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INSTITUTE**

Levelling Up & Community Renewal: A focus on the Highland Council area September 2021

Fraser of Allander Institute
University of Strathclyde Business School
199 Cathedral Street
Glasgow, G4 0QU
Scotland, UK
www.strath.ac.uk/fraser

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Disclaimer

The analysis in this report has been conducted by the Fraser of Allander Institute (FAI) at the University of Strathclyde. The FAI is a leading academic research centre focused on the Scottish economy.

The report was commissioned in 2021 by Highland Council.

The analysis and writing-up of the results was undertaken independently by the FAI. The FAI is committed to informing and encouraging public debate through the provision of the highest quality analytical advice and analysis. We are therefore happy to respond to requests for technical advice and analysis. Any technical errors or omissions are those of the FAI.

Summary

This report examines the indicators used for prioritisation through the Levelling Up Fund, focussing on Highland Council area.

Our findings are as follows.

- The indicators used to demonstrate the need for economic recovery and growth miss crucial economic factors that will impact considerably on Highland's economic resilience. Some of these measures, such as working age population density, or the outlook for the population, are readily available and could be considered for inclusion in any future assessment of need.
- The differential impact that COVID-19 is likely to have on certain parts of the country should also be considered in decisions on investment. Our modelling shows that Highland is likely to be one of the areas hardest hit by the pandemic, given its sectoral make up.
- Given the focus on investment in transport connectivity in the Levelling Up prospectus, it is critical that the relative need for transport investment is captured for Scotland. Highland Council, and other remote and rural areas, would be given much higher priority if this was done.
- The need for economic regeneration is currently captured fairly crudely. Many of the indicators discussed in the first section, particularly around demography, are relevant for signalling the need for investment to change to projected outcomes.
- The geography of Highland and its 12 separate labour markets make it much more tricky to make the case that different projects within the local authority area impact on one another, so this should be considered in the packages of proposals put forward.

It is also important for us to reiterate and expand on the recommendations from our [previous report](#).

- It is critical that there is a more open consultation with local government (among others, of course) on the allocation of the forthcoming UK Shared Prosperity Fund. This should include a discussion on the appropriate metrics to use to identify need, but should also be used to reflect on the process and criteria used for Levelling Up and Community Renewal. Importantly, it should cover the capacity of local government to respond to these funding calls.
- Future production of any new prioritisation index must be much more transparent than the information published about Levelling Up and Community Renewal.
- A wider discussion is required on the data available to help us make such decisions. Organisations such as the ONS may wish to examine what more can be done to ensure consistent UK wide data to support such processes, to ensure that the indicators are more suitable.

Background & Policy Context

In order to achieve the aim to “Level Up” regional inequalities in the UK, there have been many funds announced by the UK Government: some that are just for England (and therefore generate consequential for the devolved administrations) and those which are UK wide.

In June, we published a report, “Let’s level with everyone: how do we identify regional inequalities in the UK”¹, which examined the metrics used to identify priority areas for the Levelling Up Fund and the Community Renewal Fund.

The *Levelling Up Fund* was announced alongside the UK Budget in March 2021. The stated aim of this fund was to invest in local infrastructure that “has a visible impact on people and their communities street regeneration, and investment in cultural assets”. This fund is designed to allocate investments of £4.8 billion in capital spending over the next 4 years.

The *Community Renewal Fund* has been introduced as a set of pilot programmes to prepare for the introduction of the UK Shared Prosperity Fund (UKSPF), which will be launched in 2022. As EU structural Funds are phased out (although these will continue until the end of 2023), the UK Government has introduced this additional £220 million fund in 2021-22 to prepare for the introduction of the UKSPF.

These funds are providing a vehicle for significant funding directly from the UK Government to local authorities across the UK. In the wake of the UK leaving the EU, they also set the tone for how EU replacement funding may be distributed in the future. The clear precedent set by both of these funds is a desire from the UK Government to provide funding direct to local government across the UK.

The findings from our report were the following:

- Whilst using a range of indicators to assist with allocation of funding is to be welcomed, this exercise demonstrates the difficulty of using a set of indicators to capture the different types of need in different areas;
- The Levelling Up Fund methodology is not sufficiently transparent – much more must be done in future to ensure that appropriate detail is provided;
- The Levelling Up Fund methodology is not capturing need for transport connectivity in rural areas in Scotland and Wales, due to the inconsistent nature of the indices in different nations;
- Given the level of funding at stake and the need for transparency, it is critical that there is a more open consultation on the allocation of the forthcoming UK Shared Prosperity Fund, including a discussion of current data gaps and limitations to identify the people and areas most in need; and
- Policy makers should pay special attention to areas most impacted by the COVID-19 restrictions, while regional data fails to reflect these disproportionate impacts.

A clear theme that emerged from our analysis was that need in rural areas is not properly reflected in the measures chosen, particularly in Scotland and Wales where transport connectivity is not considered at all. Therefore in this report, we focus on Highland Council area, and discuss both the suitability of the measures used, and possible alternative measures that could be considered.

¹ <https://fraserofallander.org/publications/lets-level-with-everyone-how-do-we-identify-regional-inequalities-in-the-uk/>

We will do this through the prism of the three areas of priority as set out by the Levelling Up Fund prospectus, namely:

- need for economic recovery and growth;
- need for improved transport connectivity; and
- need for regeneration.

Methodology for these funds

The Levelling Up and Community Renewal schemes both developed distinct methodologies to identify priority areas for allocation of funding resources².

For the Levelling Up Fund, the UK Government assigned one of three categories (1, 2, and 3) to each local authority in Great Britain, with category 1 indicating the highest priority level. The methodology note setting out the approach was published on 11 March 2021.

Assigning these categories involved two steps. Firstly, each nation received a specific number of slots in each category, based on common indicators proxying the ‘need for economic recovery and growth’. The ‘need for economic recovery and growth’³ is proxied by an indicator, giving equal weight to productivity (lower productivity=higher priority), unemployment (higher unemployment=higher priority), and skills (lower skill level=higher priority).

In step two, additional nation-specific data is leveraged to rank the local authorities within each nation. This includes an indicator measuring the ‘need for regeneration’ through property vacancy rates (residential in Scotland, both commercial and residential in England and Wales).

In addition, the English index considers the ‘need for improved transport connectivity’ by adding data on commuting times for different modes of transportation. Thus, the final index for Wales and Scotland is constructed as a weighted average of the ‘need for economic recovery and growth’ and the ‘need for regeneration’ indicators, while the English index complements these with an indicator measuring the ‘need for improved transport connectivity’.

A similar index was developed to support the tendering process for funds allocated under the Community Renewal Fund. This index is constructed as a weighted average based on local authority level data, covering productivity (same as for LUF), household income, unemployment (same as for LUF), population density, and skills (same as for LUF). So essentially, the same approach as for LUF is used, except for additional indicators measuring population density and household income are added in. This leads to a different outcome between the LUF and CRF, particularly for rural areas as we might expect. We discuss this further below when we test the sensitivity of the methods.

Highland Council area was assigned to priority level 3 in Levelling Up, i.e. was assigned the lowest priority group. It also did not appear in the top 100 areas in the Community Renewal Fund.

² The allocation process covers England, Scotland, and Wales only. Funds for Northern Ireland are allocated through a separate process.

³ [Levelling Up Fund: Prioritisation of places methodology note - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/94421/levelling-up-fund-prioritisation-of-places-methodology-note.pdf)

Looking ahead - the UK Shared Prosperity Fund

When it comes to Levelling Up Fund, the prioritisation index is not the only factor which is used to determine whether a project gets funded. However, it is stated as one of the factors used, so it is important that it is seen as a legitimate way to identify priority areas.

It is of course difficult to identify an indicator, or set of indicators, which can be used to help prioritise funding for all types of areas (particularly both urban and rural areas). Previously, much of the EU funding that was distributed was done on the basis of GVA per head at a NUTS 2 level. For those not familiar, NUTS 2 areas split up the UK into 4 (historically, now 5) areas, and GVA per head was compared on an EU-wide scale to determine the level of funding each area should receive.

