

MONTHLY ECONOMIC REPORT FOR HIGHLANDS AND ISLANDS ENTERPRISE

No 7 23 November 2009

1. Introduction

- 1.1 This seventh Economic Report for Highlands and Islands Enterprise follows a similar format to the first six reports produced earlier this year. The main purpose is to track impacts of the international and national recessions on the economy of the Highlands and Islands from statistical information, forecasts, news reports and other intelligence, and to highlight areas of growth. The content of the report is intended as suitable for wider circulation, and confidential information that HIE staff will have on specific company performances and prospects, etc, is thus not included.
- 1.2 Following a summary review of key international and national trends and forecasts, the main implications for the Highlands and Islands are drawn out and new statistical information for the area (or for Scotland where relevant) is interpreted, with a summary of positive and negative features. Summaries are then provided for the five Local Authority areas that are wholly contained within the HIE area and for Argyll and the Islands. These include new statistical indicators (mainly unemployment and vacancies) and key local events or announcements between early October and 20 November 2009. Some text is repeated from previous reports where still relevant. The main source material and sources of further information are referenced at the end of the report in Section 8.
- 1.3 It should be noted, in comparisons between recent indicators and those for a year earlier, that the 2008 figures will tend to reflect the early impacts of the recession. It is generally agreed by analysts that it will take some time for the national economy to recover to pre-recession levels.

2. Summary

- 2.1 The key points and implications from this report are that:
 - Despite positive signs from recent statistical indicators, house price trends, and surveys of expectations and confidence that recovery from the international and national recessions is beginning, output is still falling and the speed, strength and nature of the recovery are uncertain. Growth in the UK economy is expected to resume by the end of this year, although expectations by forecasters for next year differ, and some expect a “double dip”.
 - Although up-to-date indicators on output trends in the area are not available, the Highlands and Islands appears to have suffered less than either the UK as a whole or Scotland from the downturn. Unemployment in the area as a whole decreased by 16.3% between March and October in contrast to an increase of 3.5% in the UK and 2.4% in Scotland, although there could be a relatively stronger seasonal increase between October and November in the Highlands and Islands. Notified Vacancies in the Highlands and Islands in October 2009 were 9% lower than in October 2008.
 - The job prospects for recent University and College graduates and school leavers remain poor, and next year’s leavers could face similar difficulties.
 - Sterling’s exchange rate against both the dollar and the euro remains low by pre-recession standards, which will help exports to increase as other countries recover more quickly than the UK from the recession, while making the UK’s tourism industry relatively competitive. Improving the balance of payments is a priority for the UK, especially as the inflow of Foreign

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Direct Investment, which helps to fund the trade imbalance, has reduced and is not expected to recover until 2011.

- The opportunities in the Highlands and Islands highlighted in Section 6 and the positive developments and trends across the region summarised in Section 7 (and in previous Monthly Reports) suggest that further population and employment growth should be realistic aspirations over the short, medium and longer terms, and that HIE's targets of higher average incomes and improved productivity should be achievable through a growth strategy.
- However, as illustrated in Monthly Economic Report No 6, the Highlands and Islands is relatively highly dependent on public sector employment and in employment related to public sector expenditure (e.g. in the construction sector). The region is therefore likely to be particularly badly affected by the inevitable reductions in public expenditure in forthcoming years as the UK economy reduces the high levels of borrowing that it has incurred in combating the recession. This will lead to reductions in employment, and there is a risk that the region's development will be slowed by a lack of funding for public infrastructure.
- Positive events and announcements since early October include: awards for a number of towns from the Scottish Government's Town Centre Regeneration Fund, a new charter flight linking Zurich and Inverness, further expansion plans by Edinburgh Smoked Salmon (Dingwall), plans for two major biomass plants in Caithness, purchase of Glencoe Ski Centre which will enable it to continue operation, strong growth in visits to visitor attractions in most parts of the region, major new funding for EMEC to expand its capacity, a new salmon processing plant at Arnish, major hotel developments in Campbeltown and Machrihanish, and a successful Mod in Oban.
- Negative events and announcements include: 89 Isleburn workers issued with redundancy, 16 Nuvia employees to be paid off at Dounreay, a substantial drop in the volume of fish landings at Lerwick, closure of Marvin's Plumbing and Heating in Stornoway with the net loss of 12 jobs, and the possibility that the passenger ferry service between Jura and Tayvallich will not be viable after its subsidised three year pilot.

