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

Section 2
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Section 2

KEY POINTS

• Rural areas make up 98% of the landmass of Scotland. They are home to one fifth of Scotland’s population and one third of its registered small and medium-sized enterprises (SMEs, fewer than 250 employees), some 51,000 businesses. This proportion rises to 42% (72,000) when enterprises in small towns are considered too.

• We know much about traditional rural sectors, and particularly land- and marine-based activities, but the evidence relating to other economic activities in rural Scotland - including manufacturing, construction and professional and creative services - is much more limited.

• This lack of evidence has contributed to two false assumptions: 1) that the rural economy = agriculture and 2) that cities are the only engines of growth with rural areas dependent on them and able to generate only limited – if any – growth.

• In order to fulfil the Scottish Government’s purpose of building a dynamic, inclusive and sustainable economy across Scotland, we need to fully understand the characteristics, needs and contributions of all of Scotland’s businesses.

• The evidence base demonstrating the breadth of rural economic activity in Scotland is improving. This is highlighting the ways in which businesses in rural areas are different to those in urban areas, for example in terms of size, ownership structure and growth plans, and may therefore require different types of support.

• However, evidence gaps remain, including in relation to: the productivity of rural businesses; the numbers of unregistered businesses (data will be available on both these issues shortly); the routes that individuals take into setting up a business and their growth plans, motivations and aspirations; disaggregated spatial and sectoral patterns; business size and ownership structure and how these impact on relationships with other local actors; and innovation.

• Filling these evidence gaps will ensure that better data is available to inform the shape and focus of future policies and programmes and to fully measure the contributions of rural businesses to Scotland’s sustainable economic growth.

• Improving this evidence base is now more important than ever, given a range of current issues including: Brexit and the need to understand the impacts of the UK leaving the EU on its business base; the role of LEADER groups in delivering rural enterprise support alongside other providers; changing financial powers for Scotland; announcements of new funding and support in the 2016-17 Programme for Government; and the potential for even greater diversity amongst rural businesses in future.
2.1 Introduction

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

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

In 2015, in remote rural Scotland, one third of businesses are operating in the agriculture, forestry and fishing sector (7,200 businesses), while this sector accounts for one quarter of businesses in accessible rural Scotland (7,560 businesses). Thus, in remote rural Scotland, two-thirds of businesses (approximately 13,800) operate outside the primary sector, and in accessible rural Scotland, this is the case for three quarters of businesses (approximately 23,000). This amounts to a significant number of businesses - 37,000 in total. However, in comparison to the research and policy attention given to Scotland’s land-based activities, particularly agriculture, we know relatively little about them.

This relative lack of information and analysis has contributed to a situation where the rural economy is often equated with agriculture. However, as these headline figures demonstrate, there is much more to rural economies than agriculture and related activities. Moreover, in future, as broadband provision improves, new knowledge-based activities become more important alongside other new economic activities based around energy generation and biomaterials, and more people choose to work from home in rural Scotland, this diversity will continue to increase. The lack of evidence on the contribution of these businesses has also led to a second false and somewhat outdated assumption that cities are the only engines of growth with rural areas dependent on them for ‘trickle down’ effects, unable to generate their own growth. In this scenario, the contribution of rural areas is hugely undervalued.
Manufacturing or knowledge-based, creative businesses are perhaps not the traditional enterprises that people might think of when they picture a rural business. However, often the owners of these businesses have chosen to live in and run their business from a rural location - usually for quality of life reasons - though they could be located anywhere. They may not be high growth or have large numbers of employees, but they may be critical to the functioning, and indeed the survival, of a rural community and its services, including schools and shops. This section of Rural Scotland in Focus 2016 argues that in order to fulfil the Scottish Government’s purpose of building a dynamic, sustainable and inclusive economy, policy-makers and politicians need to fully understand the characteristics, contributions, aspirations, needs and growth and succession plans of all Scotland’s businesses. Only with this understanding can: 1) the contribution of rural Scotland to national economic growth be fully acknowledged; and 2) the Scottish Government fulfil its commitment to support all businesses by ensuring that support programmes and policies are appropriately tailored to all existing and potential businesses, not just land-based activities in rural Scotland, not just businesses operating in Scotland’s urban areas, and not just high growth businesses. This is arguably particularly important given the increased uncertainty arising from the result of the EU referendum in June and which will no doubt remain as negotiations progress for the UK to leave the EU. However, regardless of the political landscape, it is clear that in order to grow rural businesses and take advantage of all of the opportunities that rural Scotland can offer, we need to fully understand the characteristics and needs of all of its businesses.

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

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

2.2.1 The National Performance Framework and Economic Strategy

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

The Scottish Government’s Economic Strategy (first published in 2007 and refreshed in 2011 and 2015) is critical to delivering the outcomes in the NPF. This sets out the Government’s broad priorities and overall approach to supporting sustainable and inclusive economic growth and achieving the ambition of Scotland ranking in the top quartile of OECD nations for productivity and wellbeing. The approach is based around two mutually supportive goals of increasing competitiveness and tackling inequality. For example, the document emphasises the need to “Realise opportunities across Scotland’s cities, towns and rural areas, capitalising upon local knowledge and resources to deliver more equal growth across the country” and to consider “the dynamic of Scotland’s cities, wider regions, and rural areas, to encourage success and opportunity shared across the whole of Scotland”. It recognises the particular challenges facing rural businesses, including connectivity and accessibility, but also the strength of some communities in grasping the opportunities offered by the community ownership agenda. It acknowledges the need for additional Government support in some instances where the market does not deliver all that is required, for example, in terms of superfast broadband.
Despite recognising the need for inclusive and fair growth across Scotland, and acknowledging the vital role that rural Scotland has to play in the “nation’s heritage, identity and economy”, when describing the potential contributions of rural areas, the document focuses on traditional land-based activities, particularly tourism, farming, fishing, food and drink and renewables. There is no doubt that these sectors are important to the rural communities in which they are situated, and indeed they have been some of the fastest growing sectors in Scotland in recent years. However, the document does not acknowledge the broader range of business activities in rural Scotland and the relative importance of sectors such as manufacturing, construction or business services. This paints a rather limited picture of the characteristics of Scotland’s rural areas, which, as argued earlier, contributes to a tendency to simply equate the rural economy with land-based activities, and undervalue its contribution to national and regional growth.