As more countries joined the EU through accession, in general areas in the UK were less likely to receive funding given that the countries joining tended to be less affluent than the UK on average.

Many will no doubt welcome a more sophisticated approach to identify areas in need, capturing not just economic output but other factors as well. However, this opens up a conversation about how well particular measures are doing in capturing the concept that is trying to be reflected in the prioritisation.

It is probably impossible to identify a set of measures which will please everyone: the metrics will always be an imperfect proxy for the stated aims of any fund, and the weightings chosen for different aspects are by definition subjective (even if they are equal). However, incoherence, both across parts of the UK and across similar funds, is hard to defend.

It will be interesting to see if there is more open discussion on the metrics that may be used in future to ensure that there is as much consensus as possible about the metrics used to determine priority. This becomes important when we think ahead to the UK Shared Prosperity Fund.

Finally, a further change is apparent here, as smaller areas are used – local authorities – than have been used before for EU funding. This allows the UK Government, as discussed above, to have a relationship directly with the local authorities across the UK in these funding streams, which continues a trend which started with City Deal funding. However, data at this level is more subject to sampling error and tends to be more volatile, which introduces some challenges for using single point estimates of particular metrics.

Economic Recovery and Growth

Need in the category of economic recovery and growth was captured across GB using the following indicators at local authority level

- productivity, as measured by GVA per hour worked;
- unemployment; and
- skill level of the population, as measured by the proportion of the population with no qualifications.

Highland does fairly well on all of these measures, with a productivity level just below the Scottish average, a low unemployment rate and relatively high skill level of the population. However, Highland covers an enormous area: it comprises of a third of the Scottish land area, and is almost 4 times as large as the next biggest local authority (Argyll & Bute). As we discuss below, the economic make up of the Highlands can also lead to less economic resilience, dependent as it is on lower productivity sectors, those that tend to be seasonal, and those that pay lower wages.

Firstly though, it is reasonable to ask how some of these indicators vary by constituent part of Highland.

Unfortunately, there are data limitations here: these data are not available at much smaller geographies. However, there are three NUTS3 regions that contain parts of Highland: although they also contain bits of other local authorities, like Argyll and Bute, North Ayrshire and Moray.

The table below shows the indicators for each of these NUTS3 areas, for Highland Council area, the average of the Scottish "High Priority" areas, and the Scottish average.

Table 1: Levelling Up Economic Recovery and Growth Indicators

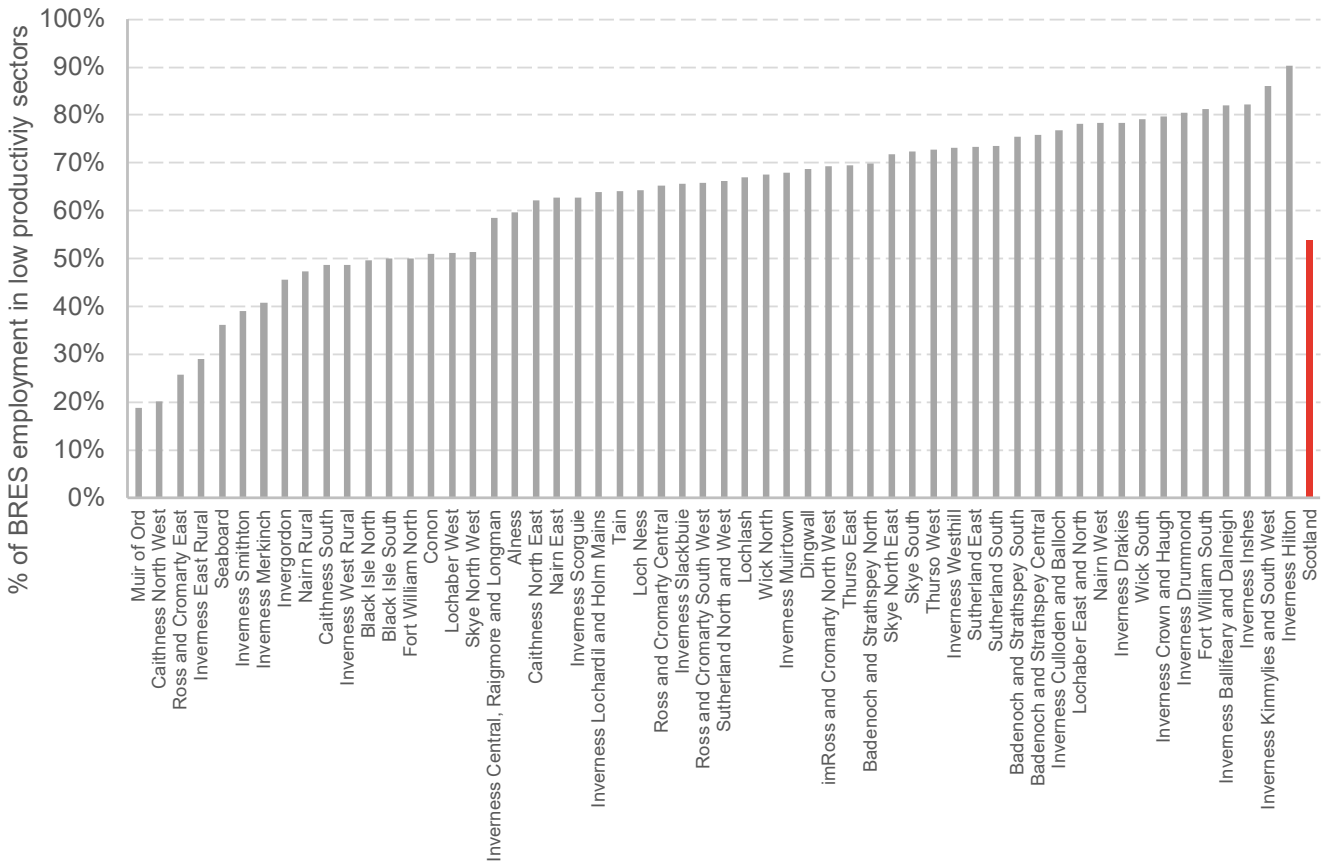
Region	GVA per hour worked	Unemployment %	No NVQ %
Caithness and Sutherland and Ross and Cromarty	33.4	4.7%	8.00%
Inverness & Nairn and Moray, Badenoch & Strathspey	33.9	1.8%	7.50%
Lochaber, Skye & Lochalsh, Arran & Cumbrae and Argyll & Bute	31.7	1.7%	6.80%
Highland Council	33.6	2.2%	6.90%
Scottish High Priority Average	32.5	3.0%	9.14%
Scotland	33.8	3.5%	9.80%

Source: ONS

We can see that unemployment in the Caithness and Sutherland and Ross and Cromarty region is above the average of Scottish high priority areas and GVA per hour in Lochaber, Skye & Lochalsh, Arran & Cumbrae and Argyll & Bute is below this average.

Obviously productivity varies hugely by industry, and local authority variations in productivity tend to be driven by industrial make up. Whilst there is no GVA or hours data below the levels we have already discussed, we can look at employment in what are generally low productivity sectors, namely Retail, Accommodation and Food Services, and the public sector.

