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Regional Skills Assessments (RSAs)
First launched in 2014, the RSA’s purpose is to provide a robust evidence base to support partners in strategic skills investment planning. They have evolved over time based on an independent review carried out in 2015 and feedback from partners.

To ensure an inclusive approach to their development, dissemination and utilisation, RSAs are produced by Skills Development Scotland (SDS) in partnership with Highlands and Islands Enterprise, Scottish Enterprise, Scottish Government, the Scottish Funding Council (SFC), the Scottish Local Authorities Economic Development Group and the South of Scotland Economic Partnership.

RSAs include the use of published data sets. Inevitably, when using published data there is a time lag but the data contained is the most up to date available at the time of writing. The section on the Supply of People in the region is an exception to this rule. Whilst 2018 estimates exist, we have used data for 2016 for consistency with the 2016 based population projections which are the latest available.

RSAs also include forecast data that has been commissioned through Oxford Economics. A number of caveats need to be applied when using forecast data. The Technical Note¹ provides full detail on this but broadly it should be noted that forecasts are based on what we know now and include past and present trends projected into the future. Their value is in identifying likely directions of travel rather than predicting exact figures. The more disaggregated they become, especially at smaller geographical units, the less reliable they are likely to be. Standard occupational classifications (SOC) and standard industrial classifications (SIC) are used to define occupations and industries. ONS has useful SIC² and SOC³ hierarchy tools that can be used to understand the classifications in more detail.

In addition, we provide analysis by Key Sector. Key Sectors are central to our Skills Investment Planning approach. Each Key Sector has a tailored Skills Investment Plan (SIP) which gives a picture of the economic and labour market situation, trends in skills and qualification supply and employers’ perspectives on the big skills issues affecting sector growth. Regional SIPs have also been developed. SIPs and RSIPs are available on the SDS website⁴.

This year’s RSA is in three parts:
1. This report outlining Demand for Skills, Supply of People; and Skills Mismatches;
2. An infographic detailing key data for the area; and
3. A new interactive RSA Data Matrix⁵ that was launched in August 2019 that provides more detailed data.

Finally, in the sections which follow, the numbers and figures in the body of the text are rounded for ease of reference and readability and therefore may differ slightly from:
• The Oxford Economics data in the RSA Data Matrix; and
• The accompanying charts in the report which are also based on the Oxford Economics data.

This RSA report is for the Highlands and Islands which covers the Argyll an Bute, Na h-Eileanan Siar, Highland, Moray, Orkney Islands and Shetland Islands local authorities.

¹ https://www.skillsdevelopmentscotland.co.uk/what-we-do/skills-planning/regional-skills-assessments/
⁴ SDS, Skills Investment Plans. http://www.skillsdevelopmentscotland.co.uk/what-we-do/skills-planning/skills-investment-plans/
⁵ https://www.skillsdevelopmentscotland.co.uk/what-we-do/skills-planning/regional-skills-assessments/
1 Introduction
Introduction
We live in a world that is complex and is constantly evolving. Scotland’s businesses and people need the skills, knowledge and capabilities, not just to cope with this change but to thrive in it and influence it.

Scotland’s Economy
The latest ‘State of the Economy’ reported that Scotland’s economy continued its recent pattern of strong performance at the start of 2019 with the unemployment rate falling to record lows and strong growth in exports and output. Output growth increased in the first quarter to 0.5 per cent but this was driven partly due to by temporary factors such as stockpiling and firms completing orders in anticipation of the original end March Brexit deadline. Short term outlooks for the economy will be dominated by Brexit uncertainty with the likelihood of subdued growth and the potential for more exposure to downturns in international demand and growth.

Labour productivity grew by 0.5 per cent in Q4 2018 and by 3.8 per cent in 2018 as a whole – its fastest pace of growth since 2010. Whilst positive, Scotland’s ranking among Organisation for Economic Co-operation and Development (OECD) countries is 16th of 37 countries, placing it in the second quartile. This ranking of 16th place has been unchanged since 2007. Scottish Government has the aspiration of improving Scotland’s productivity to match the performance of the top quartile of OECD countries.

Boosting productivity is vital for our long-term prosperity

Scotland’s People
Scotland’s population has grown and is projected to grow in future. National Records of Scotland (NRS) confirms that Scotland’s population in 2018 was 5,438,100 and is expected to grow to 5.58 million in 2026 and to 5.69 million by 2041. This estimate for growth is based on a continuation of EU migration at pre-Brexit levels which is not guaranteed.

Despite this past and projected growth, Scotland is facing an ageing demographic structure. Based on the population in 2016, just under one in five people (18 per cent) were aged 65 and over but by 2041, one in four people (25 per cent) are projected to be in this age group.

If we examine dependency ratios for Scotland’s population this shows a growing dependency ratio at Scotland level and indeed some areas – particularly some of Scotland’s rural areas – having much higher rates of dependency than the national average. At Scotland level, the dependency ratio will increase from 55 per cent in 2016 to almost 70 per cent in 2041. Put simply, for every 100 people of working age there will be 70 people dependent by 2041.

This suggests that the supply of labour might contract over the longer term if projections are realised. This points to a tighter labour market and greater competition for skilled labour in the future. Uncertainty regarding the implications of Brexit also remain, and any decisions taken on the free movement of people could exacerbate this further.

A tight labour market will result in more competition for skilled labour – Brexit could exacerbate this
Although we are seeing record levels in relation to high employment and low unemployment and relative economic prosperity since the recession, not everyone is benefitting equally in this prosperity:

- The gender pay gap for women working full-time in Scotland was 5.7 per cent in 2018.\(^{12}\)
- The unemployment rate was 4.2 per cent for working age people in Scotland, but this increases to 9.9 per cent for 16-24 year olds and to 10.8 per cent for males aged 16-24.\(^{13}\)
- The employment rate for people aged 16-64 was 74.5 per cent, but 57.4 per cent for people from an ethnic minority and 45.9 per cent for disabled people.\(^{14}\)

There are disparities in regional performance across Scotland. Based on an assessment of employment growth, productivity, earnings and unemployment, recovery since the recession has been stronger in Scotland’s urban areas and weaker in rural areas.