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

2.2.2 The Programme for Government 2016-17

The Scottish Government’s Programme for Government 2016-17, published in September 2016 is set very much in the context of uncertainty caused by the result of the EU referendum in June. The Programme again places emphasis on building a “dynamic, sustainable and inclusive economy”, and, specifically in terms of rural Scotland, states: “Building growth across all areas of rural Scotland is a priority for this Government”. Under the “Growing the economy” theme, there is a specific sub-section on “Supporting our rural economy” which recognises that rural Scotland “hosts some of the country’s most important economic sectors and is particularly vulnerable to the uncertainty caused by the EU referendum vote”. The section goes on: “As part of building the rural economy, we will hold a series of summits from autumn 2016 through to spring 2017 with key sectors and interests to explore how best to deliver investment, sustainable growth, jobs and opportunities in rural and island communities. We will also develop a Scottish Rural Infrastructure Plan in 2017 to better coordinate existing and planned expenditure and resources through improved collaboration”. It will be interesting to see which sectors the summits focus on (as of early October 2016, summits have been held on the forestry and shellfish sectors) and whether there is recognition of the importance of sectors such as manufacturing and construction in rural Scotland. As demonstrated later in this section, these broad sectors account for the same proportion of SMEs in rural and urban Scotland; indeed the proportion of SMEs in the construction sector is slightly higher in rural than urban Scotland (13% and 12% respectively).

The Programme for Government also acknowledges the importance of the Scottish Rural Development Programme (2014-20), including the LEADER approach, in responding to uncertainty caused by the EU referendum and in stimulating sustainable economic activity, and the Government’s support for the Scottish Rural Parliament, which held its second meeting in Brechin in early October 2016. A central element of the Programme for Government is the launch of a new £500 million Scottish Growth Scheme focused on “new and early-stage, high growth potential companies, with clear export plans, particularly in technology-intensive firms and businesses in emerging markets such as Fintech”. A number of other business-related initiatives are announced or referred to in the document, including a new Post-Referendum Business Network to provide information and support to businesses affected by the EU referendum, the commitment to deliver 100% superfast broadband coverage by 2021, £65 million of European Regional Development Fund (ERDF) and partner funding for SMEs, offering one-to-one support to SMEs with growth potential, and an expansion of the Small Business Bonus Scheme from 2017, removing the burden of business rates entirely from 100,000 premises. While these are all to be welcomed - although the detail is yet to be explored - the focus of the £500 million fund and the one-to-one support for SMEs on companies which are “high growth potential” suggests that rural businesses, which tend not to be high growth (although there are exceptions), may be disadvantaged.
Further detail on support for businesses within the ‘Capital stimulus’ part of the Programme was provided on 26th September 2016, with Minister for Business, Innovation and Energy, Paul Wheelhouse MSP, announcing four areas (Hawick, Irvine, Clackmannanshire and Fife) which will share £10 million of funding for boosting local economic development through a range of business infrastructure projects. Hawick will receive the largest share of the funding - £3.625 million, in recognition of the loss of more than 100 local jobs in the knitwear industry - and this will be used to encourage start-ups and retain growing businesses in the town, including through developing business accommodation and an enterprise centre. In Clackmannanshire and Fife, the money will be used to support a range of projects, including the creation of business units and community enterprise hubs. Targeted funding of this type is to be welcomed, especially given that previous research has shown that a lack of premises is often cited by rural firms as being a constraint on their growth.

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

2.2.3 What do rural strategy documents say about rural economies?

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

Rural Scotland – A New Approach in 2000 set out the then Scottish Executive’s vision of a rural Scotland “integral to Scotland’s success, dynamic in harnessing its traditional strengths, and with an appetite for change”. Amongst other things, the document emphasised the need for more collaborative and outcome-oriented policies focusing on diversifying and growing the rural economy, as well as increasing wages, improving access to and delivering better services, making the most of our heritage, and delivering thriving rural communities. This strategic focus was continued in the 2003 stock-take and then the Scottish Government’s 2007 document, Rural Scotland: Better Still Naturally, which identified four key policy targets: to diversify and grow the rural economy; to make the most of the natural, built and cultural heritage; to improve and sustain key services; and to promote and support rural communities. The document and its targets were not taken forward, however, following the change of Government in 2007.
In 2008, the **OECD conducted a review of rural policy in Scotland** and found that Scotland’s approach to rural policy was innovative and rapidly evolving, but that it was still a fairly centralised approach lacking bottom-up involvement and still had a sector-by-sector rather than a territorial focus. This was measured against the OECD’s own ‘New Rural Paradigm’ which emphasised focusing on places rather than sectors (such as agriculture), on investments rather than subsidies to achieve long-term benefits, and on devolving power and resources to communities to determine their needs and realise opportunities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Rural Future was the Scottish Government’s response to the Speak up For Rural Scotland consultation, and this included a vision for a rural Scotland “that is outward looking and dynamic – with a diverse economy and active communities... Rural businesses will make the best use of local assets to become more competitive and enterprising.” The document set out a number of things that the Government was already doing or planning to do in relation to business and skills development, including improving public procurement opportunities for local businesses, improving the availability and affordability of finance for businesses, adding value locally including in the tourism and creative industries, ensuring that young people develop enterprising attitudes and skills, and supporting businesses and other third sector organisations to secure access to the public sector market.
Like previous documents there is recognition of the need for a diverse economy in rural Scotland and *Our Rural Future* includes a specific mention of the creative industries alongside the more traditionally recognised rural sectors. However, rather than forming the basis of a clear Scottish rural development policy, the document has seemingly become lost since its publication. Instead, the Government has focused on changes in particular policy domains, such as community empowerment and land reform, which will no doubt benefit rural economies, including by encouraging enterprise formation, but which cannot be said to form a coherent rural policy or vision. Importantly in the context of this chapter, Scotland is still in a position where a substantial proportion of the funding in the SRDP 2014-20 goes to LFASS and agri-environment and forestry support rather than wider rural development.