Chart 1: % of BRES Employment in low productivity sectors



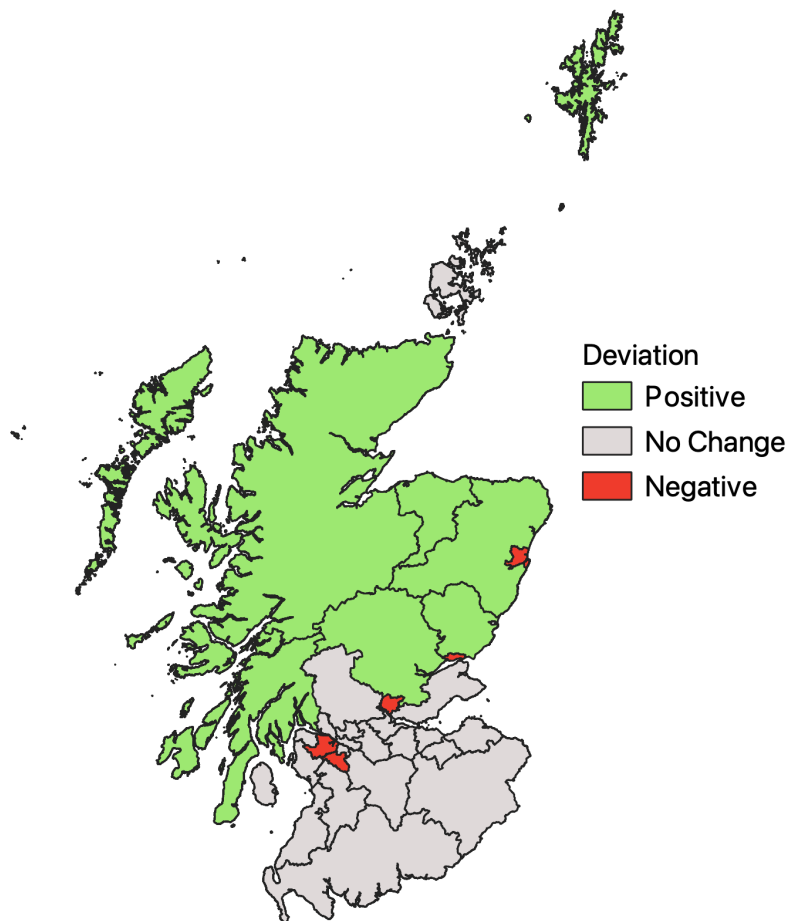
Source: BRES

We can see that 70% of Intermediate Zones in Highland have a greater than average percentage of their workforce in these low productivity sectors.

As discussed above, the Community Renewal Fund takes a slightly different approach, capturing "economic resilience" by weighting in working age population density and household income alongside the Levelling Up indicators.

If we do this, due mainly to population density, Scotland gets four additional high priority slots. Diagram 1 maps the resulting changes in funding priority for Scottish authorities: unsurprisingly, given the sparsity of the Highland population, Highland moves up from priority 3 to priority 2.

Diagram 1: Change in Levelling Up Prioritisation if the CRF methodology is applied



Source: FAI Calculations

Are there alternative measures we can use to capture the need for growth?

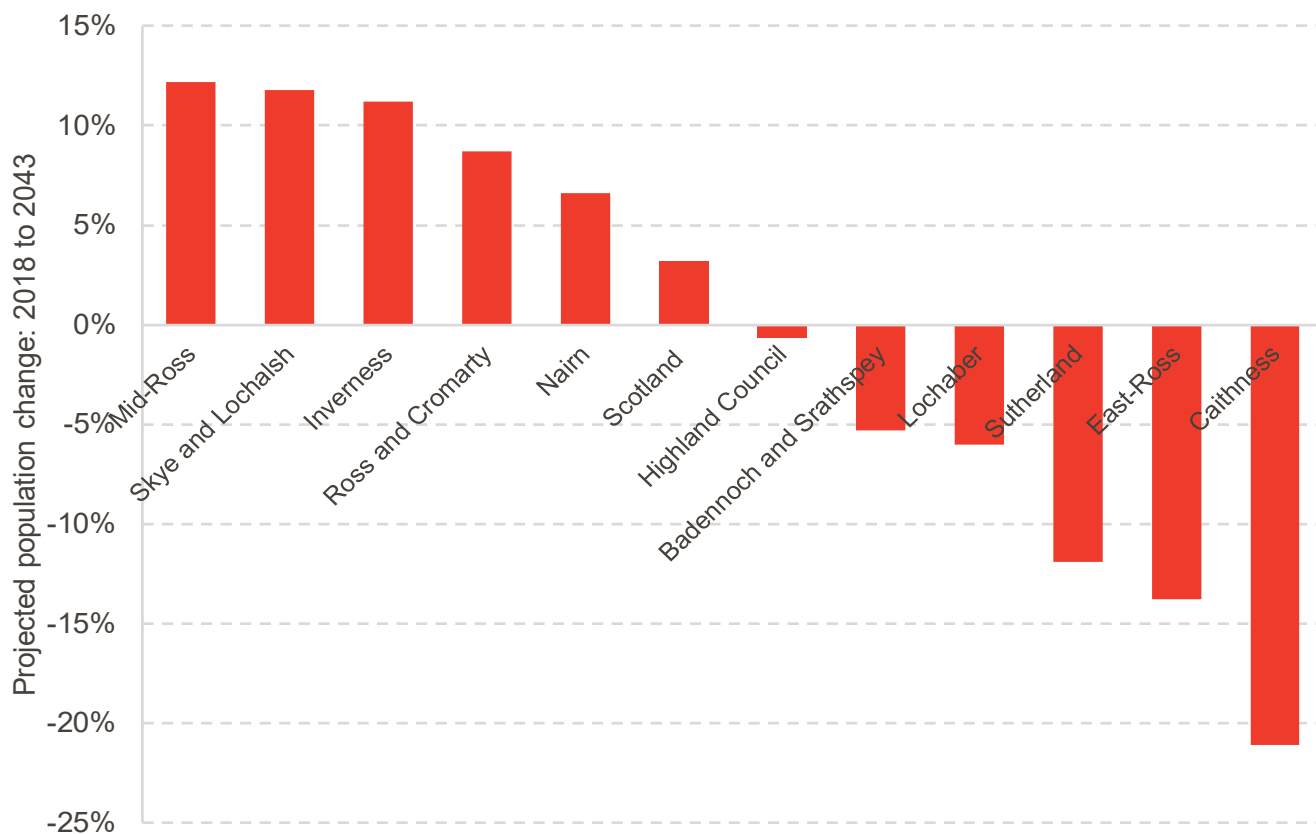
Through the rationale used to distribute the Community Renewal Fund, we know that the UK Government consider working age population density a good indicator to signal economic resilience. The more weight that is placed on this element, the more priority is likely to be given to Highland local authority area.

However, one of the stark challenges facing rural areas in Scotland is not just population sparsity, but the outlook for their population, both overall and particularly their population of working age.

Chart 2 shows the projected population change between 2016 and 2041 for Scotland, Highlands Council and the different areas that make up the council. First, note that while Scotland is projected to grow its population by about 3%, the population of Highland Council is projected to shrink by about 0.6% by 2041.

There is also considerable variation in population growth across the different areas that make up Highland Council. For instance, Mid-Ross and Skye and Lochalsh are projected to grow their population by more than 10% until 2041. At the same time, Sutherland and East-Ross are going to lose more than 10% of their population and Caithness is projected to lose more than 20%.

