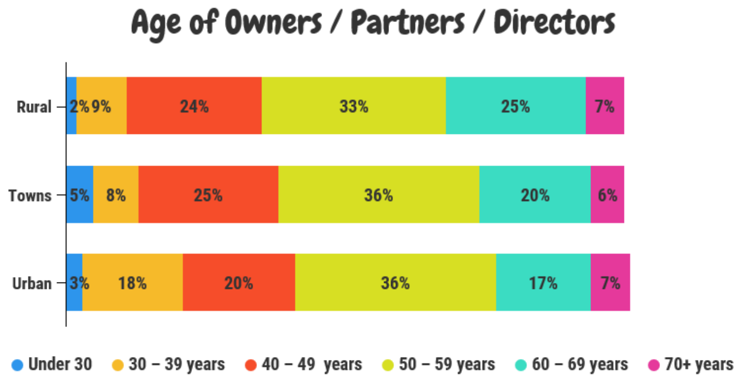


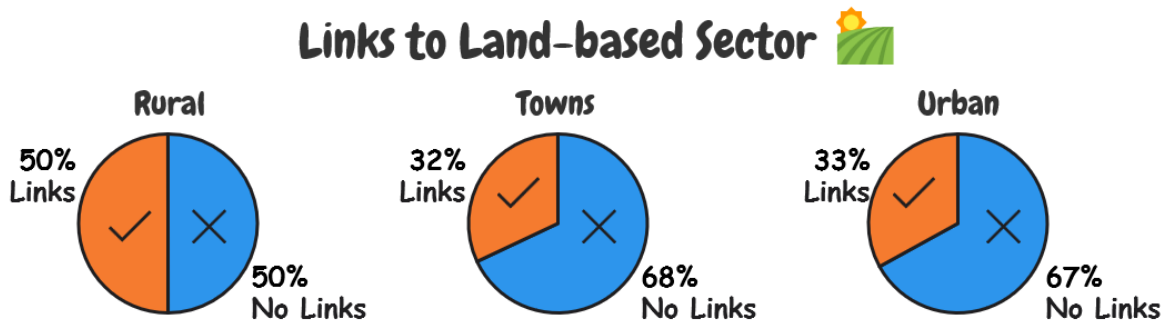
58% of rural businesses expected to invest in their business in the next 5 years – with highest expectations of investing in capital items…..but they were least likely to invest in staff



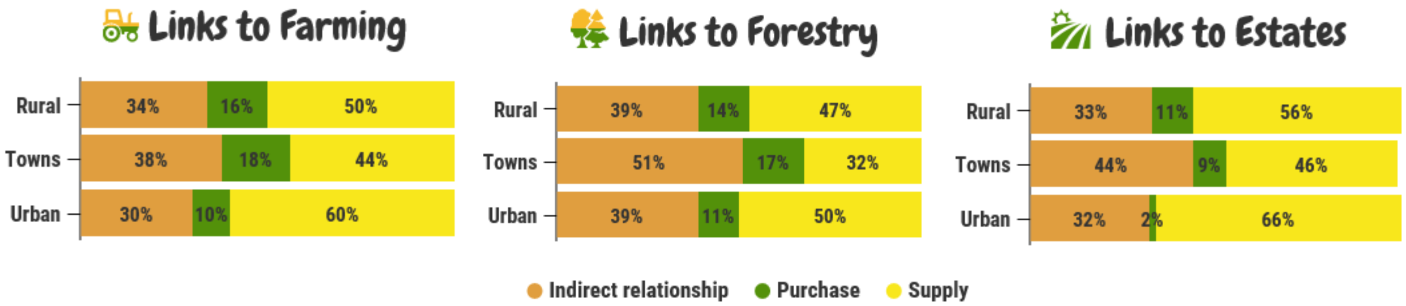
Rural businesses were most likely to have had no change in their turnover between 2016-17, with a third having improvement and a fifth having worsening turnover. 41% of urban businesses reported improved turnover.

In rural areas a third of business owners / partners / directors were over 60 years old with over two-thirds in the over 50 year old bracket. In rural areas, the 11% under 40 years old compares poorly to 21% in urban areas.



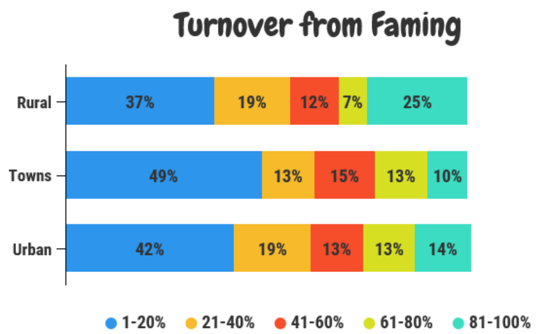


Unsurprisingly rural businesses surveyed were much more reliant on the land-based sector than businesses in towns and urban areas. In rural areas half the businesses relied on land-based businesses to some extent - perhaps surprisingly a third of businesses in towns and urban areas also did.



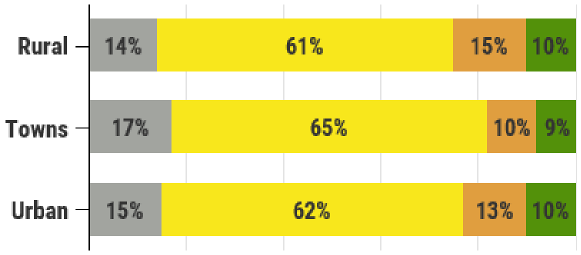
About 17% of rural and town based businesses with links to farming were downstream purchasers of goods and services. Upstream suppliers of goods and services were the most common form of linkage.

A quarter of rural businesses that are linked to farming rely on the sector for over 25% of turnover. In towns half those linked to farming generate less than 10% of turnover from it.