Since the recession we have seen a rise in ‘nonstandard’ jobs (such as part time and temporary employment), low wage growth and continued ‘in work’ poverty:

- Self-employment has risen by 22 per cent, compared to one per cent for full-time employment since the recession.\(^{15}\)
- Median weekly earnings (gross) grew by 19 per cent in the five years leading up to the financial crash in 2008. A slower rate of 11 per cent has occurred over the past five years.\(^{16}\)
- More than half a million (550,000) people in Scotland were living in relative poverty (after housing costs) in a household where at least one adult was in paid employment.\(^{17}\)

Both people and place are considerations when working towards a more inclusive labour market.

**Scotland’s Response to the Climate Emergency**

In April 2019, Scotland’s First Minister declared a climate change emergency with targets being set to reduce greenhouse gas emissions to net-zero by 2045. In May 2019, Scotland’s Climate Change Secretary set out Scotland’s response to the climate change emergency including action such as:

- A change in approach to airport departure tax;
- Funding to strengthen the rail freight industry and reduce the amount of freight that travels by road; and
- A new farmer-led initiative to drive low-carbon, environmentally sustainable farming practices.

The Cabinet Secretary for Environment, Climate Change and Land Reform confirmed that Scottish Government will be “placing climate change at the heart of everything we do”\(^{18}\) and this is at the core of the recently published Programme for Government.

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\(^{13}\) Annual Population Survey (April 2018-March 2019)

\(^{14}\) Annual Population Survey (April 2018-March 2019), EA core disabled has been used for the employment rate of disabled people.


All parts of Government will be expected to play a role in achieving these ambitious targets and SDS is to develop a Climate Emergency Skills Action Plan, as outlined in the Programme for Government. The development of appropriate skills will have a significant part to play in enabling this transition to a low carbon economy.

**Our growth needs to be sustainable**

**Scotland’s Resilience**
The world of work is constantly changing and the rate of change is rapid. Technological and societal disruptions are occurring at an increasing pace. Whilst we cannot predict the future, we can prepare for a future that is increasingly unpredictable. SDS has developed a Skills 4.0 model that focuses on developing ‘meta-skills’ to equip people with skills in resilience to thrive in a complex and ever-changing world (see **Figure 1**).

We need skills for resilience to thrive in a complex and ever-changing world

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**Figure 1:**

**Skills 4.0**

https://www.skillsdevelopmentscotland.co.uk/what-we-do/skills-planning/skills4-0
**Issues and Challenges**
A fit for purpose, skilled workforce will be essential to address the challenges facing Scotland (see **Figure 2**).

The development of skills that are fit for Scotland now and in the future is essential to achieving a high performing, inclusive and sustainable labour market. To meet these challenges, a step change in how we align skills provision to meet labour market demand is planned.

**Figure 2:**
**Drivers for change**

<table>
<thead>
<tr>
<th>Scotland’s Economy</th>
<th>Scotland’s People</th>
<th>Scotland’s Climate Change Emergency</th>
<th>Scotland’s Resilience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boosting productivity is vital for our long-term prosperity</td>
<td>A tight labour market</td>
<td>Our growth needs to be sustainable</td>
<td>We need skills for resilience to thrive in a complex and ever-changing world</td>
</tr>
</tbody>
</table>

**Scotland’s Skills Issues**

<p>| | |</p>
<table>
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<tbody>
<tr>
<td>We need innovative workplaces and skills to boost productivity with employers and employees as active participants in the skills system</td>
<td>We need to maximise Scotland’s indigenous talent and attract new talent to fill jobs in future. We need to enable all of Scotland’s people to share in the nation’s prosperity</td>
</tr>
<tr>
<td>We need to develop fit for purpose skills to enable Scotland to achieve its ambitious target for greenhouse gas emissions</td>
<td>We need to develop sector specific skills for the economy and skills for resilience – ‘meta skills’</td>
</tr>
</tbody>
</table>

**To support this we will need:**

Greater flexibility and responsiveness in skills provision to better align with the needs of employers and the Scottish economy

Investment in upskilling and reskilling throughout individual’s careers to respond to a rapidly changing environment

More personalised, relevant and flexible work-based pathways

*Source: Skills Development Scotland*
Scotland’s Skills Alignment Ambition
Skills Alignment (one of the workstreams in the Scottish Government’s Future Skills Action Plan) is focused on improving the skills system in Scotland.

Its purpose is “to ensure that Scotland’s people and businesses are equipped with the right skills to succeed in the economy, not just now but in the future.” To achieve this end, a new joint planning process is in development to align the relevant functions of SDS and the SFC (see Figure 3).

To lead this process a Director of Skills Alignment has recently been appointed and three pilot projects have been established to test approaches in:
- Regions – Glasgow College region; and
- Sectors – Early Years and Child Care and Financial and Professional Services.

Having a robust evidence base is crucial if we are to ensure a fit for purpose skills system. SDS and partners are working to develop evidence on the key strategic issues and challenges for Scotland. This and the evidence contained in the RSAs will help inform Step 1 of this model – the Demand Assessment.

![Figure 3: Five-step Skills Alignment model]

Source: Skills Development Scotland
The Highlands and Islands Economy
The Highlands and Islands Economy

Current Economic Performance
Gross Value Added (GVA) is a measure of the value of goods and services produced in an area and is an indicator of the economy’s health.

GVA in the Highlands and Islands in 2019 was £11.4bn, eight per cent of Scotland’s output (£138.8bn).

This share of GVA ranks the Highlands and Islands as the fifth largest contributing RSA region to the Scottish economy.

In 2019, the highest value sectors in the Highlands and Islands were:
• Real Estate Activities, £1.5bn;
• Manufacturing, £1.5bn;
• Human Health and Social Work, £1.3bn; and
• Wholesale and Retail, £0.9bn.