From this short review of policies and strategies, we can see that concerns relating to rural businesses have persisted since 1995, including the need to diversify and grow rural economies, and the difficulties faced by rural businesses, including infrastructure challenges and skills shortages. *Rural Scotland – A New Approach* in 2000 recognised that rural Scotland is integral to Scotland’s success, and the need for this contribution to be enhanced was also reflected in Richard Lochhead MSP’s request to the Rural Development Council in 2010. In 2008, the OECD also recognised the traditional sectoral – i.e. agricultural - approach which had been taken to rural development in Scotland, and emphasised the need to look beyond this towards a more territorially-focused approach to development in rural Scotland.

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

### Support for Rural Business from LEADER

**Chris Parkin, Lanarkshire LEADER Programme Manager**

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

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

Supporting business projects through LEADER is not new in Lanarkshire as ‘growing business’ has always been a priority in this rural area. Under the previous 2007-2013 LEADER Programme, South Lanarkshire Council’s Rural Capital Grants Scheme (RCGS) was delivered with LEADER funding matched 50:50 with Council monies. The impact of the investments was significant with 59 small businesses receiving...
financial support, 103 jobs being created at a cost per job of just over £3,000 and for every £1 of LEADER investment just over £3 in additional private sector funding being levered.

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

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

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

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

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

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

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

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

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### Lighting the entrepreneurial spark across the Highlands and Islands

**Calum Macfarlane and Catherine MacNeil, Highlands and Islands Enterprise**

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

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

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

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

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

Forty businesses from across the region are taking part; mainly pre start and young business ventures but also more mature businesses looking to kick start growth. Entrepreneurs have access to a suite of ten online modules on key business topics. Entrepreneurial Spark Enablers challenge the business leader constructively to identify areas for improvement as they seek to develop their entrepreneurial mindset. They will also be connected with mentors who will provide specialist advice.
The programme kicked off with a two-day boot camp in September. Entrepreneurs were guided through a process to validate and test their business proposition. The bootcamp finished with a pitching competition conveying the importance of being able to sell a business idea in a compelling and succinct manner.

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

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

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

Scottish Enterprise Rural Leadership Programme

Julian Pace and Chloe Purves, Scottish Enterprise

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

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

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

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

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

Business Gateway provides a first point of contact for all publicly funded advice to business in Scotland. The service offers a range of assistance, including business advice and planning, financial management, marketing and sourcing funding. Business Gateway is delivered by local authorities to all types of business, new and existing. Despite its universal offering across Scotland, workshop discussions at the Scottish Rural Parliament in Brechin in early October 2016 highlighted confusion amongst rural businesses regarding the services provided by Business Gateway, not least because the service is organised and delivered differently in different parts of Scotland (for example, in terms of the relationship with local authorities and the involvement of other delivery organisations).
The Scottish Government is working on simplifying how SMEs access finance, advice and support, and bringing together all financial support services and public sector finance products for SMEs under a single brand and digital platform at www.mygov.scot. A range of other organisations work across Scotland to provide advice and other (direct and indirect) support to businesses, including Scottish Development International and Skills Development Scotland, and membership organisations such as the Federation of Small Businesses, national and local Chambers of Commerce and Scottish Land and Estates. There is also a range of specific schemes to help businesses, including ‘Fresh Start’ which enables occupiers of shops, offices, hotels, pubs and restaurants which have been empty for at least a year to apply for a 50% rates discount for 12 months, and the Digital Boost programme, delivered by Business Gateway which offers online diagnostics tools, guides, workshops, events and significant one to one support.

Previous rural business survey work has suggested that rural businesses have lower awareness and use of public sector business support providers, and instead rely more heavily on private sector support providers, such as accountants and lawyers. However, data from the Small Business Survey 2015 showed that awareness was high across Scotland with 99% of urban and 96% of rural SMEs stating that they were aware of business support providers. The Survey also asked for more information on which providers SMEs were aware of (see Figure 1).

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

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

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

Alongside nationally available business support services, there are regional and local business support programmes in some parts of Scotland. GrowBiz in rural Perthshire is a community-based model of business support provision which has been positively evaluated recently and is being looked at by other areas of Scotland seeking to replicate its approach.
GrowBiz is a community-based enterprise support organisation covering rural Eastern and Highland Perthshire. It was formed in 2007 based on the Sirolli model of enterprise facilitation, and provides a range of enterprise support activity to individuals and start-up and existing businesses in rural Eastern and Highland Perthshire.