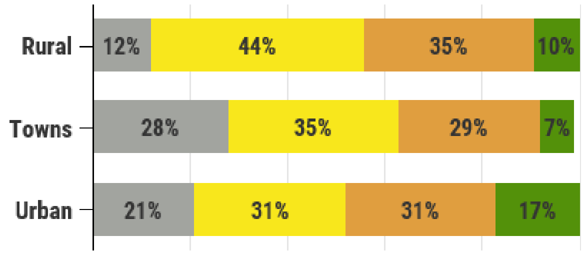


BREXIT Challenges & Opportunities

Imports

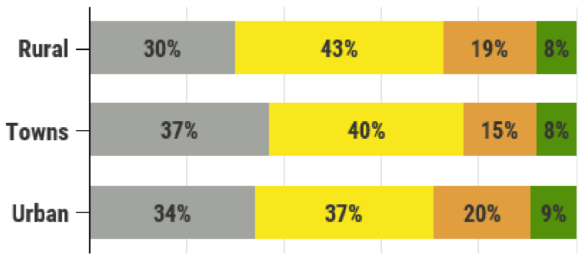


Exports

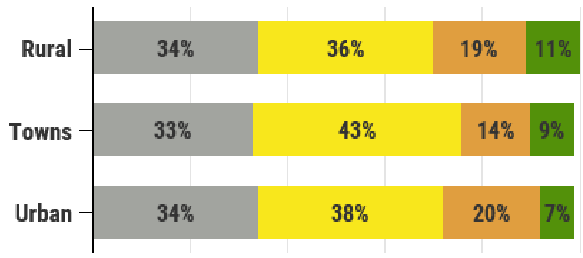


● I don't know ● Challenge ● Opportunity ● Both

Access to Public Finance

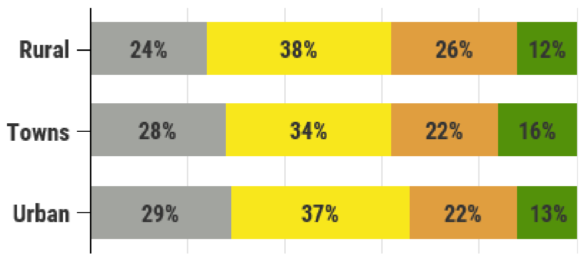


Access to Private Finance



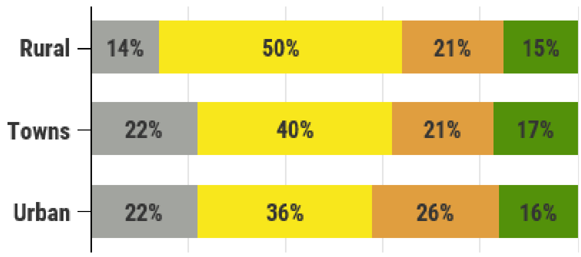
Over 60% of all businesses that import felt that post-Brexit it would become more challenging. 45% of the rural businesses that export thought there would be greater export opportunities. Few businesses, regardless of location, felt that access to private and public finance would improve.

Business Regulations

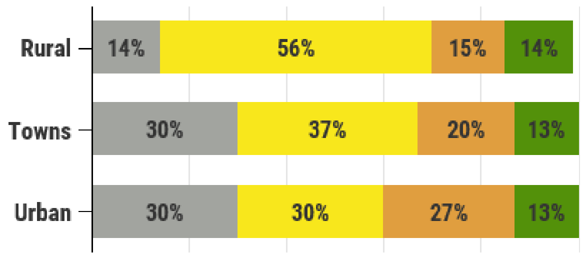


Rural businesses were more likely to think post-Brexit access to labour would be challenging, although 30-35% of rural businesses thought there will be some improved opportunities to access labour. 38% of rural & town businesses thought there was some scope to cut red tape.

Regular Labour



Seasonal Labour



For further details please contact:
Steven Thomson:
☎: +44(0)131 535 4192; 🖮: steven.thomson@sruc.ac.uk
Jane Atterton:
☎: +44(0)131 535 4256; 🖮: jane.atterton@sruc.ac.uk

Full report from: www.sruc.ac.uk/ruralbusinesssurvey

SEFARI
LEADING IDEAS FOR BETTER LIVES

Rural Business Survey

- Infographic 3

Gender Profiles of Business

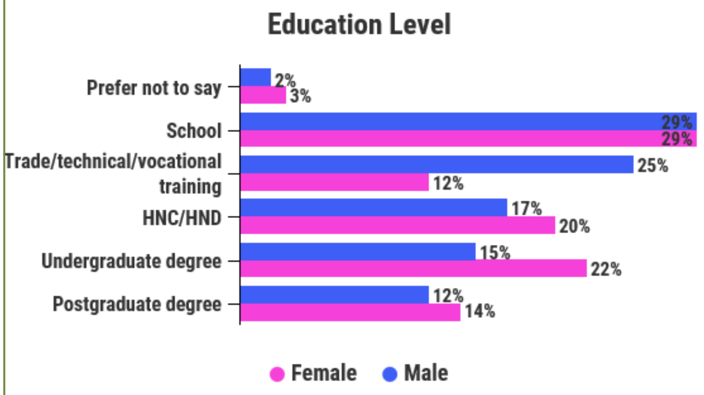
Rural Businesses in the North East & South of Scotland: 2017

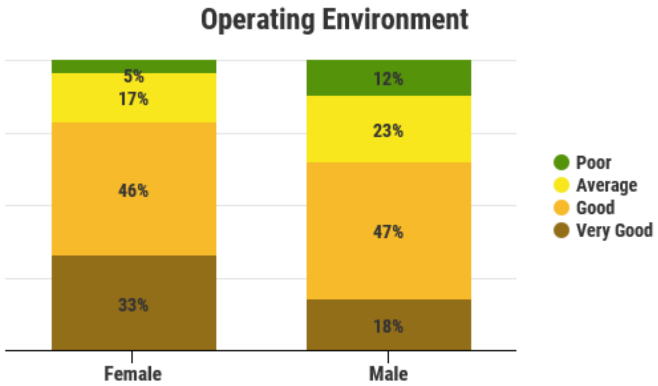
23% of owners/directors/partners interviewed were female

Types of Businesses Controlled by Women

This research was undertaken within the Scottish Government's Strategic Research Programme 2016-2021, Work package 2.4 Rural Industries

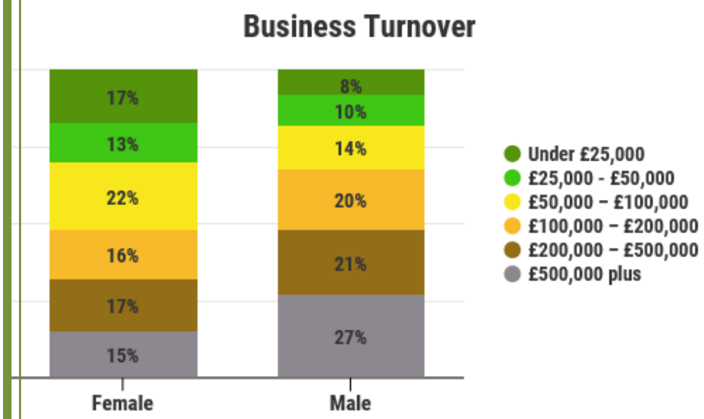
Female business leaders had, on average, higher educational attainment

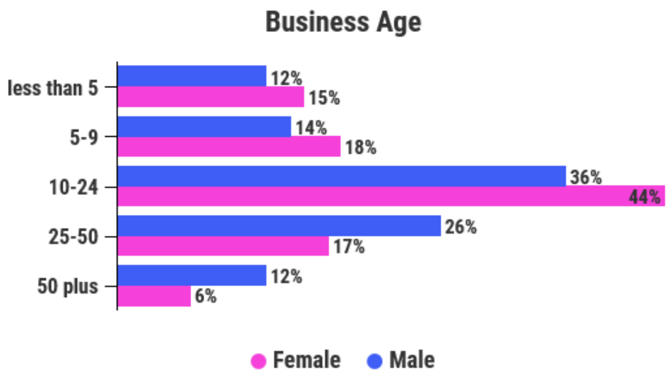




Female business leaders were more positive about their current operating environment

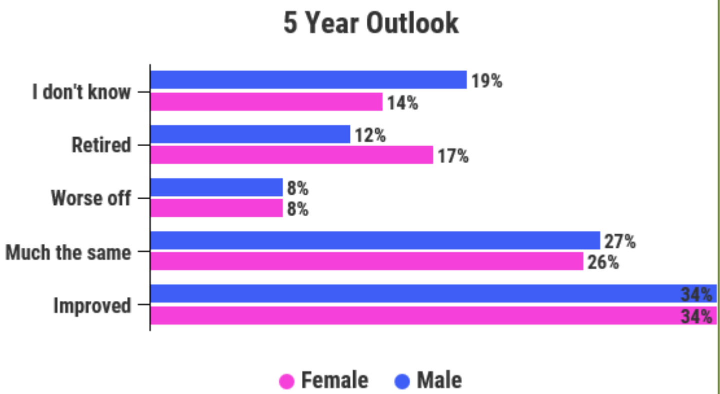
On average, female run businesses had lower turnovers