Past Economic Performance
From 2009 to 2019 the Highlands and Islands economy, measured by GVA, grew by 0.6 per cent on average each year. This was a slower rate of growth than Scotland, which over the same period experienced 1.4 per cent growth on average each year.

Future Economic Performance
GVA in the Highlands and Islands is forecast to grow by 1.3 per cent on average each year from 2019 to 2029. Whilst this rate of growth would be below that of Scotland (1.7 per cent) and the UK (2.0 per cent), it would be more than double the average annual growth rate that the Highlands and Islands experienced from 2009 to 2019.

Economic growth across Scotland is expected to be relatively modest in the short term, as businesses show their reluctance to invest while operating under Brexit-related uncertainties. Slower GVA growth in Scotland is largely explained by its industrial mix, and specifically, the most dynamic sectors such as high value business services and digital sectors being underrepresented in Scotland compared to the UK.

GVA growth in the Highlands and Islands is expected to be driven by the dominant Real Estate sector from 2019 to 2029, the GVA produced by the sector is expected to increase by £295.1m. The GVA output from the Real Estate sector is however inflated by owner-occupier imputed rent. Imputed rent captures, economically, the value of the service homeowners are providing to themselves by owning and living in their own home.\(^{19}\)

In addition to Real Estate, sectors forecast to have the greatest increases in GVA output are:
• Human Health and Social Work, £171.7m;
• Manufacturing, £166.6m;
• Wholesale and Retail Trade, £113.6m; and
• Professional, Scientific and Technical Activities, £87.1m.

When compared to GVA output in 2019, it can be seen that the sectors that had the greatest GVA output in 2019 are expected to have the greatest actual growth from 2019 to 2029.

Percentage change provides an alternative viewpoint for considering the future GVA contribution from sectors. This approach captures sectors that might make smaller GVA contributions but are forecast to grow at a faster rate. Information and Communication is expected to have the greatest rate of GVA growth from 2019 to 2029 in the Highlands and Islands. This was one of the smallest sectors in 2019 (in economic terms) but it is forecast to have an average annual growth rate of 2.4 per cent. The larger Professional, Scientific and Technical Activities sector is also expected to have a fast rate of growth from 2019, averaging 2.3 per cent each year up to 2029.

Fiscal policy is likely to remain tight over the forecast period and, as a result, will weigh on the economic growth prospects for the Public Sector. Public Administration and Defence Activities and Education are both expected to contract each year from 2019 to 2029 in the Highlands and Islands. The forecast average annual rates of contraction are -0.7 per cent and -0.1 per cent respectively. However, the Human Health and Social Work sector is forecast to have GVA growth, growing by 1.2 per cent per year over the forecast period (see Figure 4). This will be as a result of increased demand for these services due to changes in the region’s population structure.

Figure 4
Forecast average annual GVA change by Industry (%) (2019 - 2029), Highlands and Islands

Source: Oxford Economics
The key sectors contributing most to GVA growth in the Highlands and Islands from 2019 to 2029 are expected to be Health and Social Care, Food and Drink, Construction and Energy (see Figure 5). These sectors are expected to have a higher overall contribution to growth as they have a relatively large presence in the regional economy already.

**Figure 5**  
Forecast absolute GVA growth by Key Sector (£m) (2019 - 2029), Highlands and Islands

- Health and social care: £171.7
- Food and drink: £118.3
- Construction: £105.5
- Energy: £105.4
- Tourism: £95.7
- Financial and business services: £94.9
- Engineering: £71.3
- Digital: £47.4
- Creative industries: £44.8
- Life sciences: £43.6
- Chemical sciences: £29.2
- Child-day care activities: £15.1

Source: Oxford Economics
Looking instead at percentage change for the key sectors from 2019 to 2029, Child-Day Care Activities is forecast to be the fastest growing. It is forecast to grow 3.7 per cent each year on average. This strong outlook reflects the Scottish Government’s childcare policy to double the number of hours of funded childcare by 2020. However, its small size in absolute terms means that its impact on overall growth is limited.

Relatively fast growth is also forecast in the Digital, Financial and Business Services and Creative Industries sectors. However, like Child-Day Care Activities their overall contribution will be lower due to their smaller size relative to the much larger, dominant key sectors in the region currently (see Figure 6).

**Figure 6**
Forecast average annual GVA growth by Key Sector (%) (2019 - 2029), Highlands and Islands

Source: Oxford Economics
Productivity

Productivity is the measure of goods and services produced per unit of labour input. Productivity has been calculated by dividing total regional GVA by total regional employment (measured by jobs).

The productivity of a region is influenced by the industrial mix that is present. Within the same industries productivity may differ from business to business.

Office for National Statistics (ONS) analysis tells us that:

GVA per worker [productivity] is generally lower in the accommodation and food service activities, administrative and support services activities, and wholesale and retail trade industries than in most other industries. The production sector, by contrast, has relatively high productivity.

Among the service sectors, the professional, scientific and technical activities, financial and insurance activities, and the information and communication sector also tend to have relatively high-productivity. Therefore, a relatively high aggregate productivity in a region may sometimes be a reflection of a relatively large share of more productive industries in that location.

In 2019, productivity in the Highlands and Islands was £44,900. This was lower than the Scottish average of £50,400 (see Figure 7).

From 2009 to 2019, productivity in the Highlands and Islands grew by 0.7 per cent on average each year. This rate of growth was slower than what occurred across Scotland. Average annual productivity growth across Scotland was 1.3 per cent over the period.

The equivalent for the UK was 0.8 per cent.

Productivity in the Highlands and Islands is forecast to grow at an average of 1.3 per cent per year from 2019 to 2029. This is below the growth rate expected for Scotland as a whole (1.4 per cent), and below that of the UK (1.5 per cent).

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Employment in the Highlands and Islands
Employment in the Highlands and Islands

Current Employment

Total employment in the Highlands and Islands (measured by jobs) was estimated to be 254,100 in 2019, nine per cent of Scottish employment.