Chart 2: Projected population change in Highland

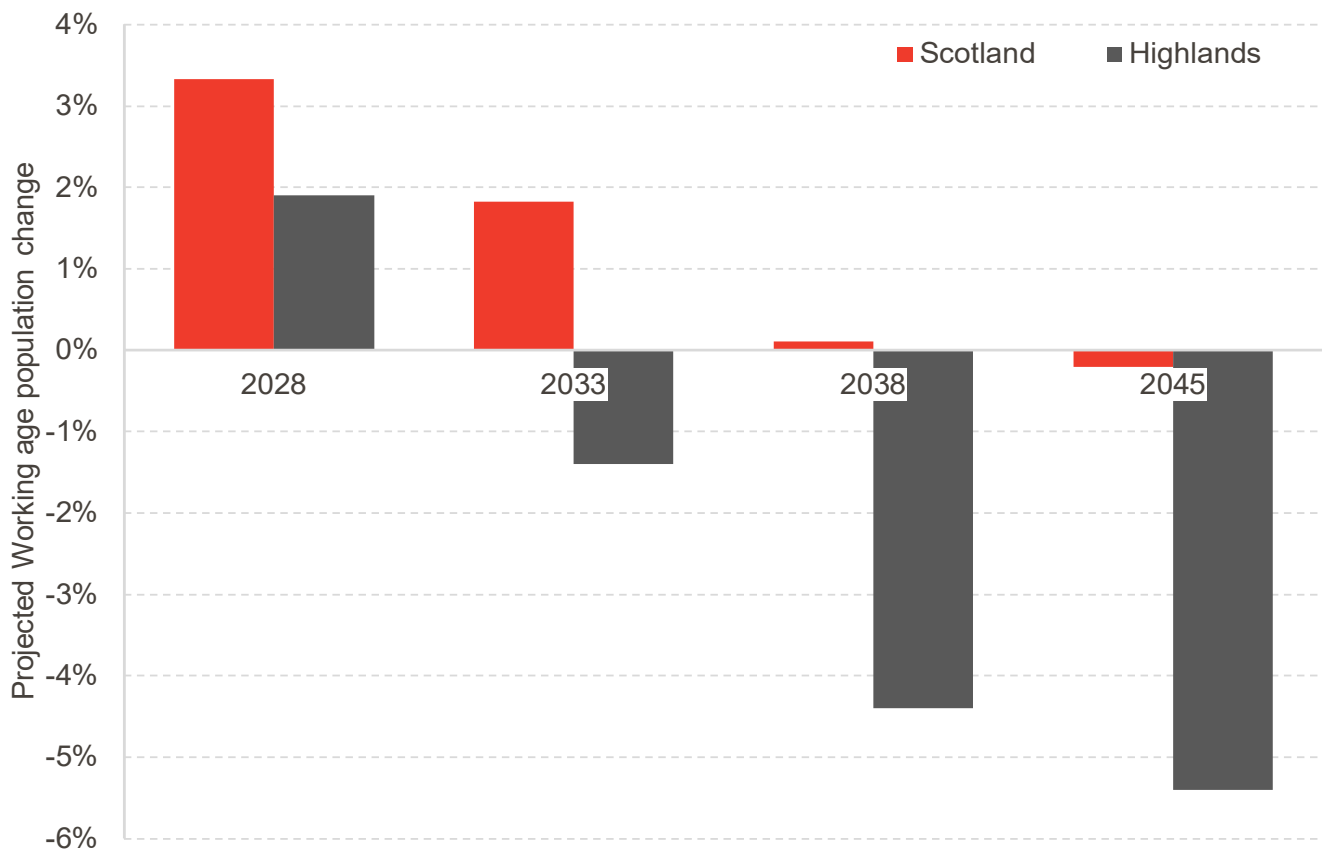


Source: NRS

The economic impact of this decline in total population will likely be amplified by an ageing population that is no longer able to supply its labour. Chart 3 shows the percentage change in working age population over time for Scotland as a whole and Highland Council in particular. We find that both Scotland and Highland Council are projected to have a smaller working age population by 2045.

For Highland Council, however, this effect is projected to be much more significant; the council will lose 5.4% of its working age population by then, compared to only 0.2% for Scotland as a whole. This demographic change will present notable economic challenges to the region that are currently not considered by the CRF and LUF methodologies.

Chart 3: Projected population change in Highland



Source: NRS

Of course, these are projections, not forecasts. The projections produced by ONS and NRS end to assume the continuation of past trends. If Highland Council area is to arrest this population decline and ensure there is housing and good quality jobs for local people, investment will be required to ensure economic resilience.

Given that these projections involve continuation of past trends, they do not take account of policy decisions which could disrupt migration more than has been the case in the past. The obvious issue here is Brexit: given the migration policy adopted by the UK Government, there are likely to be disruptions to migration flows which make the outlook even more challenging.

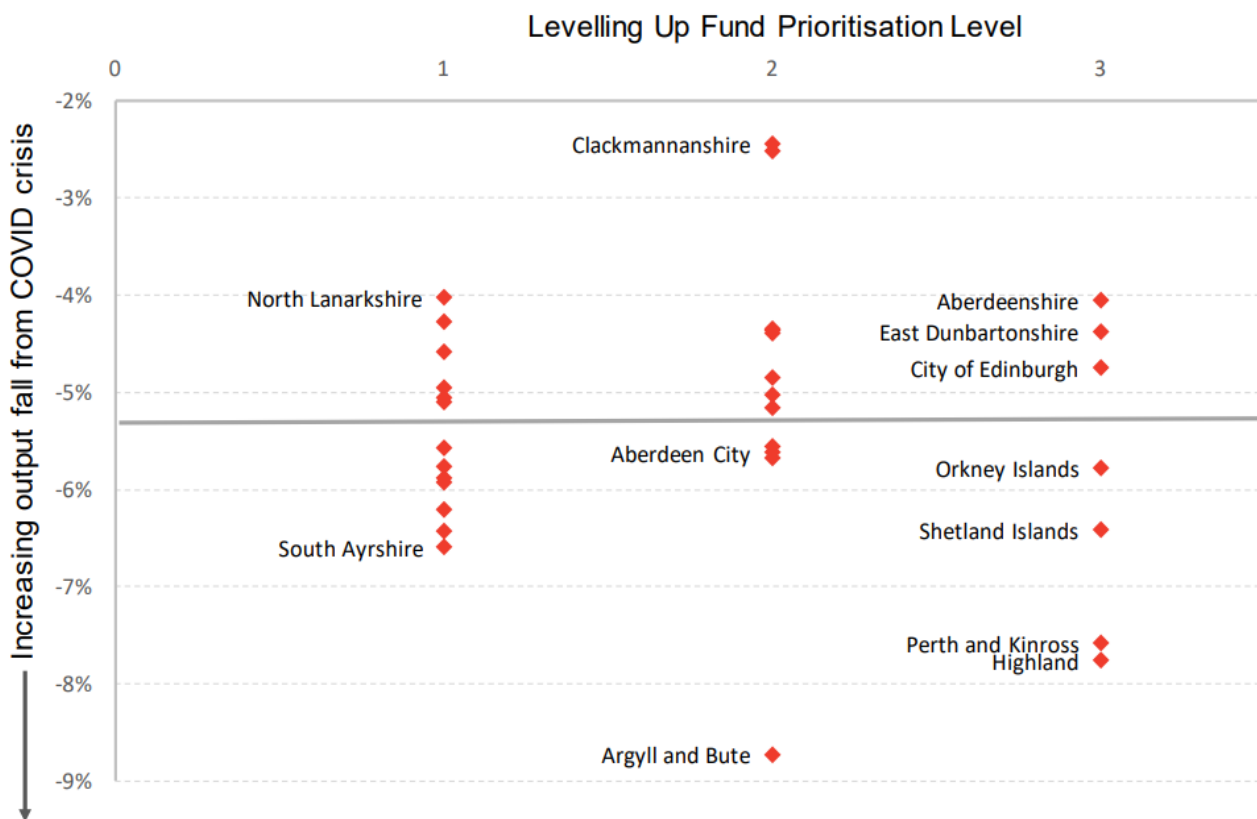
This is why there is a strong case for population outlook being considered for inclusion as an indicator for the need for regeneration, economic growth and recovery.

The Impact of COVID-19

Some of the data used in the prioritisation of these funds is, of course, pre-pandemic - for example, the productivity data is from 2018. Therefore in deciding where to spend money to support recovery, and to ensure existing inequalities are not exacerbated, policy makers will have to be mindful of potential differential impacts while regional data does not reflect these more recent movements.

In our recent commentary, we modelled the possible local authority level impacts of the economic shock caused between February 2020 and March 2021, and contrasted it with the priority levels identified through the Levelling Up Index.

Chart 4: Levelling up prioritisation level and impacts of COVID on output, Scottish local authorities



Source: FAI Calculations

We can see from this analysis that Highland is likely to have been one of the hardest hit areas through the pandemic, due mainly to the economy's reliance on social spending sectors related to tourism.

Connectivity

Much of the focus on the Levelling Up Fund was the potential to use it for transport projects. Therefore, in considering the areas most in need, it seems important that this was measured as part of the prioritisation index.