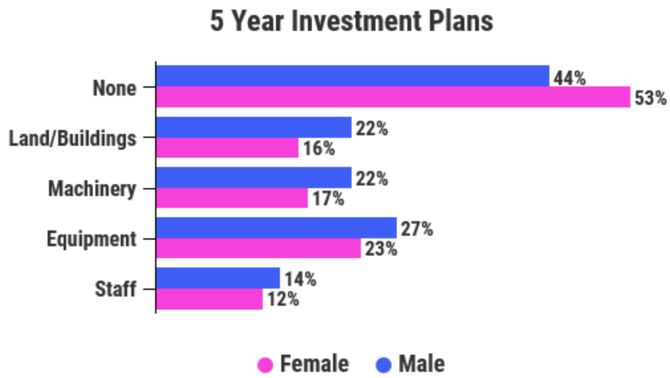




Female run businesses had, on average, not been running for as long as those run by men

17% female business leaders thought they would be retired by 2022, compared to only 12% of male leaders





Female run businesses said they were less likely to invest in their business over the next 5 years compared to male run businesses

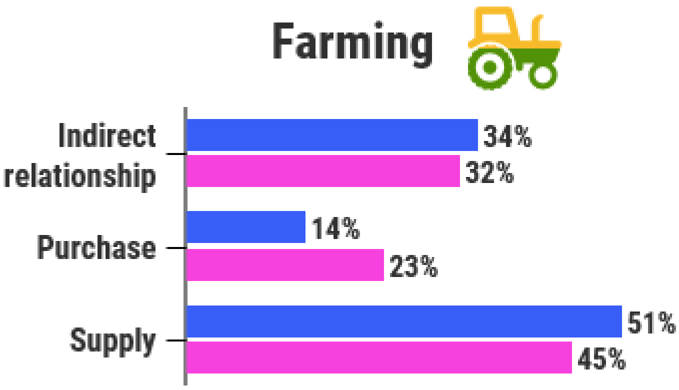
Links to Land-based Sector

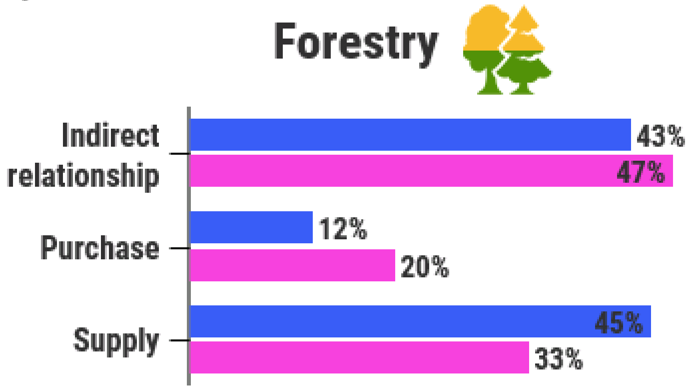
32% of female run businesses had links to land-based sector

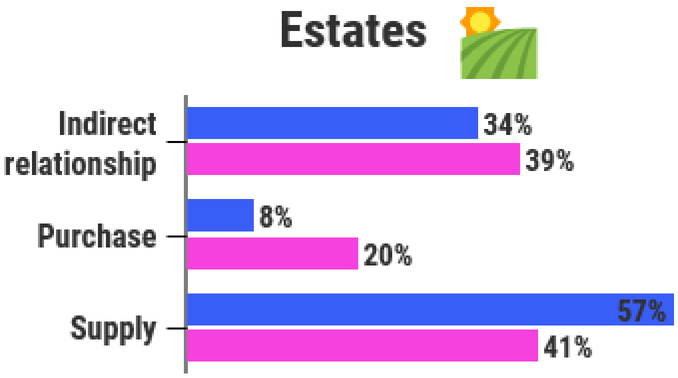
47% of male run businesses had links to land-based sector

Nature of the Relationship

Female Male



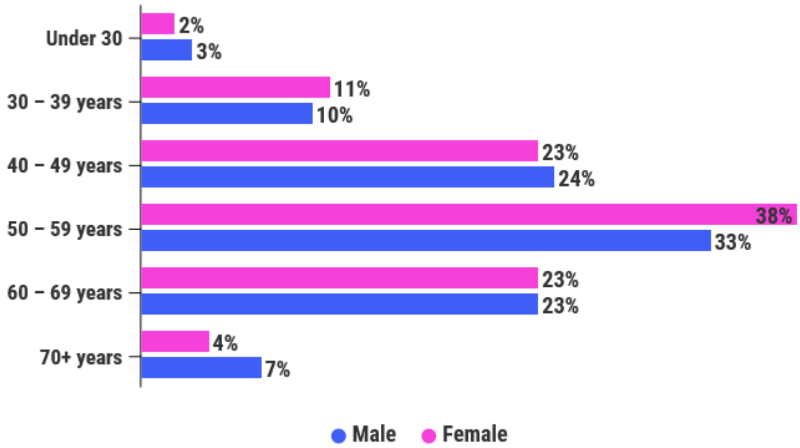




A higher proportion of female run businesses with links to the land-based sectors were involved in downstream sectors buying goods & services from the land-based sector than male run businesses

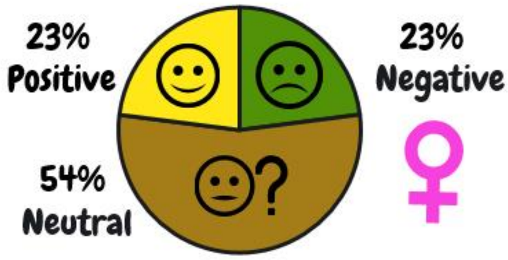
---

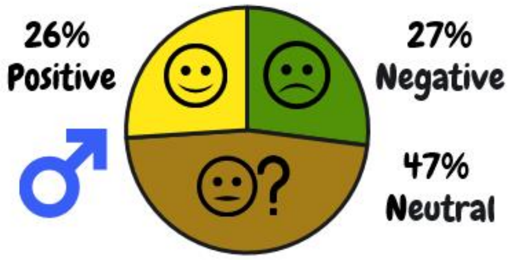
There were similar age structures in both female business leaders and male business leaders