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

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

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

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

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

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

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

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


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

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

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

2.4.1 Sectoral breakdown of employment and enterprises

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

Looking in more detail at employment in different sectors (Figure 2) confirms the importance of traditional rural sectors such agriculture, forestry and fishing, accounting for 16% of remote rural employment (this proportion had risen to just over 18% by 2015) and 12% of accessible rural employment. However, in accessible rural areas, the largest source of employment in 2013 was the other activities sector, which includes professional,
scientific and technical activities, administrative and support service activities, arts, entertainment and recreation services, and other service activities (17% of employment, the same as in the rest of Scotland, with 13% in remote rural Scotland). The Wholesale, retail and repair and manufacturing sectors both had similar proportions of employment (11-12%) compared to the primary sector in accessible rural Scotland, although by 2015, data (not presented here) suggests that manufacturing was the largest sector in employment terms in accessible rural Scotland. Construction accounted for 8% of private sector jobs in accessible rural and 7% in remote rural areas, higher proportions than in the rest of Scotland (5%). Over the five years to 2015, in remote rural Scotland, the sectors responsible for the majority of employment growth were accommodation and food services activities (up 2,650 jobs since 2010) and professional, scientific and technical activities (up 1,490 jobs since 2010).36

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

<table>
<thead>
<tr>
<th>Urban/rural classification</th>
<th>Agriculture, Forestry and Fishing (A)</th>
<th>Mining and Quarrying (B, D, E)</th>
<th>Manufacturing (C)</th>
<th>Construction (F)</th>
<th>Wholesale, retail and repair (G)</th>
<th>Transport and storage; information and communication (H, J)</th>
<th>Accommodation and food service activities (I)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of enterprises</td>
<td>%</td>
<td>Number of enterprises</td>
<td>%</td>
<td>Number of enterprises</td>
<td>%</td>
<td>Number of enterprises</td>
</tr>
<tr>
<td>1 Large Urban Areas</td>
<td>360</td>
<td>2</td>
<td>385</td>
<td>31</td>
<td>2,935</td>
<td>33</td>
<td>5,835</td>
</tr>
<tr>
<td>2 Other Urban Areas</td>
<td>1,170</td>
<td>7</td>
<td>295</td>
<td>24</td>
<td>2,610</td>
<td>30</td>
<td>4,860</td>
</tr>
<tr>
<td>3 Accessible Small Towns</td>
<td>665</td>
<td>4</td>
<td>65</td>
<td>5</td>
<td>720</td>
<td>8</td>
<td>1,660</td>
</tr>
<tr>
<td>4 Remote Small Towns</td>
<td>495</td>
<td>3</td>
<td>50</td>
<td>4</td>
<td>440</td>
<td>5</td>
<td>875</td>
</tr>
<tr>
<td>5 Accessible Rural</td>
<td>7,560</td>
<td>43</td>
<td>330</td>
<td>27</td>
<td>1,550</td>
<td>18</td>
<td>3,420</td>
</tr>
<tr>
<td>6 Remote Rural</td>
<td>7,200</td>
<td>41</td>
<td>245</td>
<td>20</td>
<td>910</td>
<td>10</td>
<td>2,105</td>
</tr>
<tr>
<td>Scotland</td>
<td>17,380</td>
<td>100*</td>
<td>1,235</td>
<td>100*</td>
<td>8,785</td>
<td>100*</td>
<td>18,560</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Urban/rural classification</th>
<th>Financial and insurance activities (K)</th>
<th>Real estate activities (L)</th>
<th>Professional, scientific and technical activities (M)</th>
<th>Administrative and support services (N)</th>
<th>Education, Human health and social work (P, Q)</th>
<th>Arts, entertainment and recreation, Other service (R,S)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of enterprises</td>
<td>%</td>
<td>Number of enterprises</td>
<td>%</td>
<td>Number of enterprises</td>
<td>%</td>
<td>Number of enterprises</td>
</tr>
<tr>
<td>1 Large Urban Areas</td>
<td>1,260</td>
<td>61</td>
<td>2,685</td>
<td>51</td>
<td>13,995</td>
<td>44</td>
<td>4,525</td>
</tr>
<tr>
<td>2 Other Urban Areas</td>
<td>515</td>
<td>25</td>
<td>1,215</td>
<td>23</td>
<td>7,115</td>
<td>22</td>
<td>2,675</td>
</tr>
<tr>
<td>3 Accessible Small Towns</td>
<td>130</td>
<td>6</td>
<td>295</td>
<td>6</td>
<td>2,530</td>
<td>8</td>
<td>870</td>
</tr>
<tr>
<td>4 Remote Small Towns</td>
<td>70</td>
<td>3</td>
<td>170</td>
<td>3</td>
<td>1,050</td>
<td>3</td>
<td>425</td>
</tr>
<tr>
<td>5 Accessible Rural</td>
<td>165</td>
<td>8</td>
<td>665</td>
<td>13</td>
<td>5,505</td>
<td>17</td>
<td>2,195</td>
</tr>
<tr>
<td>6 Remote Rural</td>
<td>60</td>
<td>3</td>
<td>390</td>
<td>7</td>
<td>2,195</td>
<td>7</td>
<td>1,190</td>
</tr>
<tr>
<td>Scotland</td>
<td>2,075</td>
<td>100*</td>
<td>5,295</td>
<td>100*</td>
<td>31,900</td>
<td>100*</td>
<td>11,575</td>
</tr>
</tbody>
</table>

Notes: This data excludes central and local government and it uses the 2011-12 sixfold urban/rural classification. Importantly, the proportion totals (marked with *) do not always total 100 as the same enterprise may operate in more than one type of area.
Table 1 shows the spread of economic activities across Scotland. Agriculture, forestry and fishing enterprises are heavily concentrated in accessible and remote rural areas, as would be expected, however, 47% of enterprises operating in the mining and quarrying sector are in accessible and remote rural Scotland. Rural Scotland also accounts for almost 30% of Scotland’s manufacturing and construction enterprises. One in five of Scotland’s real estate enterprises and education, health and social work enterprises are found in rural Scotland, nearly one in four of its professional, scientific and technical activities enterprises, and nearly 30% of its administrative and support service enterprises. This data demonstrates the importance of recognising the breadth of activities located in rural Scotland, and therefore ensuring that support targeted at these sectors recognises that a sizeable proportion of the enterprises are in rural – and often remote rural - locations.