The employment rate for the working age population (aged 16-64) in the region was 78.4 per cent, which was above the rate for Scotland (74.5 per cent). Compared to Scotland, the region had above average employment rates for:

- Young people (aged 16-24), 66.2 per cent compared to 58.3 per cent;
- Males, 80.8 per cent compared to 78.1 per cent;
- Females, 76.0 per cent compared to 71.1 per cent; and
- Disabled people, 50.5 per cent compared to 45.9 per cent.

The employment rate for ethnic minorities was lower in the Highlands and Islands compared to Scotland, 51.2 per cent compared to 57.4 per cent.

The region’s overall employment rate means that approximately two in ten of the region’s working age population were unemployed (3.0 per cent) or economically inactive (19.2 per cent). Inactivity includes people who are studying, retired or looking after their family or home.

Across Scotland and within the region full-time jobs were most numerous, 162,200 jobs (64 per cent) were full-time in the Highlands and Islands in 2019. This was a lower percentage share compared to Scotland where 68 per cent of jobs were full-time. Within the region almost two thirds of full-time jobs (105,600; 65 per cent) were held by males, and the remaining one third (56,700; 35 per cent) of full-time jobs were held by females.

Part-time jobs accounted for a greater percentage share of employment in the region compared to Scotland, 36 per cent compared to 32 per cent. Overall there were 91,600 part-time jobs in the Highlands and Islands, females accounted for more than three quarters (69,900; 76 per cent). Whilst males accounted for 24 per cent, 21,700 jobs (see Figure 8).

Figure 8
Employment by gender and full-time/part-time (2019), Highlands and Islands

Source: Oxford Economics
In the Highlands and Islands, the largest employing sectors, and their regional share of employment, in 2019 were (see Figure 9):

- Human Health and Social Work, 16 per cent;
- Wholesale and Retail Trade, 13 per cent;
- Accommodation and Food Services, nine per cent; and
- Public Administration and Defence, also nine per cent.

Real Estate Activities, the sector that made the greatest GVA contribution in 2019 (irrespective of the imputed rent consideration) accounted for a small share of regional employment. The sector accounted for 2,900 jobs, a one per cent share.

**Figure 9**

Employment by Industry and share of total employment (2019), Highlands and Islands

Source: Oxford Economics
Large sectors are an important source of jobs, however regions also have sectoral strengths that make them unique. It means that smaller sectors can be more important than their size suggests as they are more concentrated in the region compared to the national average. In the Highlands and Islands, Agriculture, Forestry and Fishing was the greatest specialism with the percentage of employment in this sector about three times greater than the Scottish average. Other sectors that had above average concentrations in the Highlands and Islands were Water Supply, Sewerage and Waste Management (1.5 times more concentrated) and Public Administration and Defence (1.4 times more concentrated). The attraction of the Highlands and Islands as a destination for tourists is also likely to have contributed to the increased presence of the Accommodation and Food Services and Art, Entertainment and Recreation sectors in the region. These sectors were 1.3 and 1.2 times more concentrated in the region respectively.

Of the key sectors, Health and Social Care, as might be expected given the sectoral insight above, was the largest in the Highlands and Islands in 2019. The sector accounted for 40,200 jobs. Tourism was the second largest with a total of 28,000 jobs (see Figure 10).

![Figure 10](image-url)
Sectors tell us about the industries that people work in, and occupations provide insight on the type of jobs people do. In 2019, more than one-third of all occupations (36 per cent) in the Highlands and Islands were ‘higher level’, 37 per cent were ‘mid-level’ and 27 per cent were ‘lower level’. Compared to Scotland, the occupational structure of the Highlands and Islands had a greater percentage of the workforce in ‘mid-level’ occupations and fewer elsewhere. Scotland had a greater percentage in ‘higher level’ (45 per cent) and ‘lower-level’ (30 per cent) occupations but fewer in ‘mid-level’ (25 per cent) occupations.

A detailed look at the occupational structure shows that the largest occupations in the region in 2019 were (see Figure 11):

- Clerical and Services Elementary Occupations, ten per cent;
- Administrative Occupations, eight per cent; and
- Caring Personal Service Occupations, eight per cent.

![Figure 11: Employment by occupation and share of total employment (2019), Highlands and Islands](source: Oxford Economics)
Past Employment
Employment in the Highlands and Islands decreased by -1.4 per cent from 2009 to 2019. This was largely caused by contraction in prominent, large employing sectors including:
- Wholesale and Retail Trade, -2,900 jobs;
- Public Administration and Defence, -2,900 jobs; and
- Education, -1,900 jobs.

Whilst these sectors experienced job losses, other sectors grew. The greatest absolute growth occurred in the Arts, Entertainment and Recreation sector in the Highlands and Islands. Compared to 2009, there were 1,900 more jobs in the sector in 2019. Growth also occurred in Professional, Scientific and Technical Activities (1,500 jobs) and Human Health and Social Work (800 jobs).

Beyond the sectors, other shifts in the region’s labour market have occurred. Part-time employment increased by 4,000 jobs, whilst full-time employment declined by 7,600 jobs from 2009 to 2019. Male employment also declined by 6,600 jobs whilst female employment increased by 3,000 jobs.

Employment Forecast
The employment decline that has occurred in the Highlands and Islands in the past is not forecast to continue. From 2019 to 2029 marginal employment growth of 0.1 per cent is forecast in the region. This equates to very little employment change year to year, and 200 jobs in total over the forecast period. Compared to Scotland, this is a slower rate of growth. A three per cent increase in employment, or 0.3 per cent growth annually, over the forecast period is expected for Scotland. The growth rate for the UK is greater still, a five per cent increase, or 0.5 per cent annual change, is forecast.