However, data considering this was not used for Scotland and Wales: only England. It is disappointing that this was missed out, particularly for Scotland, given the relative rurality of Scottish local authorities. Nowhere is this more important than for Highland.

The same indicator that was used for England was not used for Scotland and Wales because it does not exist. However, there are other possible data sources or indicators that could be used to reflect this need in Scotland. It is undoubtedly the case that if this had been done, Highland would be given higher priority than was the case in the published rankings.

In order to demonstrate this, we considered the impact of removing the ‘need for improved transport connectivity’ indicator from the Levelling Up index for England. This indicator is built from data on travel times to employment centres (of more than 5000 employees) for different modes of transportation, produced by the DfT for England only.

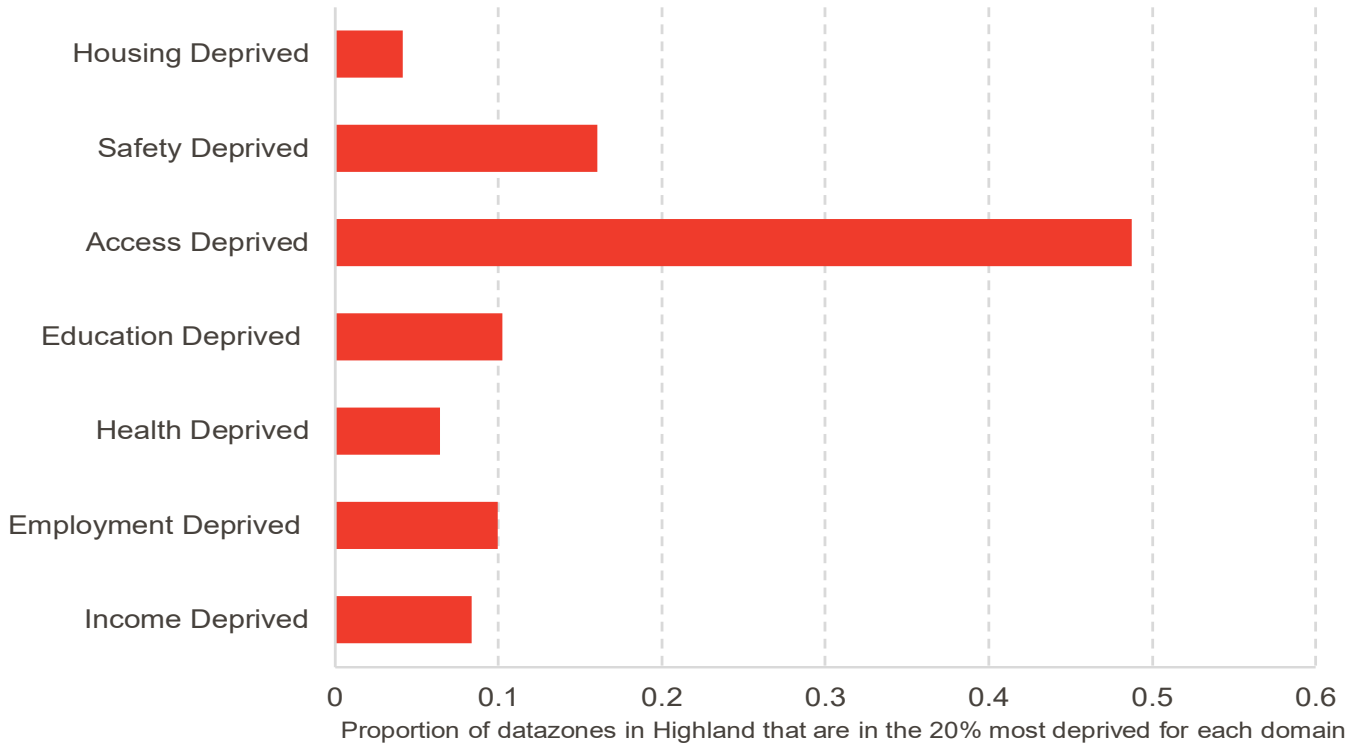
Removing this indicator benefits urban areas: the average population density for high priority areas under this new methodology rises from about 10 people per square kilometre to about 15. The English authorities moved up as a result of including this indicator into Priority 1 had a mean density of 1.5, with a minimum and maximum of 0.25 and 20 respectively.

Highland, with a population density of 0.06, would undoubtedly benefit from the inclusion of a similar metric.

One possibility for this is the Scottish Index of Multiple Deprivation (SIMD), which considers various dimensions of deprivation, such as housing, health, and access. Chart 5 plots the share of areas in Highland Council that belong to the 20% most deprived Scottish areas for various dimensions of deprivation.

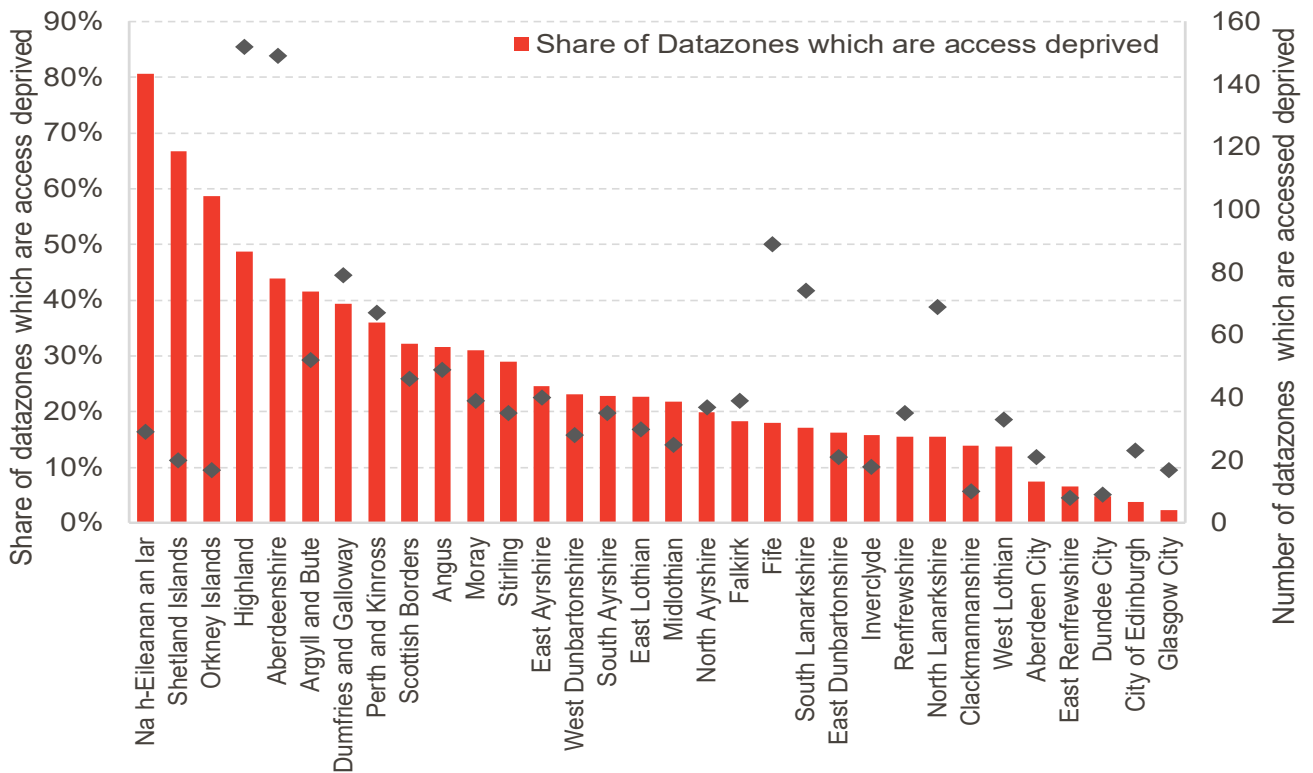
Almost 50% of datazones in the Highland Council area are access deprived. Chart 6 shows that outside of the 3 island local authorities, Highland has the highest deprivation on this measure. Importantly, Highland has 152 datazones that are accessed deprived, the largest absolute number of datazones in Scotland with this issue.