There are also renewed fears of major job losses at Kinloss and/or Lossiemouth RAF bases related to the expected public expenditure cuts noted above.

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3. The International Context

- 3.1 Third quarter 2009 GDP figures for the world's main economies show clearly the beginnings of recovery from the recession. Third quarter growth on the third quarter of 2008 was 3.5% for the United States, 4.8% for Japan, 2.9% for Germany and 1.2% for the Euro area. China's growth rate is not available on this basis, but its industrial production in October 2009 was 16.1% up on October 2008. Despite this recovery, however, there was a decline in GDP between the third quarter of 2008 and the third quarter of 2009 of 2.3% in the US and 4.3% in the euro area, with China recording the fastest growth of the world's economies of 8.9% over the year, driven by massive Government spending – mainly on major infrastructure projects. The US recovery is due to stronger consumer spending, an upturn in construction work, and Government programmes such as a scrappage scheme for new car buyers and tax breaks for people buying new homes.
- 3.2 In October, the IMF revised its forecast for world output in 2010 to growth of 3.1%, following an expected contraction of 1.1% this year. China and India are forecast to grow by 9.0% and 6.4% respectively in 2010, and the US and the UK to expand by 1.5% and 0.9% respectively, with 0.5% growth expected for the EU.
- 3.3 More recent OECD forecasts (released November 19th) are as follows:

<i>Real GDP Growth</i>	Quarter 4 on Quarter 4 (% change)		
	2009	2010	2011
United States	-3.0	+2.5	+3.0
Japan	-1.1	+1.4	+2.2
Euro Area	-2.1	+1.2	+2.0
All OECD Countries	-1.0	+2.1	+2.8
World Trade Growth	-7.0	+7.0	+8.0

- 3.4 Unemployment rates internationally (on the ILO measure) remain high, however, with a 9.7% rate for the Euro area in September and a 10.2% rate in the US in October. Consumer prices are now falling in many countries, with an annual reduction in the euro area of 0.1% in October contrasting with 3.2% annual inflation a year previously, and a 0.2% reduction in the US contrasting with 3.7% inflation a year earlier. The OECD expects unemployment in the Euro area to continue to rise to a peak of 10.9% in late 2010 / early 2011, and for its rate of inflation to rise to 1.1% in the 3rd quarter of 2010 before falling back to 0.7% a year later.
- 3.5 The Economist's poll of forecasters in November showed an improved average expectation of a 3.8% reduction in real GDP in the Euro area in 2009 (the expectation in August had been for a 4.4% reduction) and expected 1.2% growth in 2010 (compared with an expectation of 0.6% growth in August). Improved expectations for Germany and France were the main reasons.

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4. The UK Context

4.1 HM Treasury's comparison of 26 new independent forecasts received between November 2nd and 11th showed an average expectation of a 4.6% reduction in the UK's GDP in 2009 (down from 4.3% in September), with all forecasts reviewed ranging from -3.9% to -4.7% (a smaller range than previously). The Treasury's comparison shows an average expectation of 1.2% GDP growth in the UK in 2010 (the same as in July), with all expectations ranging from -0.5% to +2.0%. The IMF expects UK growth of 0.9% in 2010 (up from 0.2% in July). Average medium term projections for GDP in the Treasury's September comparison report were +2.0% in 2011, +2.3% in 2012 and +2.7% in 2013 (none having significantly changed since May).

4.2 The latest indicators provided in the Treasury's Pocket Data Bank as at 24 November include the following. The % change is on a year earlier unless otherwise stated.

GDP	<i>Q3, 09</i>	-0.4%*
Service Sector Output	<i>3 months to Aug 09</i>	-0.2%
Industrial Production	<i>3 months to Aug 09</i>	-10.4%
Manufacturing Output	<i>3 months to Aug 09</i>	-10.9%
Whole Economy Investment	<i>Q2, 09</i>	-5.2%
Goods Exports (vols)	<i>3 months to July 09</i>	-15.5%
Halifax House Prices	<i>Oct 09</i>	-4.7%
Nationwide House Prices	<i>Oct 09</i>	+2.0%
Exchange Rate Index (2005=100)	<i>23rd November</i>	80.5
Bank Rate	<i>latest</i>	0.5%
Long term Interest Rates	<i>23rd November</i>	3.67%

4.3 All of the above indicators that have changed since those as at 1st October, given in Monthly Economic Report No 6 had improved, with service sector output and house prices having improved the most.