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

2.4.2 The size of businesses in rural Scotland

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

Table 2 on the next page shows the number and proportion of enterprises in Scotland by urban/rural classification and employee size band and total employment.
Table 2: The number/proportion of enterprises in Scotland by urban/rural classification and employee size band and total employment, 2015

<table>
<thead>
<tr>
<th></th>
<th>Large Urban</th>
<th>Other Urban</th>
<th>Accessible Small Towns</th>
<th>Remote Small Towns</th>
<th>Accessible Rural</th>
<th>Remote Rural</th>
<th>Scotland</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number/% of enterprises</td>
<td>Employment</td>
<td>Number/ % of enterprises</td>
<td>Employment</td>
<td>Number/ % of enterprises</td>
<td>Employment</td>
<td>Number/ % of enterprises</td>
</tr>
<tr>
<td>0</td>
<td>21,400 (34.4%)</td>
<td>22,620 (2.4%)</td>
<td>12,615 (30.9%)</td>
<td>7,570 (2.7%)</td>
<td>4,940 (34.9%)</td>
<td>2,035 (5.3%)</td>
<td>2,330 (3.6%)</td>
</tr>
<tr>
<td>1-4</td>
<td>21,915 (35.2%)</td>
<td>58,550 (6.3%)</td>
<td>15,330 (37.6%)</td>
<td>42,540 (8.4%)</td>
<td>4,940 (38.3%)</td>
<td>13,840 (14.8%)</td>
<td>2,825 (38.1%)</td>
</tr>
<tr>
<td>5-9</td>
<td>7,880 (12.7%)</td>
<td>53,540 (5.8%)</td>
<td>5,520 (13.5%)</td>
<td>37,810 (7.4%)</td>
<td>1,525 (11.8%)</td>
<td>10,500 (11.3%)</td>
<td>1,080 (14.6%)</td>
</tr>
<tr>
<td>10-19</td>
<td>4,690 (7.5%)</td>
<td>63,400 (6.8%)</td>
<td>3,140 (7.7%)</td>
<td>41,750 (8.2%)</td>
<td>795 (6.2%)</td>
<td>10,090 (10.8%)</td>
<td>635 (8.6%)</td>
</tr>
<tr>
<td>20-49</td>
<td>2,275 (3.7%)</td>
<td>58,520 (6.3%)</td>
<td>1,645 (4.0%)</td>
<td>40,740 (8.0%)</td>
<td>420 (3.3%)</td>
<td>9,020 (9.7%)</td>
<td>340 (4.6%)</td>
</tr>
<tr>
<td>50-249</td>
<td>2,210 (3.5%)</td>
<td>122,120 (13.2%)</td>
<td>1,360 (3.5%)</td>
<td>73,660 (14.5)</td>
<td>350 (2.7%)</td>
<td>15,040 (16.1%)</td>
<td>255 (3.4%)</td>
</tr>
<tr>
<td>250+</td>
<td>1,815 (2.9%)</td>
<td>549,410 (59.2%)</td>
<td>1,165 (2.9%)</td>
<td>258,510 (50.8%)</td>
<td>370 (2.9%)</td>
<td>29,750 (31.9%)</td>
<td>250 (3.4%)</td>
</tr>
<tr>
<td>Total</td>
<td>62,185</td>
<td>928,150</td>
<td>40,775</td>
<td>508,580</td>
<td>12,890</td>
<td>93,180</td>
<td>7,420</td>
</tr>
</tbody>
</table>

Note: Enterprise counts rounded to the nearest five. Employment rounded to the nearest ten. Totals may not equal the sum of the constituent parts due to rounding. This data excluded central and local government and is based on the urban/rural classification according to the 2011-12 sixfold classification. The data counts the number of enterprises operating within each urban/rural classification but these do not sum to the total for Scotland as the same enterprise may operate in more than one type of area. Size band is based on the number of employees that the enterprise employs across the UK.

In terms of number/% of enterprises, the data confirms the importance of firms with 1-4 employees across urban and small town Scotland. In contrast, in rural Scotland, businesses with no employees are the most prevalent in terms of the number of enterprises. In employment terms, it is large enterprises (250+ employees) that account for the highest proportion of employment across the classification, except in remote rural areas, where firms with 1-4 employees employ marginally more. Overall, Table 2 confirms the greater importance of SMEs in employment terms in rural Scotland when compared to urban Scotland. Nevertheless, large enterprises remain important in employment terms in rural Scotland (even though there are not many enterprises of this size).
Policies and support programmes need to recognise this as a change in their location or performance may have significant impacts in surrounding local communities.

2.4.3 Business start-ups and closures

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

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

<table>
<thead>
<tr>
<th>Table 3: Business openings and closures by geographic area, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Remote Rural</strong></td>
</tr>
<tr>
<td>Total businesses</td>
</tr>
<tr>
<td>Business openings</td>
</tr>
<tr>
<td>Business opening rate</td>
</tr>
<tr>
<td>Business closures</td>
</tr>
<tr>
<td>Business closure rate</td>
</tr>
<tr>
<td>Total businesses per 10,000 adults</td>
</tr>
<tr>
<td>Business openings per 10,000 adults</td>
</tr>
<tr>
<td>Net business openings and closures</td>
</tr>
<tr>
<td>Net business openings and closures as % of total businesses</td>
</tr>
</tbody>
</table>

Source: Inter Departmental Business Register (ONS), 2013
(Using Scottish Government Urban Rural Classification 2013-2014)
Business registration and deregistration and three year survival rates are also available at local authority area level for Scotland (see Table 4).