The employment forecast for the local authorities within the Highlands and Islands shows a variable outlook. The Highland and Shetland Islands local authorities are forecast to have a net increase in the number of jobs over the forecast period. Both are expected to have an annual average increase of 0.1 per cent. Employment decline is forecast in Na h-Eileanan Siar (-0.1 per cent per year), Argyll and Bute (-0.1 per cent per year) and Moray (-0.2 per cent per year), the latter is forecast to have the greatest decline of all local authorities. Employment is not forecast to change in the Orkney Islands from 2019 to 2029.

Over the period to 2029, full-time employment is expected to increase in the Highlands and Islands with 1,500 more full-time jobs in 2029 compared to 2019. Both male and female full-time employment will increase, by 1,000 and 400 jobs respectively. Whilst part-time employment is expected to decline by 1,300 jobs. Female part-time employment is forecast to decline by 2,400 jobs, but some of this decline is expected to be offset by growth of 1,100 jobs in male part-time employment (see Figure 12).

Figure 12
Forecast employment change, by gender and full-time/part-time (2019 - 2029), Highlands and Islands

<table>
<thead>
<tr>
<th>Gender</th>
<th>Full-time</th>
<th>Part-time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>1,100</td>
<td>400</td>
</tr>
<tr>
<td>Female</td>
<td>1,000</td>
<td>-2,400</td>
</tr>
</tbody>
</table>

Source: Oxford Economics
Although employment is forecast to increase in the Highlands and Islands from 2019 to 2029, sectors will have varying performance. The greatest growth in jobs is forecast in Construction, with 1,500 more jobs expected in the sector by 2029 compared to 2019. Other sectors forecast to have growth in excess of 1,000 over the forecast period are Administration and Support Services (1,200 jobs) and Professional, Scientific and Technical Activities (1,100 jobs).

Job losses in the Highlands and Islands are also forecast in some sectors, notably in production sectors and the public sector. Manufacturing is the sector forecast to have the greatest number of job losses from 2019 to 2029. During the forecast period a decline of 2,400 jobs is anticipated. This reflects the general trend of more capital intensive and higher value-added activity in the sector, which requires less labour-intensive methods.

Employment is also forecast to fall overall in the Highlands and Islands’ public services sector24 with Public Administration and Defence forecast to contract by 1,900 jobs over the forecast period due to continued pressure on public finances. The Education sector is also expected to contract but by a lesser amount, 500 jobs. Human Health and Social Care is the only part of the public sector expected to grow, the sector is forecast to have 500 more jobs in 2029 compared to 2019 (see Figure 13).

24 Comprising Public administration and defence, Education, and Human health and social work.
The growth and contraction of employment by sector means that private services\textsuperscript{25} are expected to account for a larger share of jobs in the Highlands and Islands over the forecast period. The percentage is forecast to rise from 46 per cent in 2019 to 47 per cent in 2029. In 2019 the Construction sector accounted for eight per cent of employment and this share is expected to be maintained in 2029. The share that the public services, primary industries and Manufacturing sectors each account for is expected to decline by one percentage point over the forecast period to 31 per cent, seven per cent and six per cent in 2029 respectively.

Looking ahead, the outlook for the key sectors largely echoes the broad sector trends summarised above – with Construction forecast to have the greatest growth (1,400 jobs). Tourism, the second largest key sector in 2019 is forecast to have growth second only to Construction, growing by 1,100 jobs from 2019 to 2029 in the Highlands and Islands.

A number of other key sectors will experience growth over the forecast period, including:
- Financial and Business Services, 700 jobs;
- Child-Day Care Activities, 600 jobs;
- Health and Social Care, 500 jobs;
- Creative Industries, 100 jobs; and
- Digital, 100 jobs.

Food and Drink is the key sector forecast to have the greatest employment decline in the Highlands and Islands, with 800 fewer jobs in 2029 compared to 2019 expected (see Figure 14).

\textsuperscript{25} N.B. ‘private services’ comprise the following sectors: wholesale and retail trade; transportation and storage; accommodation and food services; information and communication; financial and insurance activities; real estate activities; profss., scientific and technical activities; administrative and support services; arts, entertainment and recreation, and other service activities.
By occupation, Skilled Construction and Building Trades Occupations are forecast to experience the greatest increase in employment in the Highlands and Islands from 2019 to 2029 (of 600 workers). Growth in these occupations is closely related to the forecast rise in employment in the Construction sector. An additional 500 workers are expected to be required in Caring Personal Service Occupations, driven by expansion in the Health and Social Care sector. Other occupations anticipated to have an increase that is relatively large for the region are:

- Corporate Managers, 400 workers;
- Culture Media and Sports Occupations, 300 workers;
- Business and Public Service Professionals, 300 workers;
- Managers and Proprietors in Agriculture and Services, 300 workers; and
- Business and Public Service Associate Professionals, 300 workers.

Occupations likely to contract over the next decade tend to be those most closely associated with Manufacturing and Public Administration and Defence, reflecting the declining numbers of jobs in each of these sectors. Examples include Skilled Metal and Electrical Trades (-700 people) and Administrative Occupations (-600 people) (see Figure 15).

**Figure 15**
Forecast employment change by occupation (2019 - 2029), Highlands and Islands

Source: Oxford Economics
Total Labour Market Requirement in the Highlands and Islands
Total Labour Market Requirement in the Highlands and Islands

Total Requirement

In the previous sections we presented what has happened, is happening and what is forecast to happen in the Highlands and Islands economy and labour market. When looking at the labour market, we have until this section focused on how many jobs there will be in any given year and how that compares to another year. However, the labour market is more complex than this.

In this section, we provide greater insight on job openings. To do this we consider the jobs that will be created or lost due to expansion or contraction in the labour market and the jobs that will arise due to people leaving the labour market. People leave the labour market and jobs become vacant for a variety of reasons, retirement being the most common cause. This is called the replacement requirement.

In the Highlands and Islands, 91,500 job openings are forecast from 2019 to 2029. In the region, and as shown in the previous chapter, 200 jobs are forecast to be created in the Highlands and Islands from 2019 to 2029 due to expansion in the labour market.