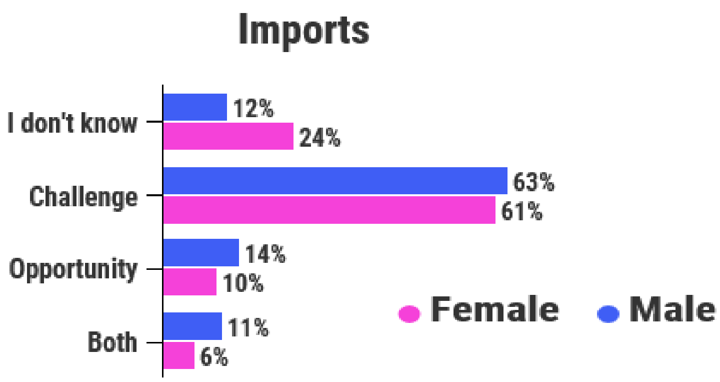
Businesses of women aged over 50

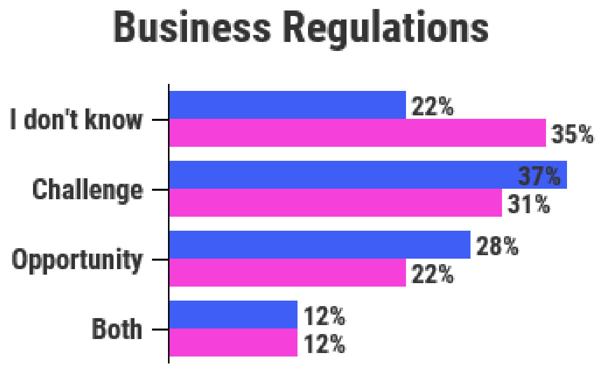
BREXIT



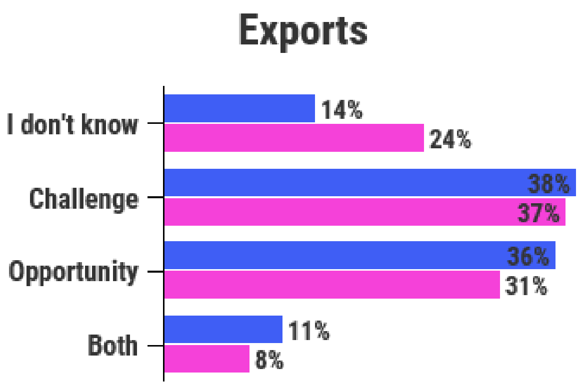


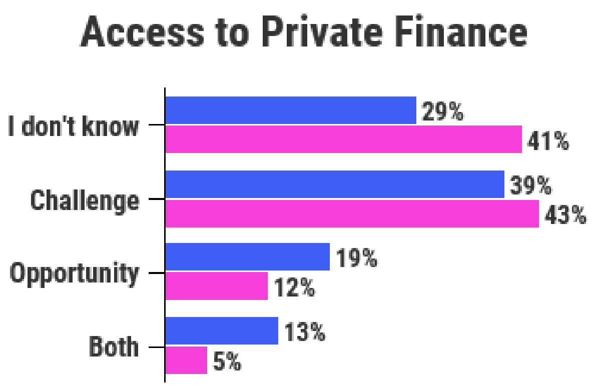
Female business leaders were less certain of the impacts of Brexit

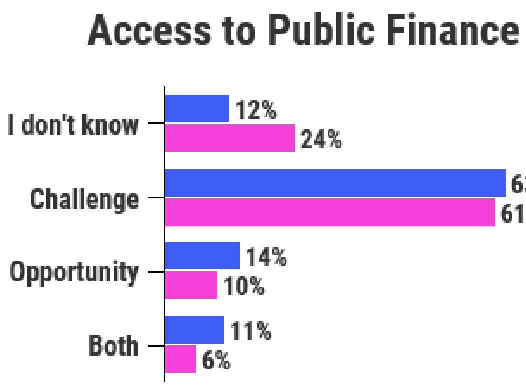




Male business leaders had greater Brexit optimism – a larger proportion thought Brexit would bring business opportunities (or at least 'both' some challenges & some opportunities).







For further details please contact:
Steven Thomson:
☎: +44(0)131 535 4192; 🖮: steven.thomson@sruc.ac.uk
Jane Atterton:
☎: +44(0)131 535 4256; 🖮: jane.atterton@sruc.ac.uk
Full report from: www.sruc.ac.uk/ruralbusinesssurvey

SEFARI
LEADING IDEAS
FOR BETTER LIVES

Rural Business Survey

- Infographic 4

Businesses by Turnover Change

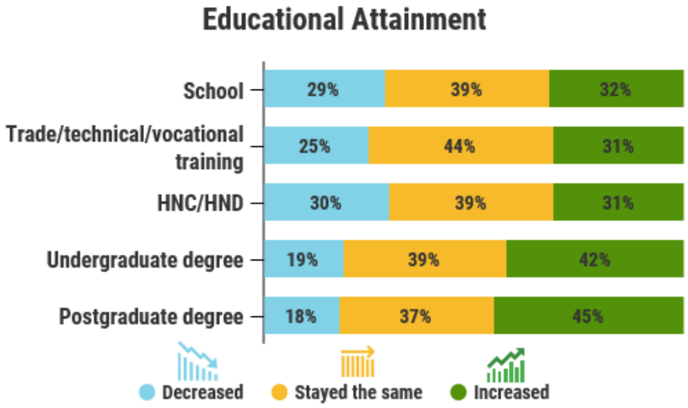
Rural Businesses in the North East & South of Scotland: 2017

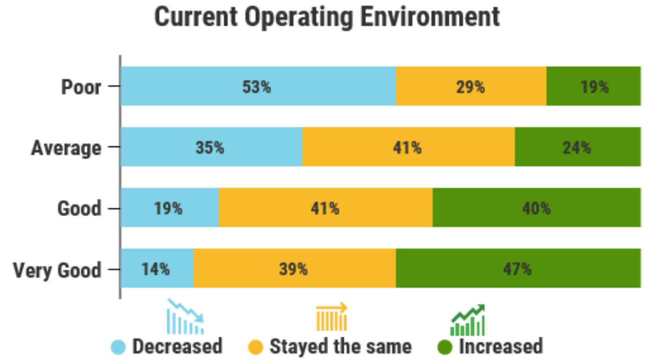
35% of the surveyed businesses had turnover growth, with 26% reporting a fall in turnover

Businesses with Increasing Turnover

This research was undertaken within the Scottish Government's Strategic Research Programme 2016-2021, Work package 2.4 Rural Industries

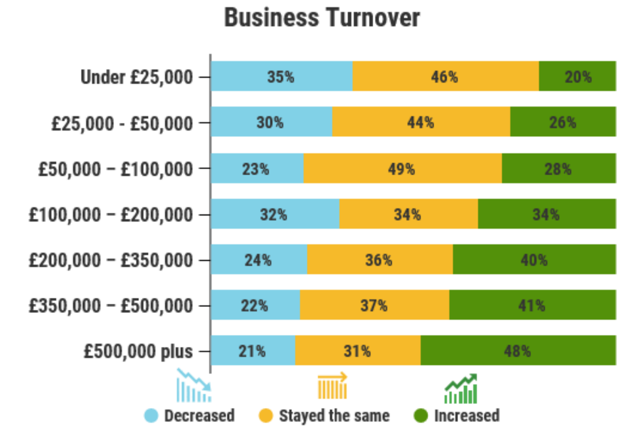
Business turnover was more likely to have grown in 2016-17 where owners had higher educational attainment

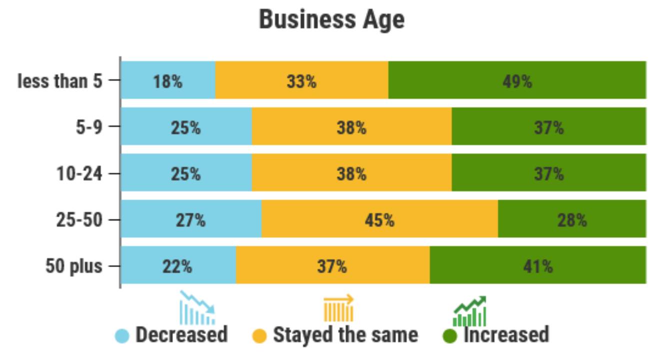




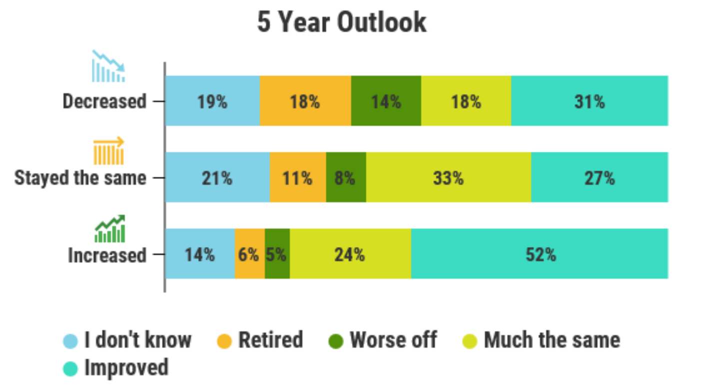
Some businesses still considered the 2017 operating environment as good despite falling turnover in 2016-17