4.4 GDP fell at a lower rate in the third quarter than in the second quarter of 2009, (-0.3% compared with -0.6%), with a reduction of 5.1% (a very severe contraction) on the third quarter of 2008. The 0.3% quarter-on-quarter decline in GDP included decreases in all main components. Construction output decreased by 1.1%, production industries output fell by 0.8% (mainly due to a 4.7% fall in oil and gas output), and services by 0.1%.

4.5 Business investment in the third quarter of 2009 is estimated to have been 3.0% lower than in the second quarter and 21.7% lower than for the same period in 2008. The main reduction on the previous quarter by main sector was in private sector manufacturing (-10.1%). Capital spending by hotels and restaurants was down 18.2% on the previous quarter, with business investment in solid and nuclear fuels and oil refining down 46.9%, in textiles, clothing, leather and footwear down 42.9% and in metals and metal goods down 39.2%.

4.6 The reduction of 10.4% in the UK's industrial production in the 3 months to August (see 4.2 above) raised fears of the country's recession lasting to the end of the year.

4.7 The seasonally adjusted volume of retail sales in October was 3.4% higher than in August 2008, continuing the improvement since the year-on-year decrease of 1.6% for May 2009. Predominantly food stores sales rose by 1.6% and those by predominantly non food stores by 3.5%. Clothing stores sales increased strongly, and sales in household goods stores have begun to recover. Quarter on

* revised on November 25th to -0.3%, due to upward revisions to services.

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quarter growth of 3.3% was driven by electrical stores. The British Retail Consortium's Retail Sales Monitor showed an increase of 3.8% between October 2008 and October 2009 on a like-for-like basis. This was the best like-for-like October sales growth since 2002, although the October 2008 figures had been extremely poor following three months of decline in retail sales.

- 4.8 The Treasury's November comparison of new forecasts shows that, on average, fixed investment is expected to fall by 14.9% in 2009, exports by 10.7% and private consumption by 3.1%. Only Government consumption is expected to grow (by 2.3%). Fixed investment is expected to fall by a further 3% in 2010, with modest increases in the other components of GDP.
- 4.9 Unemployment in the UK fell marginally to 2.46 million (on the ILO measure) in the three months to September 2009 – an unemployment rate of 7.8%. Claimant Count unemployment in October rose slightly on the previous month to 1.64 million people – a rate of 5.0% of the workforce (those employed plus claimants). The Treasury's independent forecasters expect (on average) that Claimant Count unemployment will continue to rise to 1.71 million in 2009 and 1.89 million by the fourth quarter of 2010 – about 200,000 people fewer than had been predicted two months ago. This suggests that fears that unemployment would continue to rise strongly even after UK output had recovered are now less prevalent. The number of University graduates without jobs is now around 100,000, including some 70,000 from last year.
- 4.10 Average earnings including bonuses rose by 1.2% in the year to September 2009, down from the August increase of 1.6%. The average increase in the private sector was 0.8% and in the public sector 2.8%. The reduced reduction in pay growth has limited the increase in unemployment.
- 4.11 Retail Price Index year-on-year inflation rose from -1.4% in September to -0.8% in October. CPI annual inflation (the Government's target measure) was 1.5% in October, up from 1.1% in September, but still below the Government's target of 2%. The main upward pressure on prices was from fuel and lubricants – prices falling by 0.7% between September and October this year compared with a 6.1% reduction a year ago (which related mainly to petrol and diesel prices).
- 4.12 The output price index for all manufactured products rose by 1.7% in the year to October 2009, with a 0.4% increase on September 2009. The input price index for materials and fuels purchased by manufacturing industry rose by 0.1% in the year to October, compared with a fall of 7.5% in the year to August.
- 4.13 The price per barrel of West Texas Intermediate was \$79.10 on 17th November – an increase of 45.6% on the previous year. The surge in the price of oil is a threat to the global recovery, and the Bank of England (November Inflation Report) expects inflation to rise above the 2% target in the near term. The Economist's provisional 17th November sterling index of all commodities rose by 0.2% on the previous month and was 13.8% higher than a year earlier.
- 4.14 Britain's public sector net debt continues to rise and stood at £829.7 billion at the end of October (59.2% of GDP) and total net borrowings for the year could now exceed £200 billion by the end of 2009 against the Chancellor's Budget forecast of £175 billion for the financial year 2009/10. Expected economic growth by the end of 2009 and the increase in VAT back to 17.5% on 1st January 2010 will help to reduce the deficit, however. Redressing this £175-200 billion deficit will inevitably require substantial reductions in public spending once the economy has clearly recovered from the recession.
- 4.15 The FTSE 100 index has continued to recover and was 5,342 on 18th November, compared with its lowest level during the recession of 3,512.
- 4.16 The Bank of England's November Inflation Report gives the following prognosis for the UK economy:

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“The medium-term prospects for output and inflation continue to be determined by the balance between two opposing sets of forces. On the one hand, there is a considerable stimulus still working through from the substantial easing in monetary and fiscal policy. The Bank’s asset purchases have helped to boost asset prices and improve access to capital markets. The sterling effective exchange rate lies around a quarter below its mid-2007 level, improving the competitiveness of UK producers. On the other hand, the need for banks to continue the process of balance sheet repair is likely to limit the availability of credit. And high levels of debt will weigh on spending. On balance, the Committee believes that the prospect is for a slow recovery in the level of economic activity, so that a substantial margin of underutilised resources persists. That will continue to bear down on inflation for some time to come, offset in the short run by the impact of the past depreciation of sterling.”

Output is considered by the Bank unlikely to return to its pre-recession level before 2011.

- 4.17 As a continuing boost to demand, the Bank has extended its programme of purchases of government and corporate debt (Quantitative Easing) by £25 billion to a total of £200 billion, financed by the issue of central bank reserves. Because banks’ balance sheets have not yet been repaired, Quantitative Easing has had a modest impact on bank lending. As the economy recovers, the cost of capital is likely to be higher than in the past.
- 4.18 Nationwide, and other housing specialists, believe that house prices are likely to fall again having recently recovered due largely to the limited supply on the market, with mortgage credit still restricted and a wave of new properties expected to come on to the market next spring.

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5. Scotland's Economy

- 5.1 Scotland's GDP fell by 3.2% between the second quarter of 2008 and the second quarter of 2009 (the same reduction as in the UK). The reduction in Scotland's GDP between the first and second quarter of 2009 was 0.8% (seasonally adjusted). In the year to end-June 2009, the Scottish service sector fell by 2.5 per cent, the production sector fell by 5.7 per cent and the construction sector fell by 6.3 per cent. In the second quarter of 2008, the service sector fell by 0.4 per cent, the production sector declined by 1.9 per cent and the construction sector fell by 2.8 per cent. Over the year, service sector GDP fell by more than the UK average, but production and construction GDP fell less sharply.
- 5.2 Unemployment in Scotland fell by nearly 5,815 between August and September 2009, and by a further 59 between September and October, with the rate reducing from 4.2% to 4.0% over the period, and all non Highlands and Islands Local Authority areas experiencing an improvement.
- 5.3 Like-for-like retail sales in Scotland were 1.5% higher in October 2009 than in October 2008, the same rate of growth as between September 2008 and 2009, and lower for both months than in the UK. Homeware and furniture have benefited from stronger customer confidence and better housing market news.

Fraser of Allander November Economic Commentary

- 5.4 The Fraser of Allander central forecasts for Scotland's economy over the next 3 years are as follows:

	2009	2010	2011	2012
GVA Growth (% per annum)	-5.0	0.1	1.1	1.6
Claimant Count Unemployment (%)	4.9	5.8	5.2	4.2

- 5.5 On the most likely "central" scenario, recovery is sluggish, even by 2012, and unemployment will be higher in 2011 than in 2009. Reasons that the Scottish recovery is expected to be weaker than that of the UK include the bias of the Scottish economy towards the public sector, the capacity of Scottish manufacturing to take full advantage of sterling's depreciated exchange rate and the impacts on lending if the two main Scottish banks have a relatively high need to rebuild their balance sheets.
- 5.6 Fraser of Allander's view on 2009 is that third quarter GVA growth in Scotland will be close to the UK's expected GVA out-turn of -0.4%, and that growth of around 0.2% might be achieved in the fourth quarter – less than the expected growth of the UK.