A further 91,300 job openings will arise due to the replacement requirement.

These opportunities are expected to be concentrated in a small number of sectors, with four sectors in the Highlands and Islands forecast to account for more than half (52 per cent) of the requirement. These are (see Figure 16):

• Wholesale and Retail Trade, 16,000 jobs;
• Accommodation and Food Services, 11,700 jobs;
• Agriculture, Forestry and Fishing, 10,600 jobs; and
• Human Health and Social Work, 9,100 jobs.

These sectors were the largest in the region in 2019 with the exception of Agriculture, Forestry and Fishing. This sector was however a clear specialism within the region accounting for almost three times the number of jobs compared to Scottish average.

Job openings can be full or part time and the job openings forecast could be higher or lower in reality. Please note that throughout this section totals may not equal the sum of constituent parts due to rounding.
**Figure 16**

Forecast net requirement by Industry (2019 - 2029), Highlands and Islands

Source: Oxford Economics

Please note that due to rounding, data in Figure 16 may differ to the narrative on page 26.
To fill these jobs, and others, there is a forecast requirement for 76,200 people in the region from 2019 to 2029. The difference between the people and job requirements is due to some people having more than one job, for example someone who has two part-time jobs. Although the number of jobs is forecast to increase in the Highlands and Islands over the forecast period, the number of people working is expected to decline by 100. The replacement requirement of 76,300 people however creates a need for labour.

By occupation, the greatest number of people are forecast to be required in (see Figure 17):
- Clerical and Service Elementary Occupations, 12,400 people;
- Sales Occupations, 8,200 people;
- Teaching and Research Professions, 6,200; and
- Trades, Plant and Storage Elementary Occupations, 5,200 people.

Figure 17
Forecast net requirement by occupation (2019 - 2029), Highlands and Islands

Source: Oxford Economics
5 Supply of People in the Highlands and Islands
Supply of People in the Highlands and Islands

Projection of Total Population

NRS produce population estimates for Scotland biennially. Their 2016 based forecasts cover the period up to 2041, so in this chapter we present a longer forecast period than the previous chapters.

In 2016, the population of the Highlands and Islands was 489,900, nine per cent of Scotland’s population.

By age, the largest group in the Highlands and Islands were people of working age (16-64 years). There were 300,800 people in this age group, 61 per cent of the region’s population. Whilst it was the largest group, people of working age across Scotland accounted for a larger share of the population overall (65 per cent).

The number of people of non-working age compared to those of working age has implications for the region’s dependency ratio. The dependency ratio is important when considering the demand for public services, for example schools and healthcare services, and the funds available to provide these services, the income from taxes and National Insurance. In 2016, the dependency ratio in the Highlands and Islands was 63 per cent. This means that for every 100 people of working age, there were 63 people of non-working age. Across Scotland it was 55 per cent.

Of those who were in age groups thought to be dependent, the oldest age group was the largest. There were 109,200 people aged 65 or older who accounted for 22 per cent of the region’s population. Across Scotland those aged 65 or older accounted for 18 per cent of the population, which suggests an overall older population the Highlands and Islands. The region accounts for 11 per cent of Scotland’s population aged 65 or over compared to nine per cent for all ages.

Children and young people (0-15 years) accounted for the remaining 17 per cent, there were 81,200 individuals in this age group (see Figure 18).

Figure 18

Population by age (2016), Highlands and Islands and Scotland

Source: National Records of Scotland
Brexit has placed an increased focus on the nationality of people living and working in the UK. It has the potential to discourage non-UK EU migrants from coming to the UK to live and work, either through choice or eligibility. Migration is important to Scotland as without it the population would be declining. In the Highlands and Islands, there were 15,000 people who were born in the EU (non-UK) and a further 8,000 from the rest of the world in 2018. The EU (non-UK) born population accounted for three per cent of the region’s population, and two per cent of the region’s population were born elsewhere in the world. The percentage of the region’s population born in the EU or rest of the world was lower than Scotland. Across Scotland four per cent of the population were born in the EU, and four per cent were born in other countries outside of the EU.

From 2016 to 2041, the population of the Highlands and Islands is projected to decline by approximately 2,400 people. Equating to a 0.5 per cent decrease, this contrasts with the national projected growth rate of five per cent over the same period.

The age structure of the region’s population is projected to change over the coming decades, with the percentage of the population who are of working age expected to fall from 61 per cent in 2016 to 54 per cent in 2041; a projected decrease of 37,300 people.

The largest increases are expected in the 65 or older age groups, with an 83 per cent increase projected for those aged 75+ (an additional 38,900 people) and seven per cent among those aged 65-74 (an additional 4,500 people). There is a forecast decline in all other age groups over the period, with the most substantial decline of 16 per cent projected for those aged 16-29, a projected fall of 12,000 people.

These shifts suggest that the region could have a smaller and generally older population by 2041. This has implications for the region’s dependency ratio. Brexit may also affect the population structure and exacerbate any challenges. By 2041, the region’s dependency ratio is expected to increase to 85 per cent. Ranging across the region from 79 per cent in the Shetland Islands to 95 per cent in Argyll and Bute and Na h-Eileanan Siar. Across Scotland the dependency ratio is expected to rise to 70 per cent (see Figure 19).

Figure 19  
Dependency ratio (2016 and 2041)
6

Skills Shortages, Gaps and Challenges in the Highlands and Islands
Skills Shortages, Gaps and Challenges in the Highlands and Islands

The Employer Skills Survey (ESS) gathered information on the skills challenges that employers encountered when recruiting, and any challenges that they had within their existing workforces. It is the primary source for this insight as it has taken a consistent approach across sectors and regions. The survey covered:

- Recruitment and skill-shortage vacancies;
- Skills gaps in the existing workforce;
- Skills under-utilisation;
- Upskilling - the need for staff to acquire new skills or knowledge;
- Training and workforce development; and
- High Performance Working practices.