Higher turnover businesses were more likely to have turnover growth in 2016-17

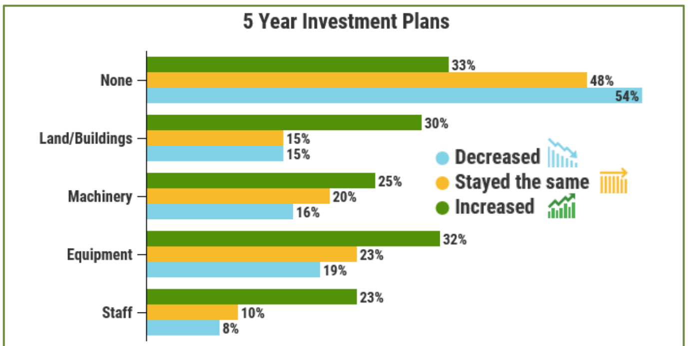




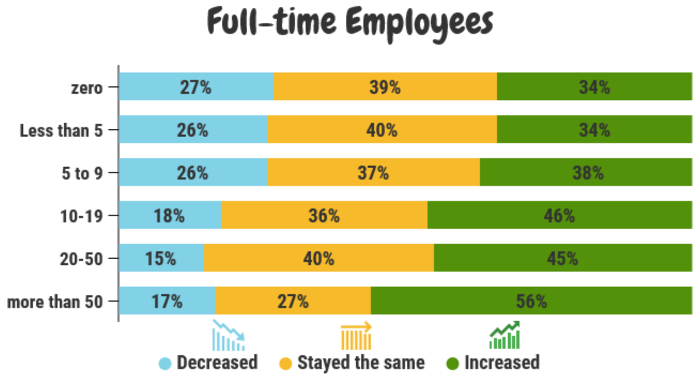
Younger businesses (under 5 years old) were least likely to have falling turnover & nearly 50% reported turnover growth in 2016/17



18% of businesses with falling turnover in 2016-17 thought they would be retired by 2022. Those with turnover growth were more optimistic about the future.

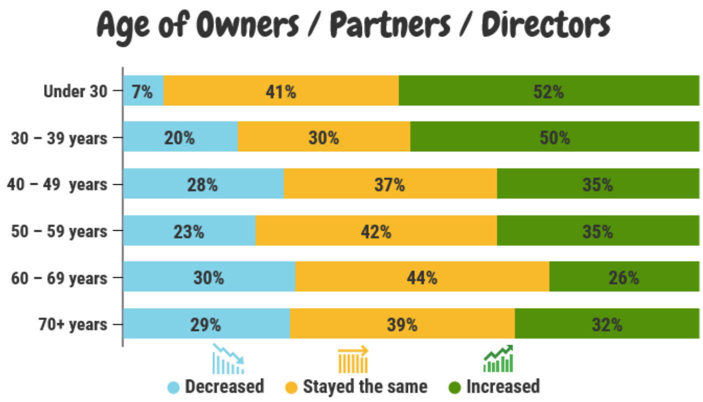


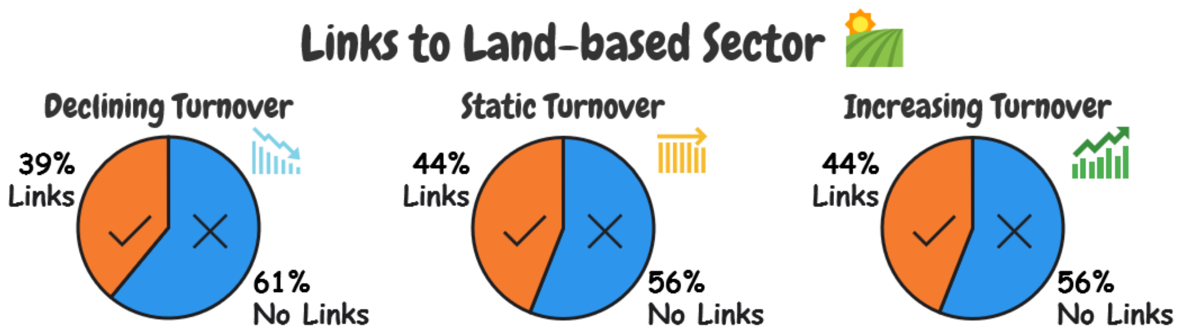
Recent business performance and 5 year investment plans were correlated. 66% of businesses with turnover growth in 2016/17 expected to invest by 2022



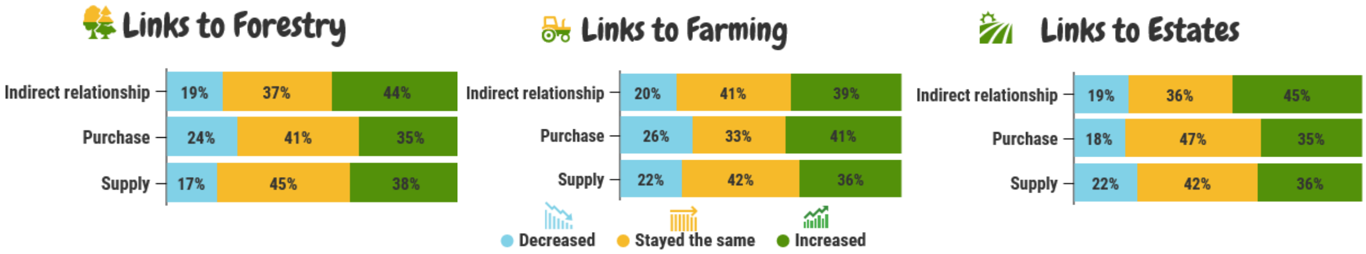
Large-scale employers were most likely to have seen 2016-17 turnover growth. 34% of businesses with no employees / less than 5 employees also had turnover growth. 25% of these minor employers had reduced turnovers, compared to about 16% in large-scale employers.

About half of the business owners under 40 years of age experienced turnover growth in 2016-17. These young entrepreneurs were also least likely to have seen their recent turnover fall. Declining turnover was most common in the over 60 year olds





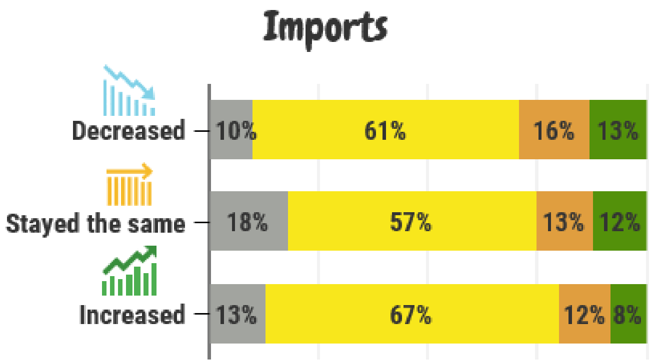
A slightly smaller proportion of businesses that experienced reduced turnover in 2016-17 had links to the land-based sector.