Chart 5: Proportion of datazones in Highland that are in the 20% most deprived for each domain



Source: SIMD

Chart 6: Proportion and number of datazones that are accessed deprived, Scottish Local Authorities

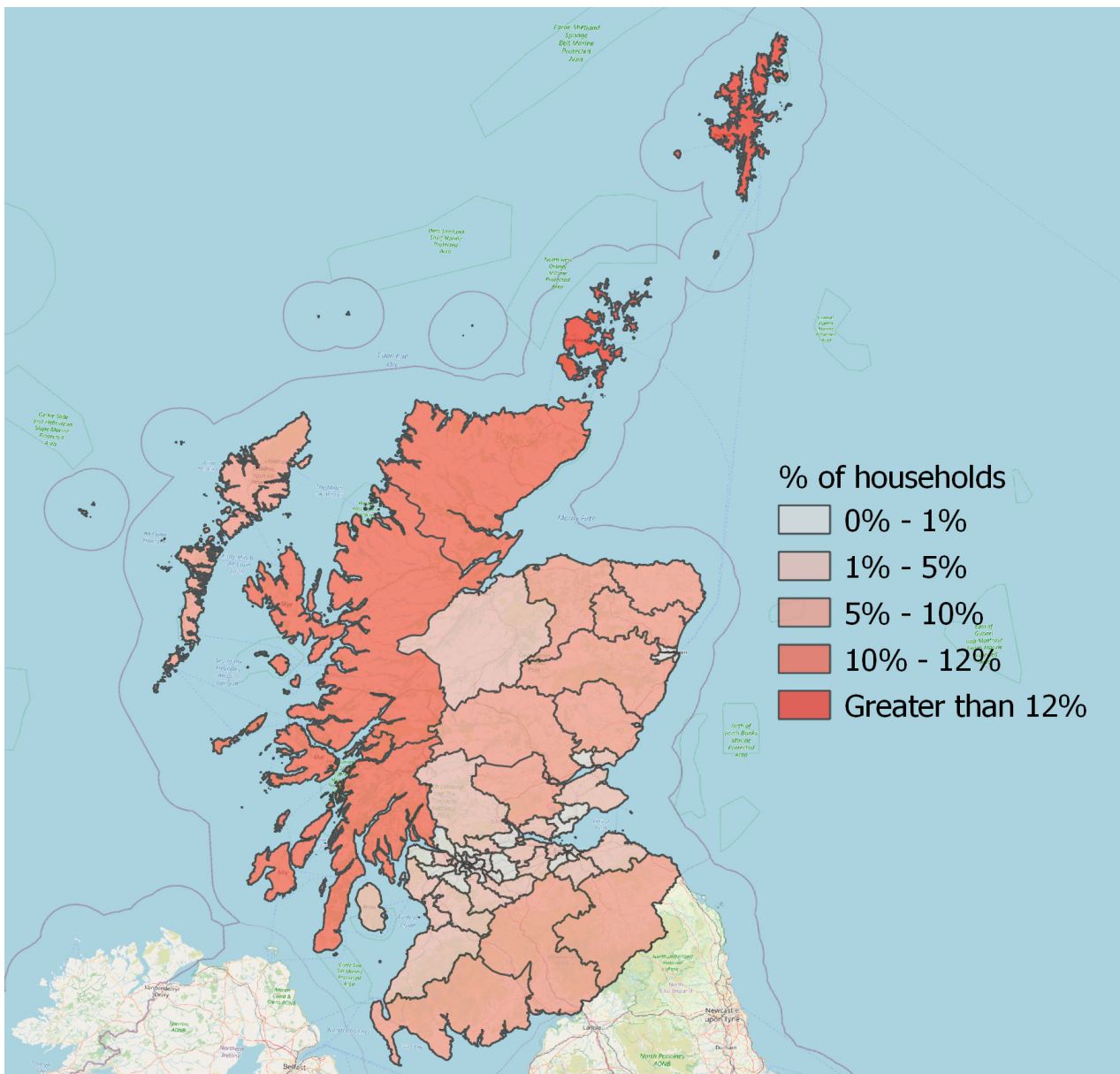


Source: SIMD

Given its size, Highland local authority has the largest road network in Scotland to manage, with 6,766km of road under its responsibility, which is 13% of Scotland's local authority network.

Of course, connectivity is no longer just about physical transport connectivity. Data from Ofcom, as shown in Diagram 2 below, demonstrates that there is investment required in the Highland Council area, with particularly numerous parts of Caithness & Sutherland and Skye and Lochaber in the worst 10% in the UK for connectivity.

Diagram 2: Percentage of premises with slower than 10Mbps Broadband



Source: Ofcom

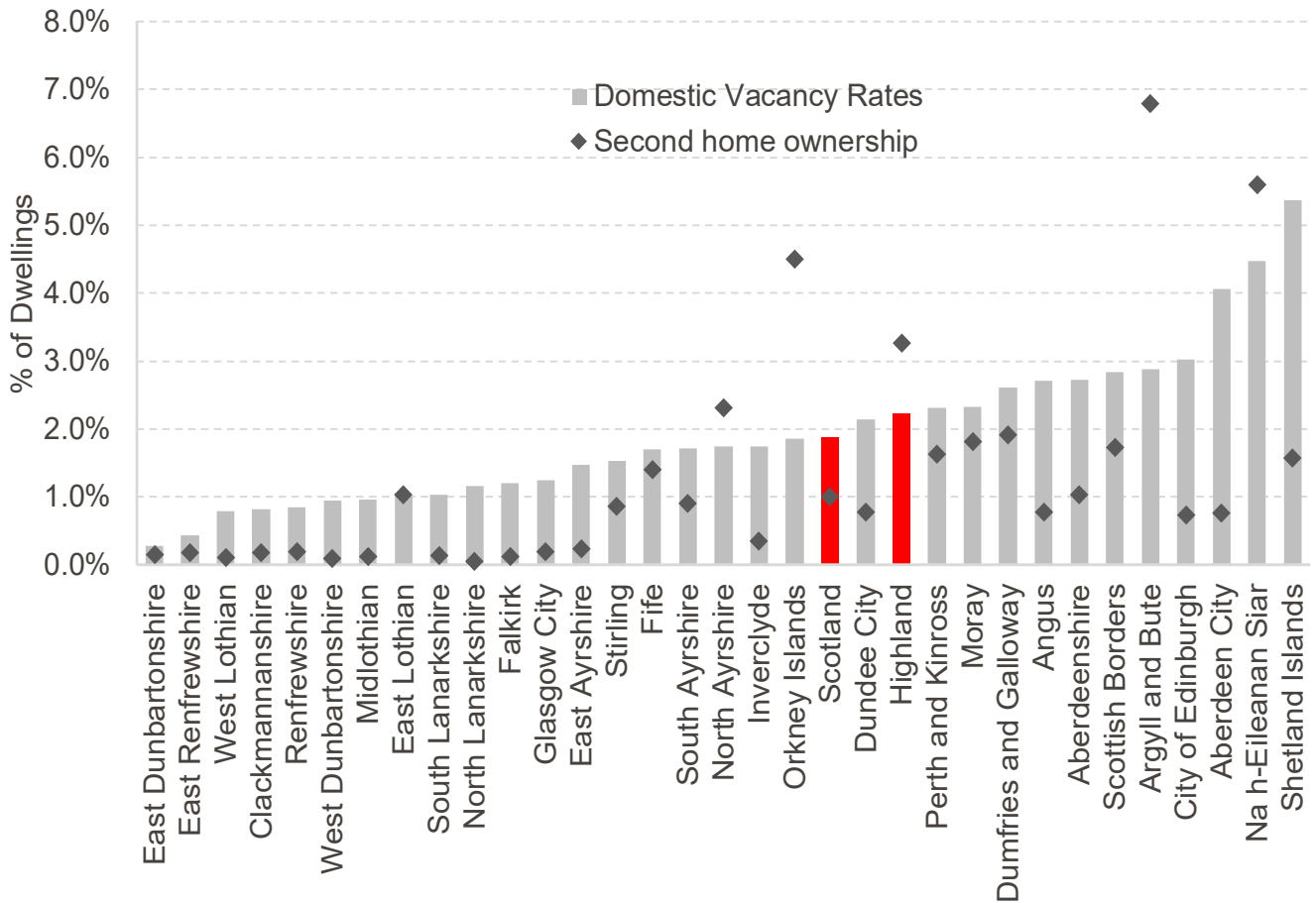
The need for digital connectivity could be considered as a measure to indicate the need for investment.