The insight presented here is from the 2017 ESS which covered Scotland, England, Wales and Northern Ireland. The next ESS will be published in 2020 and unlike previous years, Scotland’s results will be published by the Scottish Government. Future ESS results for England, Wales and Northern Ireland will still be available and will be published by the UK Government.

Skills Shortages

Skills shortages are challenges that arise when employers are recruiting but are unable to find applicants with the required skills. When a vacancy cannot be filled due to a shortage of skills it is a skill-shortage vacancy (SSV). SSVs impact on the workplace and workforce in a number of ways, including:

- Increasing the workload for other staff;
- Creating difficulties when trying to meet customer service objectives; and
- Increasing operating costs.

In 2018, skills shortages were estimated to have cost Scottish employers £361.3 million, roughly £17,000 per organisation.27

To understand the scale of the challenge that they present we can consider their incidence (how many employers are experiencing the challenge) and their density (how many vacancies are affected).

In 2017, the number of employers reporting at least one SSV in the Highlands and Islands was seven per cent, compared to six per cent for Scotland. This suggests a challenge that extends further across the region’s labour market compared to Scotland’s. The incidence of SSVs in the region was lower in 2015 (five per cent), whereas across Scotland the incidence of SSVs has remained the same (six per cent) from 2015 to 2017.

Density, which indicates how many vacancies were SSVs, was higher in the Highlands and Islands than Scotland in 2017 and 2015. In 2017, density in the region was 25 per cent, down from 26 per cent in 2015. Across Scotland, density was 24 per cent in 2015 and 2017. This suggests that employers in the region are facing difficulties across a number of roles, with greater challenges than employers across Scotland (see Figure 20).
Across Scotland, to overcome SSVs, the most common responses employers took were to:
- Increase their expenditure on advertising and recruitment;
- Use new recruitment methods; and
- Redefine existing jobs.

Skills are not the only reason employers can find it difficult to fill vacancies. Other factors like hours and location, particularly so in a rural region like the Highlands and Islands, can make it hard to fill vacancies. In the Highlands and Islands, 43 per cent of employers tried to recruit non-UK nationals to overcome hard to fill vacancies, compared to 41 per cent across Scotland. Of these employers and compared to employers across Scotland, a greater percentage in the Highlands and Islands sought to recruit EU nationals as a response to recruitment challenges (92 per cent, compared to 89 per cent). Changes to migration policy as a result of Brexit will affect all regions in Scotland, but the evidence suggests that the Highlands and Islands may be more adversely affected if the changes affect supply.

Most employers took action to overcome SSVs, however 11 per cent of Scottish employers in 2017 took no action.
**Skills Gaps**

Skills gaps arise when existing employees are not fully proficient as they do not have all the skills necessary for their role—these can be people, personal, practical and/or technical skills. Similar to skills shortages, we consider the incidence (how many employers have at least one person not fully proficient) and density (how many employees are not fully proficient). Skills gaps have similar impacts to SSVs and can slow down innovation in the workplace. Across Scotland, the most common causes of skills gaps were:

- Employees being new to their role, or training being incomplete;
- A lack of staff motivation; and
- An inability to recruit staff with the required skills, creating a need to upskill employees/recruits.

In 2017, the number of employers who reported a skills gap in at least one employee was 13 per cent in the Highlands and Islands, compared to 16 per cent for Scotland. Of the 13 regions, the Highlands and Islands had one of the lowest incidences of skills gaps. Since 2015, the incidence of skills gaps in the region has decreased. In 2015, 14 per cent of employers experienced a skills gaps—greater than the percentage across Scotland (13 per cent).

Overall, 6.1 per cent of the workforce in the Highlands and Islands had a skills gap in 2017. This was an increase from 5.1 per cent in 2015. This was above the Scottish rate of 5.0 per cent in 2017, which increased from 4.9 per cent in 2015. This, alongside the insight on incidence, suggests that whilst skills gaps are not as far reaching in the Highlands and Islands, there are employers that have a greater concentration of skills gaps in their workforce (see Figure 21).

Across Scotland employers responded to skills gaps by:

- Increasing their expenditure on training, expanding trainee programmes and/or increasing training activity;
- Implementing more staff supervision; and
- Implementing a mentoring or buddy scheme.

### Figure 21
**Skills Gaps (2015 and 2017), Highlands and Islands**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of employers with a Skills Gap</th>
<th>Percentage of the workforce with a Skills Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>14%</td>
<td>5.1%</td>
</tr>
<tr>
<td>2017</td>
<td>13%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Source: Employer Skills Survey
Most employers in the Highlands and Islands acted to overcome skills gaps, and 11 per cent sought to recruit non-UK nationals as a response, compared to 15 per cent across Scotland. Across Scotland, most employers (93 per cent) who sought to recruit non-UK nationals considered EU nationals equivalent data for the Highlands and Islands is not available.

Most employers took action to overcome SSVs, however 15 per cent of Scottish employers took no action in 2017.

**Skills Under-Utilisation**

Employees are under-utilised if they have skills and qualifications more advanced than what is needed for their role. Addressing skills under-utilisation is important. In 2012 the economic cost to the UK of skills under-utilisation was estimated to be between £12-25bn. If skills-utilisation was on a par with the levels observed in Germany or France, UK GDP would be £5-9bn higher. There are implications for individuals too, having their skills under-utilised can impact on their income, health and wellbeing.

Similar to SSVs and skills gaps we can understand the incidence (how many employers have under-utilised employees) and density of the challenge (how many employees are under-utilised).

The number of employers reporting skills under-utilisation in their workforce was lower in the Highlands and Islands in 2017 compared to Scotland, 34 per cent and 35 per cent respectively. Whilst lower, this still suggests that more than one third of employers in the region had skills and talent going unused. The percentage of employers reporting skills mismatch has risen and skills under-utilisation increased in the region and across Scotland from 2015 to 2017, from 29 per cent and 32 per cent respectively.