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

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

Source: Business Demography (ONS), 2013

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

Business start-up statistics are also available on a quarterly basis from 2013-15 from The Committee of Scottish Bankers (this data has now been discontinued). Table 5 shows the number of new businesses in Scottish banks in in rural and urban Scotland.
Table 5: Number and proportion of new businesses in Scottish banks by Urban/Rural Split, 2013-2015

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

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

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

2.4.4 Data from the Small Business Survey 2015

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

- 87% of accessible rural and 81% of remote rural SMEs were microbusinesses (with 1-9 employees); 11% of SMEs in accessible rural areas were small businesses (10-49 employees) compared to 18% in remote rural.
- Family-owned businesses were more prevalent in rural areas than in urban areas (79% of SMEs in remote rural areas and 77% in accessible rural areas).
- Home-based businesses were also more prevalent in rural areas than in urban areas (43% in accessible rural areas compared to 40% in remote rural areas and 17% in the rest of Scotland).
- Majority-led by women businesses were more prevalent in urban areas than in rural areas (22% and 15% respectively).
- Accessible rural areas had the highest proportion of SMEs who exported outwith the UK (14% compared to 12% in the rest of Scotland and 8% in remote rural areas).
A higher proportion of SMEs were innovators in urban areas than in rural areas (45% and 33% respectively); however, within the rural category, a higher proportion of SMEs were innovators within remote rural areas (41%) than in accessible rural areas (28%).

A higher proportion of SMEs in accessible rural areas offered training to employees (69%) compared to SMEs in the rest of Scotland (60%) and in remote rural areas (52%).

Remote rural areas had the lowest proportion of SMEs which reported having their own website (57% compared to 63% in accessible rural areas and 70% in the rest of Scotland).

A higher proportion of rural SMEs had applied for finance (30%) than SMEs in urban areas (15%); this finance was usually in the form of a bank overdraft or loan and a higher proportion of rural SMEs reported that this was for working capital/cash flow than urban businesses (66% and 48% respectively).

A higher proportion of rural SMEs reported employment and turnover growth in the last 12 months than urban SMEs (22% and 20% respectively); a lower proportion of rural SMEs (13%) reported a decrease in employment and turnover compared to urban SMEs (16%).

However, looking forward, a higher proportion of urban SMEs expected employment and turnover growth in one year’s time (26% and 17% respectively) and sales growth over the next three years (66% compared to 55%), compared to rural SMEs, and a lower proportion of urban SMEs expected a decrease in employment and turnover compared to rural SMEs (11% and 15% respectively).

For both rural and urban SMEs, regulations and red tape was the most commonly reported obstacle to business success (52% and 54% respectively); rural SMEs highlighted a range of other challenges, including location/cost of travel/logistics, weather conditions and poor broadband speeds.

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

2.4.5 Growth sectors and rural Scotland

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

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

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

2.4.6 Self-employment in rural Scotland

One final issue to explore in this section in terms of nationally available data is the issue of self-employment. Table 6 shows self-employment levels and rates using the 8-fold urban/rural classification from 2013-15.
### Table 6: Self employment levels and rates by urban/rural area, all those aged 16 and over, Scotland: 2013 to 2015

<table>
<thead>
<tr>
<th>2013-2014 Urban Rural Classification (8-fold)</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Self Employment</td>
<td>All Employment</td>
<td>Self Employment Rate</td>
</tr>
<tr>
<td>1 Large Urban Areas</td>
<td>84,300</td>
<td>845,800</td>
<td>10.0%</td>
</tr>
<tr>
<td>2 Other Urban Areas</td>
<td>77,000</td>
<td>869,700</td>
<td>8.9%</td>
</tr>
<tr>
<td>3 Accessible Small Towns</td>
<td>24,900</td>
<td>223,400</td>
<td>11.1%</td>
</tr>
<tr>
<td>4 Remote Small Towns</td>
<td>5,400</td>
<td>50,700</td>
<td>10.7%</td>
</tr>
<tr>
<td>5 Very Remote Small Towns</td>
<td>4,600</td>
<td>35,000</td>
<td>13.1%</td>
</tr>
<tr>
<td>6 Accessible Rural Areas</td>
<td>59,100</td>
<td>327,100</td>
<td>18.1%</td>
</tr>
<tr>
<td>7 Remote Rural Areas</td>
<td>17,400</td>
<td>77,100</td>
<td>22.6%</td>
</tr>
<tr>
<td>8 Very Remote Rural Areas</td>
<td>15,000</td>
<td>65,600</td>
<td>22.9%</td>
</tr>
<tr>
<td>All</td>
<td>287,700</td>
<td>2,494,300</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

Source: Annual Population Survey (January to December). Notes: Headline employment levels cover those aged 16 and over. Levels are rounded to the nearest hundred and totals may not equal the sum of individual parts due to rounding. The 2013 - 2014 Scottish Government Urban Rural Classification has been used here, built up from 2011 census output areas. The employment estimates here are on a residence basis (e.g. it is number of people living in rural areas that are currently employed - their workplace(s) could be in a rural and/or urban area).
Table 6 confirms the much higher rates of self-employment in rural Scotland, and particularly remote and very remote rural Scotland. The rates in small towns are lower than rural areas, but higher than the rest of Scotland. The average self-employment rate across rural Scotland has remained static at 19.5% over this three year period (data not presented here). As mentioned earlier, we do not know the reasons why individuals are in self-employment, and indeed how many of these people have set up and are running their own business, but on a positive level, these figures can be taken to indicate a more entrepreneurial population in rural Scotland. On the other hand, high levels of self-employment may be indicative of poor employment options at local level meaning that individuals are forced into running their own business. A better understanding of the ways in which, and reasons why, people enter self-employment is vital to ensuring that programmes can be appropriately tailored to support them (where relevant) in the right way. Looking at the sectoral breakdown of self-employment (data not presented here) suggests that there has been a growth in self-employment in the professional services sector, such as management consultants, so this may be a growth sector to monitor in terms of future support and evidence needs.