Economic Regeneration

The need for economic regeneration was represented in the Levelling Up Index using vacancy rate information: for England and Wales both domestic and commercial property vacancy rates were used, but for Scotland only domestic vacancy rates were used due to lack of data.

Highland Council comes just above the Scottish average on the vacancy rate measure.

Chart 7: Domestic Property Vacancy & Second Home Ownership Rates

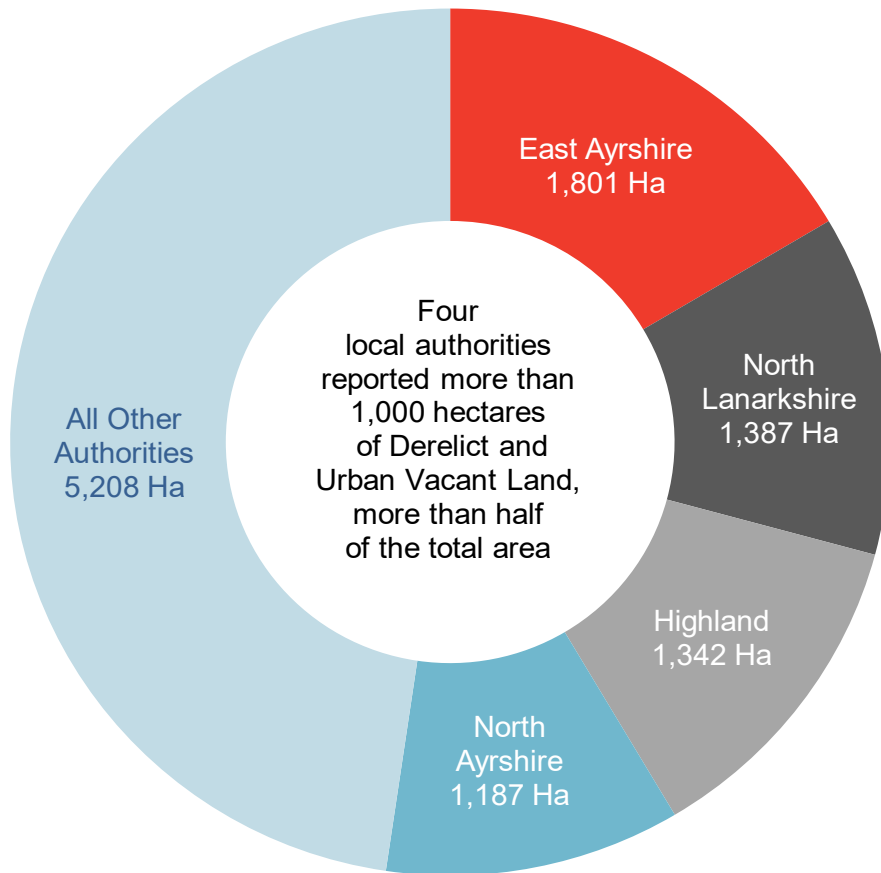


Source: Scottish Government

It is of course debatable whether this is a good indicator of the relative need for economic regeneration. In terms of the challenges faced by rural areas in Scotland, there are also significant challenges of housing supply, with high levels of second home ownership. This can make it difficult to keep young people in the area, which can exacerbate the demographic challenges we discussed earlier in the report.

The physical size of Highland can pose challenges even in trying to understand where there might be vacant or derelict sites that require regeneration. The statistics are not updated every year due to the large geographic area, unlike for most other local authorities. We can see from chart 8 that four local authorities account for around half of vacant and derelict land in Scotland, with Highland having the third largest area going by the latest estimates.

Chart 8: Vacant and Derelict Land in Scotland



Source: Scottish Government

Multiplier effects and connections between areas

One of the requirements for the package of proposals under the first phase of Levelling Up is that the projects can impact on one another, presumably so the investment can generate positive feedback loops and therefore lead to a positive impact that is greater than the sum of its parts.

However, this poses challenges for the huge geographic area of Highland Council. There are a number of quite distinct and separated economies with Highland, due to large distances and geographic features (like the Cairngorms!).

One way to look at the economic conurbations that make up Highland is to consider Travel to work areas.

TTWAs are a geography created to approximate labour market areas. In other words, they are derived to reflect self-contained areas in which most people both live and work. For those involved in labour market analysis and planning, TTWAs are useful for helping build an understanding of local labour markets, for framing local labour market analysis, and in particular for examining the spatial mismatch between labour supply and demand.

So these areas are more economically meaningful than the administrative boundaries that have been drawn for local authority responsibility. These are produced following the census, so the latest set are from 2011.

Box 1: Definition of Travel to work areas

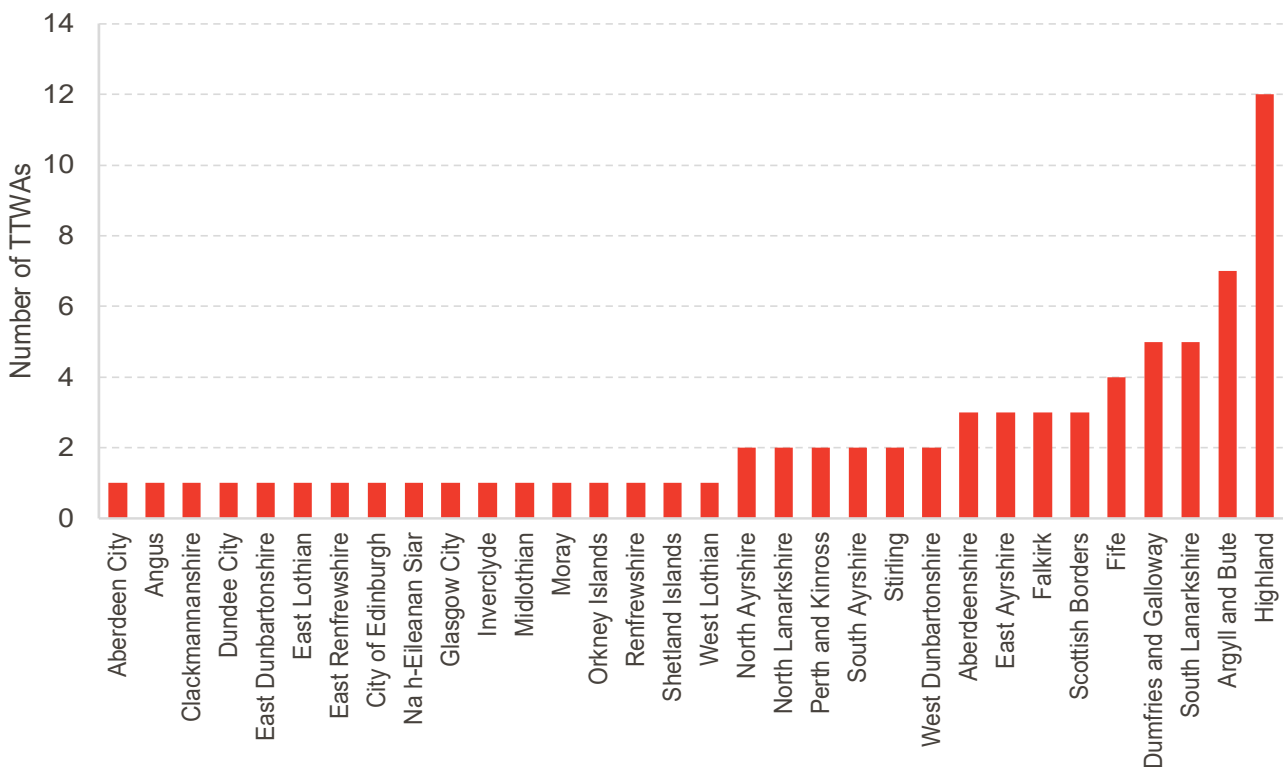
In concept, a self-contained labour market area is one in which all commuting occurs within the boundary of that area. In practice, it is not possible to divide the UK into entirely separate labour market areas as commuting patterns are too diffuse. Travel to work areas (TTWAs) have been developed so that relatively few commuters cross a TTWA boundary on their way to work. As such, TTWAs are based on statistical analysis rather than administrative boundaries.