The proportion of staff under-utilised has declined in the region, from 9.8 per cent in 2015 to 9.3 per cent in 2017. This suggests that whilst more employers in the region are experiencing skills under-utilisation, in general the number of their employees under-utilised has declined. Across Scotland, the percentage of staff under-utilised increased from 7.9 per cent to 9.2 per cent which suggests a skills challenge that is growing (see Figure 22).

**Figure 22**

**Skills Under-Utilisation (2015 and 2017), Highlands and Islands**

![Skills Under-Utilisation Chart](image-url)

Source: Employer Skills Survey

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Upskilling
Skills are gained throughout life, and a need to upskill can arise due to:
• New legislative or regulatory requirements;
• The introduction of new technologies, equipment or working practices;
• Increased competitive pressure;
• The development of new products and services; and more recently
• The UK’s decision to leave the EU.

A need to upskill employees in the next 12 months was anticipated by 70 per cent of employers in the Highlands and Islands (as of 2017). This was higher, but close, to the percentage of employers across Scotland who anticipated a need to upskill (69 per cent). Within the region, operational and digital skills were the most commonly mentioned development area. Almost half of the employers who identified development needs mentioned these (both 49 per cent). The need to upskill operational skills was lower in the region compared to Scotland (57 per cent), whilst the expected need to upskill digital skills was the same (49 per cent). Fewer employers in the region expected a need to upskill the complex analytical skills of their employees (39 per cent) compared to Scotland (44 per cent) (see Figure 23). The evidence suggests that whilst more employers in the Highlands and Islands expect to upskill their workforce in the next twelve months, the upskilling requirement typically covered fewer skills.

Figure 23
Employers anticipating a need to upskill by type of skill (2017), Highlands and Islands and Scotland

Source: Employer Skills Survey
Conclusion
**Conclusion**

In 2019 the Highlands and Islands made a GVA contribution to the Scottish economy of £11.4bn, eight per cent of Scotland’s output (£138.8bn). Looking ahead, the economy is forecast to grow by 1.3 per cent on average each year up to 2029. Whilst this would be slower growth than what is forecast across Scotland, it would be more than double the average annual growth rate that the Highlands and Islands experienced from 2009 to 2019. The forecast however reflects a point in time and the high levels of economic uncertainty could change the outlook.

Total employment in the Highlands and Islands (measured by jobs) was estimated to be 254,100 in 2019, nine per cent of Scottish employment. Employment in the region declined from 2009 to 2019, but the forecast suggests that growth will occur in the future from 2019 to 2029. The three sectors forecast to have the greatest jobs growth are:

- **Construction**, 1,500 jobs;
- **Administration and Support Services**, 1,200 jobs; and
- **Professional, Scientific and Technical Activities**, 1,100 jobs.

As the region’s share of Scotland’s GVA was lower in 2019 than its share of employment, productivity performance was below average. Productivity was £44,900 in the Highlands and Islands compared to £50,400 across Scotland.

The employment growth forecast will create 200 new jobs in the region and the need to replace workers leaving the labour market will create further 91,300 opportunities. Vacancies arising due to the replacement requirement far outweigh those created by growth.

To fill these jobs, and others, there is a forecast requirement for 76,200 people in the region from 2019 to 2029. The difference between the people and job requirements is due to some people having more than one job, for example someone who has two part-time jobs.

By occupation, the greatest number of people are forecast to be required in:

- **Clerical and Service Elementary Occupations**, 12,400 people;
- **Sales Occupations**, 8,200 people;
- **Teaching and Research Professions**, 6,200; and
- **Trades, Plant and Storage Elementary Occupations**, 5,200 people.

Whilst there will be demand for people to fill jobs, the population projection suggests that the Highlands and Islands could have a smaller and generally older population by 2041. This presents a number of challenges:

- Skills challenges could be exacerbated by a deficit of talent, created due to the growth of people reaching retirement age and a decline in those of working age;
- Pressures on public finances and services could increase due to a growing dependency ratio, the region’s dependency ratio is expected to reach 85 per cent by 2041, up from 63 per cent in 2016; and
- Migration has been a driver of population growth across Scotland and an important source of skilled labour. With de-population forecast in the region and five per cent of the region’s population born outside of the UK, changes to migration policy arising from Brexit could adversely affect future migration to the region and also impact on those who have already settled.

To address the current and future challenges in the labour market, and to make the most of the region’s strengths SDS is working in partnership with others on a range of actions.
This large geographic region consists of six local authorities all of whom have their partnerships, economic strategy to determine local economic priorities and lead economic growth and job creation within the local areas.

All six local authorities have strategic partnerships and associated plans in place to address the skills challenges identified in the RSAs. This includes a number of local Skills Investment Plans (SIPs) as well as Local Outcome Improvement Plans. The local authority skills responses inform the regional Highlands and Islands SIP (HISIP) Programme Board and report through the HISIP Programme Board to the Convention of the Highlands and Islands.

The Programme Board meetings enable partner updates and discussion on regional and local skills issues, talent attraction initiatives, and Developing the Young Workforce activity.

The HISIP has been developed to provide greater co-ordination of regional and local research and analysis to inform investment. It covers the six local authorities of the Highlands and Islands as well as North Ayrshire (which includes the Isles of Arran and the Cumbraes). Its development has been led by SDS and in collaboration with Highlands and Islands Enterprise (HIE), SFC, local authorities, and other key partners including education providers and employers. The HISIP details the response by partners to address the skills challenges and opportunities in the region.

In response to the regional differences within the Highlands and Islands there are three distinct sub regional responses:
• The Inverness and Highland City Deal;
• Emerging rural Growth Deals in Moray and Argyll and Bute; and
• Emerging Islands Growth Deal, a partnership of the three Island local authorities.

The RSA for the Highlands and Islands highlights the current challenges and opportunities of the regional economy. Informed by this RSA and those before it, the HISIP and the City, Rural and Growth Deals in the region are anticipated to go some way to address these, working collaboratively to address the labour market challenges and contribute towards transformational change.

Contact Us: If you have any feedback or comments on this report, please email rsa@sds.co.uk