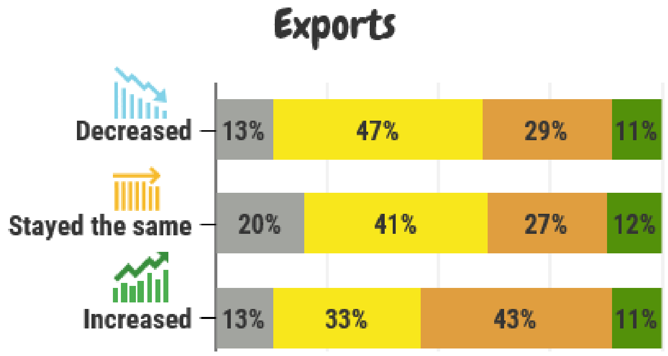


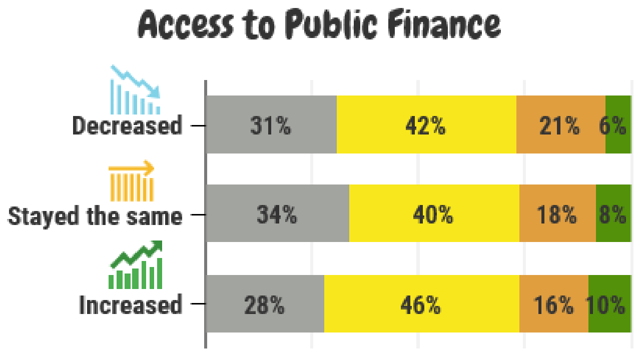
Amongst the 520 businesses linked to farming, 22% of those in the upstream supply sector saw turnovers fall in 2016-17, with 36% having turnover growth. 41% of those downstream businesses buying from the farming sector also had turnover growth in 2016-17. Only 17% of those upstream businesses supplying the forestry sector saw turnovers fall in 2016-17 with 38% having growth.

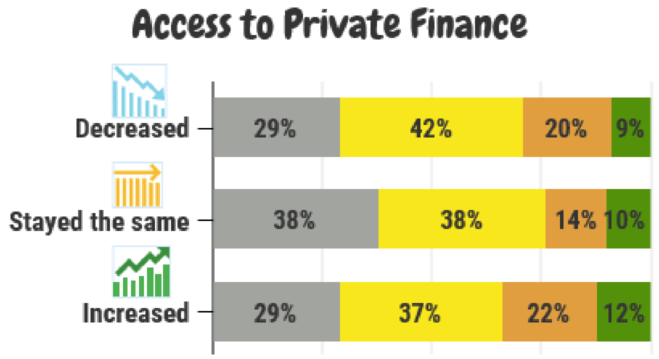
BREXIT Challenges & Opportunities

I don't know · Challenge · Opportunity · Both

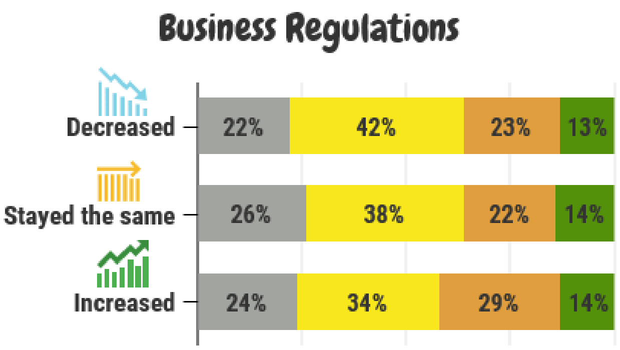


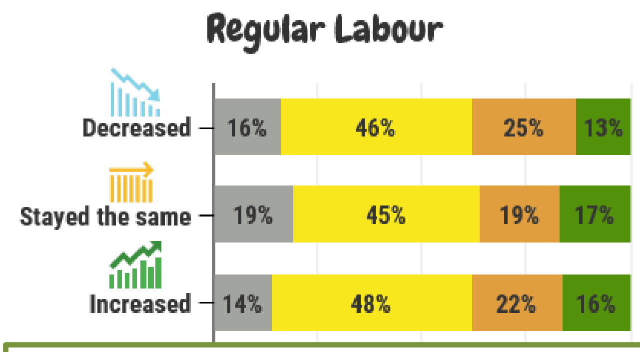


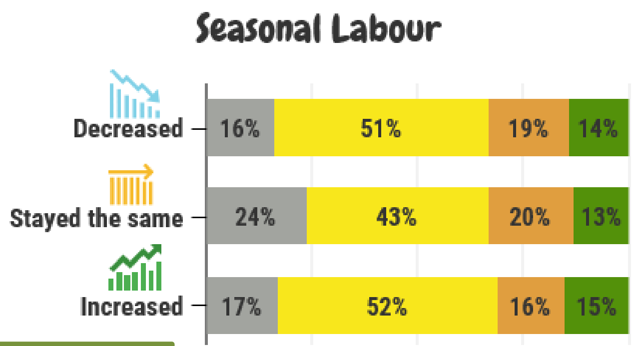




Exporting businesses with improved turnover in 2016-17 were much more likely to see post-Brexit opportunities in the export market (43% compared to only about 28% for those with static / reduced turnover). Importers across the board saw Brexit as posing a challenge. There was considerable uncertainty regarding post-Brexit access to finance. Those with improved 2016-17 turnovers were slightly more likely to consider post-Brexit access to labour challenging. 29% of improved turnover businesses saw Brexit as an opportunity to reduce business red tape.







For further details please contact:
Steven Thomson:
☎: +44(0)131 535 4192; 🖮: steven.thomson@sruc.ac.uk
Jane Atterton:
☎: +44(0)131 535 4256; 🖮: jane.atterton@sruc.ac.uk

Full report from: www.sruc.ac.uk/ruralbusinesssurvey

SEFARI
LEADING IDEAS FOR BETTER LIVES

Rural Business Survey

- Infographic 5

Brexit & Business

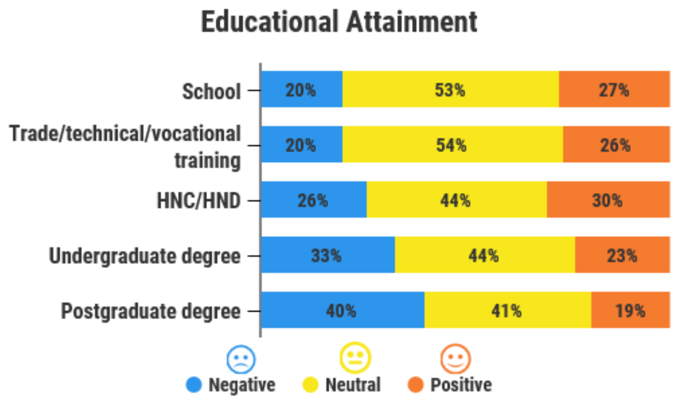
Rural Businesses in the North East & South of Scotland: 2017

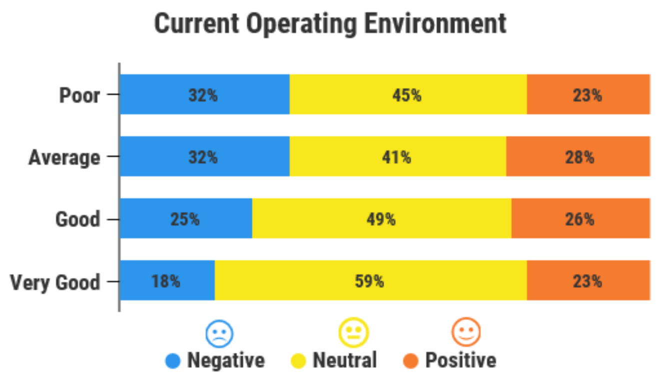
1/4 of surveyed businesses were positive about Brexit, with 1/4 negative