The current criteria for defining TTWAs are that at least 75% of the area's resident workforce work in the area and at least 75% of the people who work in the area also live in the area. The area must also have an economically active population of at least 3,500. However, for areas with a working population in excess of 25,000, self-containment rates as low as 66.7% are accepted as part of a limited “trade-off” between workforce size and level of self-containment. The resulting pattern is that many areas are much larger than others – indeed, much of London and its surrounding area forms one TTWA.

Scotland has 46 travel to work areas.

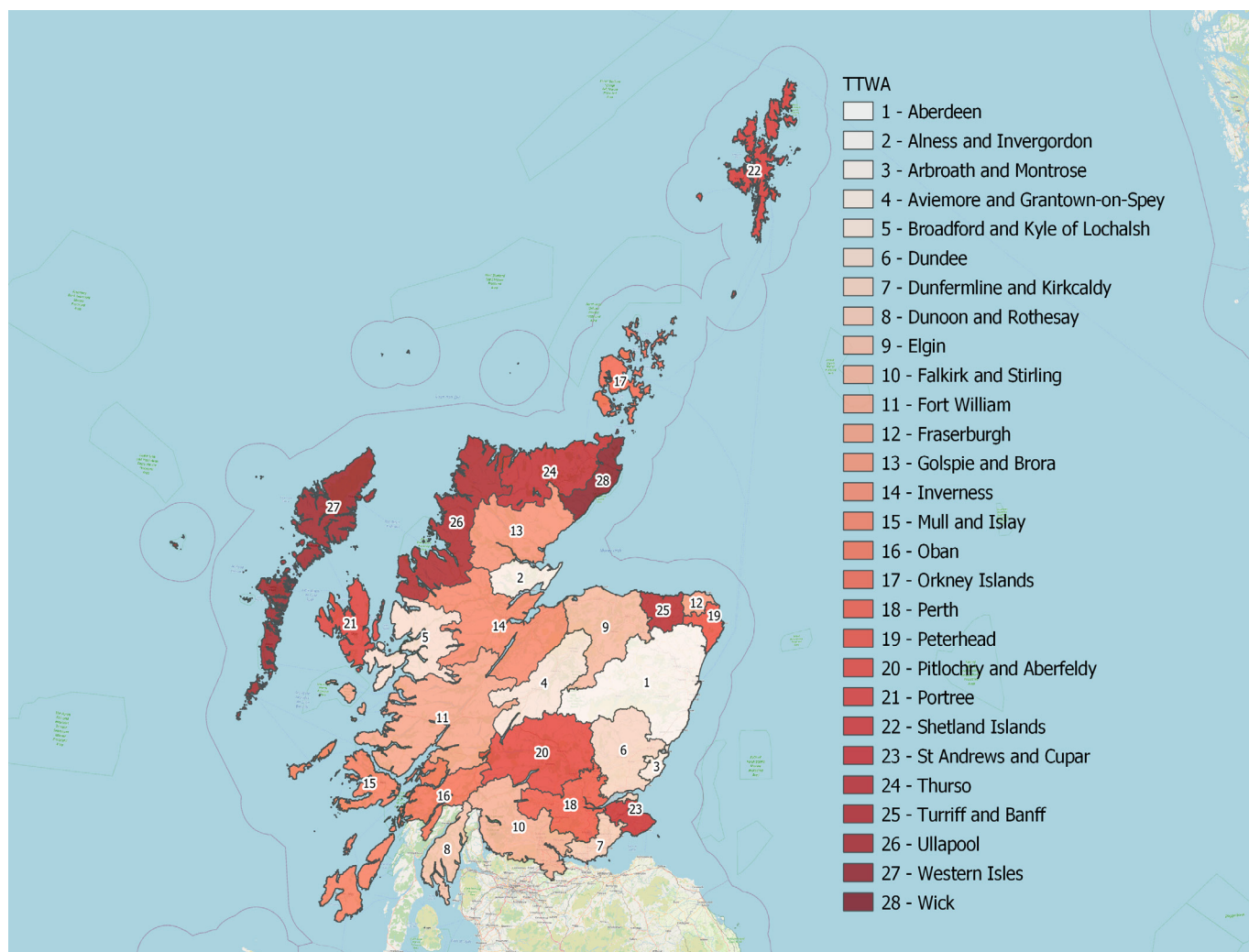
The diagram below shows the TTWAs that make up Highland. Highland has 12 TTWAs, considerably more than other local authorities in Scotland. This makes it much more challenging to demonstrate linkages between these different labour market areas, as there is limited commuting between the different labour markets within Highland. Chart 9 compares across local authorities.

Chart 9: Number of Travel to work areas by Local Authority



Source: ONS

Diagram 3: Travel to Work Areas in Scotland (North of the Central Belt)



Source: ONS

Conclusion

This report has examined the metrics that have been used for the Levelling Up Fund and discussed their suitability to capture need in terms of economic recovery and growth, connectivity and economic regeneration.

Focussing on Highland Council has allowed us to discuss this in the context of the largest local authority in the UK, with one of the sparsest populations.

Our findings are as follows.

- The indicators used to demonstrate the need for economic recovery and growth miss crucial economic factors that will impact considerably on Highland's economic resilience. Some of these measures, such as working age population density, or the outlook for the population, are readily available and could be considered for inclusion in any future assessment of need.
- The differential impact that COVID-19 is likely to have on certain parts of the country should also be considered in decisions on investment. Our modelling shows that Highland is likely to be one of the areas hardest hit by the pandemic, given its sectoral make up.
- Given the focus on investment in transport connectivity in the Levelling Up prospectus, it is critical that the relative need for transport investment is captured for Scotland. Highland Council, and other remote and rural areas, would be given much higher priority if this was done.
- The need for economic regeneration is currently captured fairly crudely. Many of the indicators discussed in the first section, particularly around demography, are relevant for signalling the need for investment to change to projected outcomes.
- The geography of Highland and its 12 separate labour markets make it much more tricky to make the case that different projects within the local authority area impact on one another.

It is also important for us to reiterate and expand on the recommendations from our previous report.

- It is critical that there is a more open consultation with local government (among others, of course) on the allocation of the forthcoming UK Shared Prosperity Fund. This should include a discussion on the appropriate metrics to use to identify need, but should also be used to reflect on the process and criteria used for Levelling Up and Community Renewal. Importantly, it should cover the capacity of local government to respond to these funding calls.
- Future production of any new prioritisation index must be much more transparent than the information published about Levelling Up and Community Renewal.
- A wider discussion is required on the data available to help us make such decisions. Organisations such as the ONS may wish to examine what more can be done to ensure consistent UK wide data to support such processes, to ensure that the indicators are more suitable.

Fraser of Allander Institute

University of Strathclyde
199 Cathedral Street
Glasgow G4 0QU
Scotland, UK

Telephone: 0141 548 3958

Email: fraser@strath.ac.uk

Website: fraserofallander.org

Follow us on Twitter: @Strath_FAJ

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