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

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

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

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

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

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

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

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

For further details about masters programmes with a family business focus, check out:
http://www.qmu.ac.uk/courses/PGCourse.cfm?c_id=282
http://www.qmu.ac.uk/courses/PGCourse.cfm?c_id=283

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

Research has also been undertaken in England on the role of in-migrant business owners. This work has highlighted the economic significance of rural in-migration in terms of new enterprise formation and job creation\textsuperscript{52}. Work in the North East of England revealed an average of 2.8 jobs were created for each in-migrant business surveyed\textsuperscript{53}. Work in rural Scotland (Roxburgh and North Lewis), however, found that few in-migrants were establishing businesses and those that did were thought to represent ‘survival self-employment’ creating few jobs for others\textsuperscript{54}.

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

Section 2.4 has presented some of the existing evidence about rural businesses in Scotland, and has demonstrated the breadth of activities going on and some of the characteristics of rural enterprises and how they differ from urban businesses. New data has been analysed and made available recently, however, there are still topics on which it would be useful to have much more data and these are briefly described in this section\textsuperscript{55}.

At the outset of this section it is worth noting that Scottish Government statisticians are currently analysing data on a number of key issues which will significantly improve the rural evidence base. This includes data on Gross Value Added for rural Scotland and it is hoped this will be available in 2017. Statisticians are also currently working on releasing data for unregistered businesses – i.e. businesses that are not registered for...
VAT or PAYE – and this will help to improve our understanding of this group of businesses in rural Scotland.\(^6\) Data from March 2014 suggested that unregistered businesses made up over 50% of all private sector enterprises in Scotland. If this national picture is replicated in rural areas, this would double the number of rural businesses to over 100,000. This data is therefore vital to build up a full and accurate picture of the business profile of (rural) Scotland.

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

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

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

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

In terms of innovation, statistics tend to suggest that rural businesses are not as innovative as urban businesses (as also described in Section 2.4), but this is often more to do with how innovation is measured in official statistics. It is unlikely that small rural businesses will be able to match urban businesses in terms of spending on R&D, staff in R&D departments, or even numbers of patents, for example. However, if a broader definition of innovation is taken to include incremental changes, or changes to working practices as well as products, then rural businesses are often more innovative than their urban counterparts. In order to be fully inclusive, future strategies to support innovation need to recognise the differences in innovative behaviour between rural and urban businesses, and use data that will adequately record innovation by rural businesses.
To demonstrate how important it is to have an accurate, up-to-date evidence base on rural businesses, there are several examples of where rural business research work elsewhere has had impacts on regional and national rural policy. For example, rural business survey work at the Centre for Rural Economy, Newcastle University in 1999/2000 provided baseline data to analyse the impact of the foot and mouth disease outbreak in the north of England. The findings fed into public sector responses to the outbreak, including the shaping of regional support programmes for businesses affected by the disease. The second survey in 2010 provided a sound evidence base for CRE researchers to feed into Defra’s Rural Economy Growth Review. In turn, this Review informed the creation of the Local Enterprise Partnerships, now in existence across England, and other growth strategies and measures adopted by the Department of Business, Innovation and Skills.

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

### Rural Enterprise UK

**Professor Jeremy Phillipson, Centre for Rural Economy, Newcastle University**

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

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

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

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

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

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

More information on REUK can be found by emailing Professor Jeremy Phillipson at the Centre for Rural Economy, Newcastle University (jeremy.phillipson@ncl.ac.uk).
More qualitative data will also be useful, for example on the characteristics of business owners. As the rural population ages, for example, we do not know enough about older business owners. What are their motivations for setting up their business, what are their future plans (including relating to succession) and how can they best be supported, are all important questions. Alongside this, broader work on the motivations of business owners would be useful, to ascertain the degree to which they are seeking to maximise profits or are perhaps seeking other outcomes, including achieving ‘green’ credentials or contributing to wellbeing goals, for which rural businesses may be particularly well placed.

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

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

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

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

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

- **The UK’s exit from the EU**: The uncertainty caused by the referendum vote will continue as negotiations progress, perhaps particularly so in rural areas where EU funding for agriculture and rural communities is so important. Understanding how this is impacting on business performance, and how businesses are themselves responding, is vital in order for policy-makers and business support organisations to be able to shape appropriate interventions. More positively, Brexit may provide opportunities to introduce new funding and support arrangements.

- **The diversity of Scotland’s rural economies is likely to grow in future**: As broadband provision improves and new opportunities open up to rural businesses in terms of increasing access to the internet and more people are able to work from home, there is likely to be additional growth in service sector activities which will need to be tracked and support provision shaped accordingly. Home-based businesses are likely to require different kinds of support to those not based in the home, with the latter including isolated single business units, small clusters of firms in rural business parks or businesses in busy town centres, all of which may require different interventions and delivery approaches.

- **New economic opportunities**: This section has already demonstrated the importance of businesses located in rural areas to Scotland’s identified growth sectors, especially life sciences, finance and business services, and sustainable tourism. Indeed rural areas are home to some of Scotland’s most important and fastest growing sectors. Rural areas are well placed to deliver innovative business developments in other emerging sectors, including the production of sustainable renewable energy and biomaterials, high quality food production and digital services. This will further increase the diversity of Scotland’s rural economies, and to fully maximise their potential, many of these businesses will require access to the latest knowledge, innovation and appropriate financial and other support.

- **LEADER is now involved in delivering support to small rural businesses**: However, to deliver this support as effectively as possible at local level requires up-to-date data to inform the targeting of this (somewhat limited) funding, for example on local growth businesses or sectors.