Businesses Optimistic about Brexit

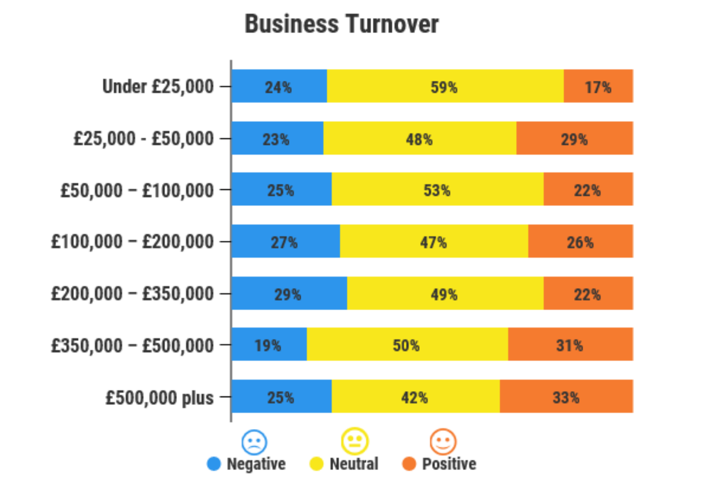
This research was undertaken within the Scottish Government's Strategic Research Programme 2016-2021, Work package 2.4 Rural Industries

Owners, partners and directors with higher educational attainment were much more negative about Brexit

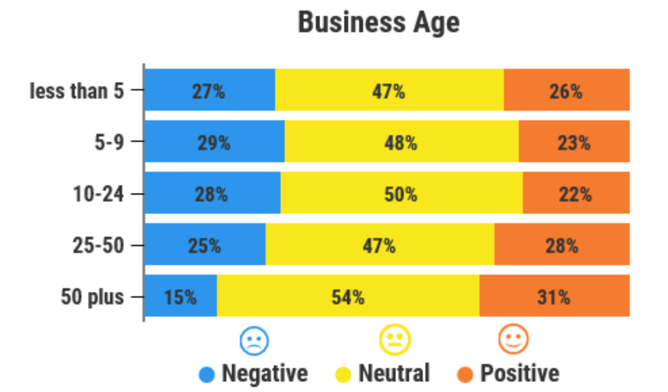




Those with good business performance in 2017 were less likely to be negative about Brexit

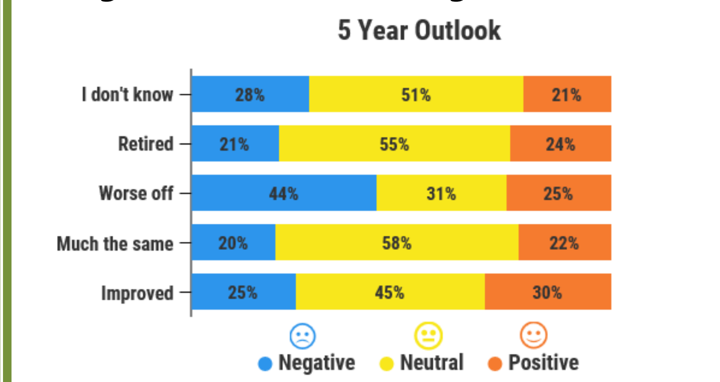


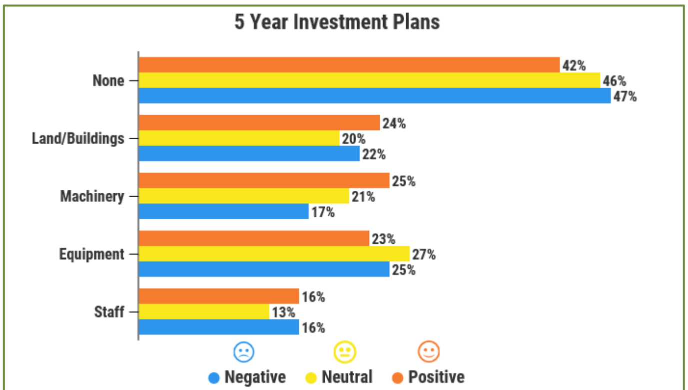
Businesses with larger turnovers were more optimistic about Brexit



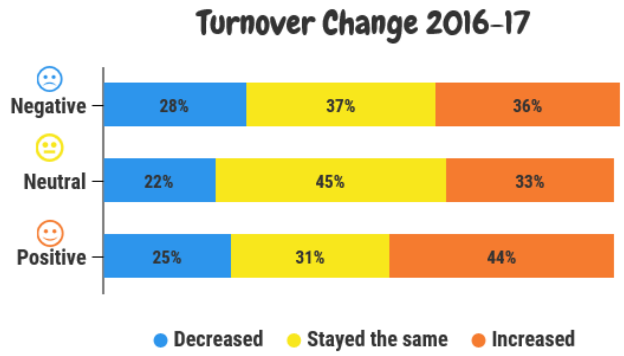
The longest established businesses tended to have greatest Brexit optimism

Businesses with poor 5-year outlooks were the most negative (44%) about Brexit. 30% of those with positive outlooks thought Brexit would be good for them



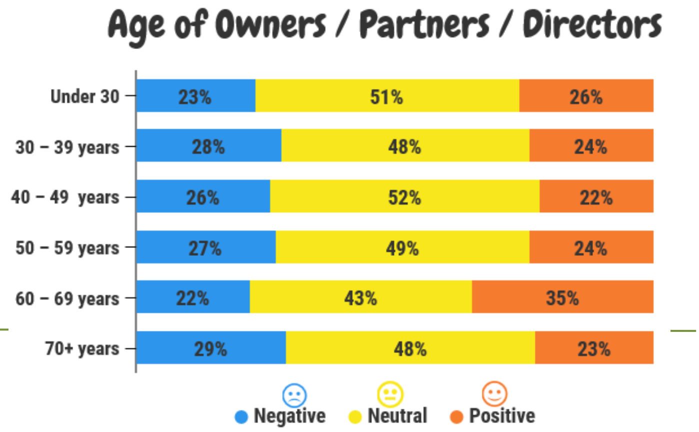


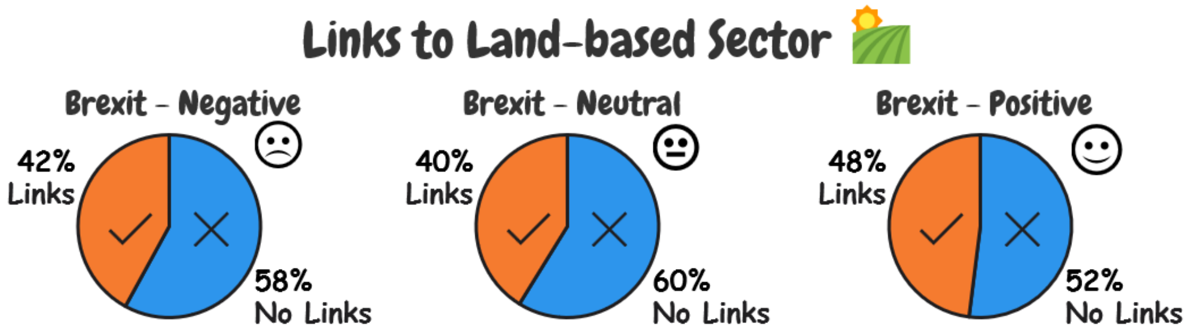
Businesses positive about Brexit were most likely to say they would invest in their business by 2022, particularly in land & buildings and machinery



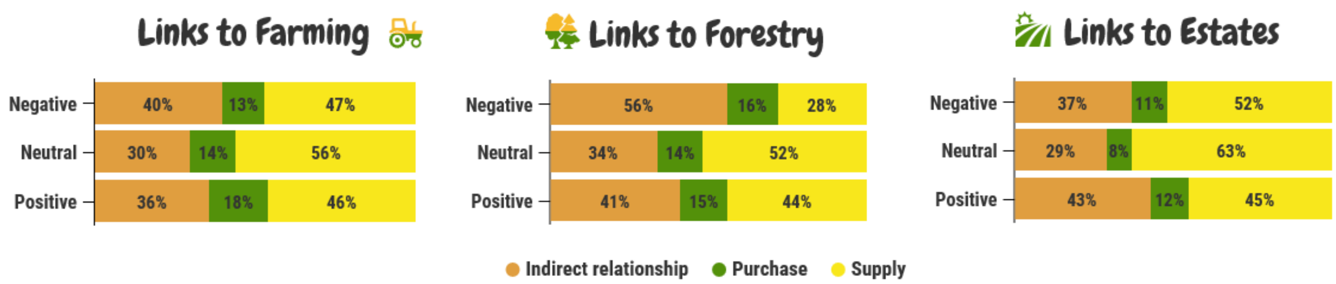
Businesses that were positive about post-Brexit opportunities were more likely to have had an increase in their turnover between 2016 and 2017. Those neutral / unsure of Brexit impacts were most likely to have static turnover.

The 60-69 year old cohort of business owners / partners and directors (n=245) were most positive (over 1/3 of them) about Brexit. For most other age groups half the respondents were neutral / unsure of the consequences of Brexit





Businesses that were optimistic about post-Brexit opportunities were most likely to have links to the land based sector. Of the 371 businesses that were positive about Brexit, 48% relied on the land based sector to some extent.

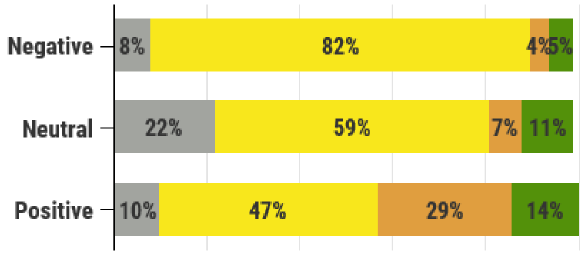


The types of relationships with the land-based sector were largely unrelated to Brexit perceptions. Generally there was a higher proportion of upstream supply businesses in the cohort that were neutral or unsure about Brexit

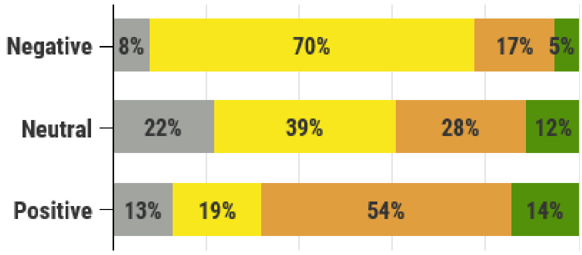
BREXIT Challenges & Opportunities

● I don't know ● Challenge ● Opportunity ● Both

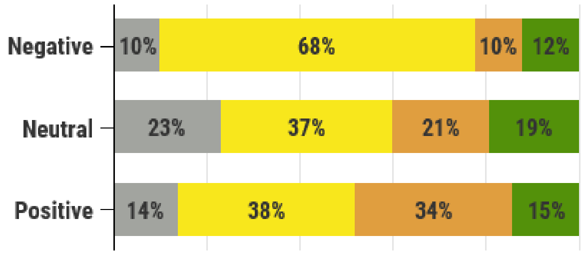
Imports



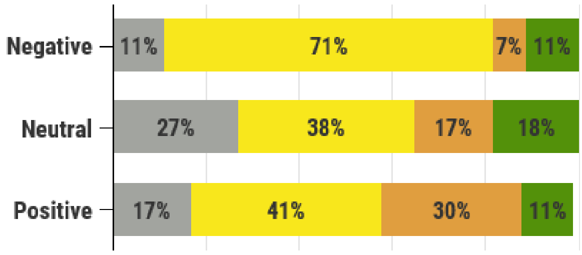
Exports



Regular Labour

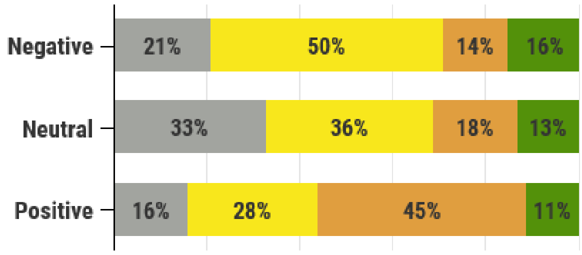


Seasonal Labour

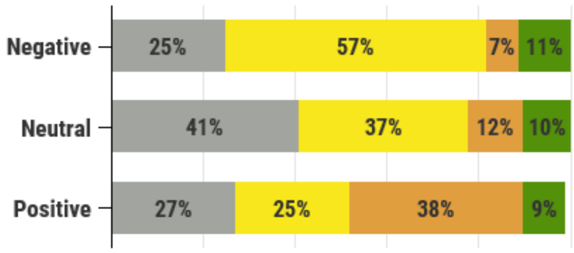


Those that thought Brexit in its entirety would bring challenges to their business generally saw very few opportunities for them, with reducing business regulations the thing that they were most positive about (30% saw some opportunity). Those positive about Brexit still thought importing would be challenging. Those exporting thought there would be greater opportunities under Brexit, as there would for reducing red tape. Even for those Brexit optimists there was uncertainty about access to both public and private finance.

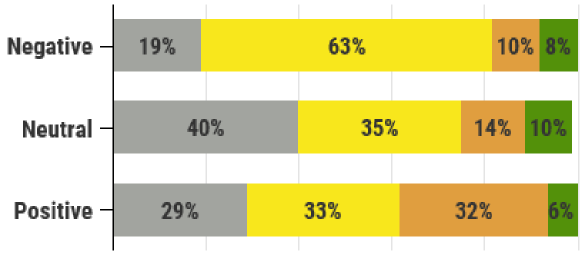
Business Regulations



Access to Private Finance



Access to Public Finance



For further details please contact:
Steven Thomson:
☎: +44(0)131 535 4192; 🖮: steven.thomson@sruc.ac.uk
Jane Atterton:
☎: +44(0)131 535 4256; 🖮: jane.atterton@sruc.ac.uk

Full report from: www.sruc.ac.uk/ruralbusinesssurvey

SEFARI
LEADING IDEAS FOR BETTER LIVES

For further details please contact:

Steven Thomson

☎: +44(0)131 535 4192

🖮: steven.thomson@sruc.ac.uk

or

Jane Atterton

☎: +44(0)131 535 4256

🖮: jane.atterton@sruc.ac.uk

Report and infographics available from:

www.sruc.ac.uk/ruralbusinesssurvey

This research was undertaken within the Scottish Government's Strategic Research Programme 2016-2021, Theme 2, Work package 2.4 Rural Industries with support from Scottish Enterprise and Scottish Land & Estates.