- **Changing financial powers for Scotland**: Alongside ever-tightening public budgets, Audit Scotland note that the changes to Scotland’s financial powers resulting from the Scotland Acts 2012 and 2016 mean that the performance of Scotland’s economy, including employment rates and salary levels, will have more impact on Scotland’s public finances than before. It is therefore important that public sector economic growth activity and funding are targeted where they will have the greatest impact on sustainable and inclusive economic growth. Targeting requires an accurate underlying evidence base.

- **Announcements in the 2016-17 Programme for Government**: As discussed earlier, the Programme for Government included several new business-related initiatives, including the £500 million Scottish Growth Scheme, the Post-Referendum Business Network, the one-to-one support for SMEs and funding for specific areas to improve business infrastructure, including community enterprise hubs. A full evidence base will be required to demonstrate how far these initiatives do/do not apply to rural businesses in the same way as urban businesses, and to monitor ongoing activities. If these schemes are not fit-for-purpose for Scotland’s rural enterprises, evidence can be used to help shape more appropriate interventions.

- **Developments relating to Scotland’s island communities**: It will be interesting to monitor forthcoming legislation for Scotland’s island communities and whether or not this includes any specific support for island-based businesses. Again, evidence is required to demonstrate why such businesses might require different interventions or modifications to be made to mainstream programmes.

- **The targeting of broader goals**: Development approaches that are designed to boost the sustainability and resilience of local communities – and also wider objectives such as inclusion, wellbeing and even happiness - rather than job creation and business growth may also come to the fore in future, hence a need to understand, for example, the motivations and future plans of all rural business owners.
Our ability to understand the needs and opportunities of the country’s 51,000 rural businesses is critical to meeting the Scottish Government’s purpose of increasing sustainable and inclusive growth. This cannot be achieved if we lack an adequate evidence base on their make-up and contribution. An improved understanding will enable public sector and business bodies to better target, strengthen and monitor their contributions to this goal. In short, informed by better rural evidence, mainstream policies and programmes will be more ‘fit-for-purpose’ and flexible in being able to acknowledge and support the breadth of activities going on across Scotland. The evidence will also feed into the design of specific responses in particular localities, where appropriate. Improved policy and programme support will increase the confidence and performance of existing and potential rural firms as they see their needs being met and their contribution and opportunities being nurtured and strengthened.
Section Endnotes


2 For more detailed data, see Table 1 later in this section.

3 Fergus Ewing MSP, Cabinet Secretary for the Rural Economy and Connectivity referred to the internet as the “birth of opportunity for rural Scotland”, in his opening address for the 2016 Scottish Rural Parliament in Brechin (6th-8th October 2016).

4 Also in his opening address at the second Scottish Rural Parliament, Fergus Ewing MSP, Cabinet Secretary for the Rural Economy and Connectivity, commented that Scotland’s “rural economy is undervalued”.

5 For more information, see: http://www.gov.scot/About/Performance/purposestratobjs


8 These are stated elsewhere in the document as tourism, food and drink, fisheries and agriculture.


10 Fintech is financial technology, an industry composed of companies that use technology to improve the efficiency of financial services.


14 More information on BIDS in Scotland is available online: http://bids-scotland.com/.


19 LEADER is a grassroots method of delivering support for rural development through implementing Local Development Strategies. For more information, please see: http://www.gov.scot/Topics/farmingrural/SRDP/LEADER.
For more information on LFASS please see: https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/lfass/.


The Small Business Survey Scotland is part of a UK-wide large-scale telephone survey commissioned by the Department of Business, Innovation and Skills (BIS) and was conducted between July 2015 and January 2016. The Survey includes small and medium sized enterprises (0-249 employees) with and without employees and is a longitudinal survey. Data are weighted to ensure the results are representative of the overall Scottish SME population. Data presented here relates to SMEs with employees only. In 2015, 820 businesses with employees took part in the Survey, including 134 (20%) in accessible rural areas, 76 (10%) in remote rural areas and the remainder (610, 69%) in the rest of Scotland.


More information on the call for evidence and Ministerial Group, including the first phase report, is available online here: http://www.gov.scot/Topics/Economy/EntandSkillsreview.

For more information, please see: http://www.scottishruralparliament.org.uk/.


37 2015 data is presented here but 2016 data will be made available in early November 2016.


41 This table is derived from data available online via: http://statistics.gov.scot/.

42 This situation for Argyll and Bute was mirrored in the 2014-15 data, where this local authority area and the Scottish Borders were the only local authority areas in Scotland to experience a falling registered business count (The Scottish Government (2015) Businesses in Scotland 2015, A National Statistics Publication for Scotland, Business and Energy. Available online: http://www.gov.scot/Topics/Statistics/Browse/Business/Corporate).

43 Contributing banks are Bank of Scotland, Clydesdale Bank, TSB Bank, and The Royal Bank of Scotland.

44 This table is derived from data available online via: http://www.scotbanks.org.uk/facts_and_figures.php.


46 820 SMES with employees took part in the Longitudinal Small Business Survey (LSBS) in 2015. Of these 820, 20% (134) were located in accessible rural areas and 10% (76) in remote rural areas.

47 Defined as controlled by a single woman or having a management team comprised of a majority of women.


49 More information on the urban/rural breakdown of the growth sector statistics is available online here: http://www.gov.scot/Topics/Statistics/Browse/Business/Publications/GrowthSectors/LADatabase.


56 It is likely that this data will be available in November 2016.

57 It is worth noting that the Office for National Statistics (ONS) make a large number of their datasets available to academic/government researchers via the Secure Data Service. An application has to be made, but via this route, the data is available at detailed level for those that request it for a specific project or analysis.

58 For more information, see: https://www.gov.uk/government/publications/rural-economy-growth-review.