Tourism

- 5.7 According to the UK Tourism Survey, domestic trips to Scotland grew by 1.5% between January and June 2009 compared with the same period in 2008, although visitor nights fell by 6.7% and spending by 4.3%. Visits from overseas, according to the International Passenger Survey, fell by 3%, visitor nights by 4% and spending by 2%. Between January and August 2009, according to the Scottish Accommodation Occupancy Survey, hotel room occupancy was the same as January-August 2008, guest house / Bed and Breakfast room occupancy 3% higher, and self-catering unit occupancy 2% lower. Signs for the global tourism market are more encouraging for 2010.
- 5.8 Homecoming 2009 has been a major success according to interim results, which indicate that the project is on course to exceed the target of £44 million of extra tourism revenue, as well as delivering a range of wider benefits. More than 400 events have been held during the year. The final evaluation of the Year is scheduled for spring 2010.

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Population Growth

- 5.9 New General Register for Scotland projections indicate that Scotland's highest ever population of 5.25 million in 1974 will be exceeded in 2012. Further projected growth to 5.54 million by 2033 would represent an increase of 7% over the 25 years between 2008 and 2033. The number of people of working age is expected to rise by 4% between 2008 and 2018, but then to fall by 2% by 2033 as the population continues to age and life expectancy increases. Projections for Local Authority areas have not yet been released.

Marine Research

- 5.10 In early November, the Scottish Further and Higher Education Funding Council provided £17.4 million to a new alliance of leading marine institutions – the Marine Alliance for Science and Technology in Scotland, which includes SAMS at Dunstaffnage.

Oil and Gas

- 5.11 75% more exploration and appraisal wells were started in the third quarter of 2009 than in the second quarter, although the total of 28 was still 7% down on the same period in 2008. A report by Professor Alex Kemp at Aberdeen University, relating future activity to the oil and gas price, concludes that a “high price” scenario of \$80 per barrel of oil and 70p per therm would provide buoyancy for some years ahead. Under the “medium price” scenario of \$60 per barrel and 50p a therm, near term investment would be sustained, but investment would then drop “noticeably”.

The Economic Recovery Plan Update, 29 October 2009

- 5.12 Key features of the Plan include the following:

Accelerated Capital Spending

- The Budget for 2009-10 accelerates £293 million of capital spending into 2009-10, in addition to £53 million accelerated in 2008-09. In total, this accelerated investment will support over 5,000 jobs in the Scottish economy over the period.
- Local Authorities are investing £90 million to accelerate a range of capital spending programmes spread across Scotland. Argyll and Bute Council is using its accelerated capital grant to refurbish and upgrade its school estate and undertake a number of road and bridge improvements.
- £29 million is being invested to deliver road improvements and enhanced park-and-ride facilities to cut congestion. Transport Scotland has brought forward £23.9 million of capital spend from 2010-11 to 2009-10. Part of this will be used to bring forward the A96 Fochabers and Mosstodloch Bypass.
- Colleges and universities are benefiting from £20.5 million of extra infrastructure improvements through the acceleration of capital spending over 2008-10.
- £5.6 million of the rural affairs and environment capital budget has been accelerated to fund projects like Campbeltown Creamery.

Town Centre Regeneration

£60 million of funding has been made available across Scotland.

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Affordable Housing

- Through the affordable housing investment programme, £644 million will be invested in affordable housing in 2009-10 – on track for approval of an unprecedented 8,100 homes this year.
- Some £50 million is being invested to help kick-start a new generation of council house-building, with further investment coming from local authorities. Some £26 million has been allocated to date to help 17 councils start work on over 1,300 homes.
- An additional £60 million has been allocated to support first-time buyers through the low-cost initiative for first-time buyers (LIFT) open market shared equity pilot scheme. There has been high demand from first-time buyers – over 710 homes were bought through this scheme between April and September 2009.

The Third Sector

The Scottish Government has acted to ensure there are specific funds available to the Third Sector with the potential to mitigate the twin impacts of recession on some organisations of increased demand for their services and cash flow difficulties. The £1.7 million Third Sector Resilience Fund will open between October and December this year. It will provide a one-off financial payment to organisations that can demonstrate they have had to cope with increased demand as a result of the recession.

Skills Support

Funding of £16 million has been provided for an additional 7,800 apprentices, including:

- 2,000 apprentices for the retail sector
- 1,250 health and social care apprenticeships
- 600 management apprentices
- 170 apprenticeship places for early years and childcare
- 500 apprenticeships in the hospitality and tourism sector
- 460 financial and business services apprenticeships
- 410 for the food and drink industry
- 100 home energy and efficiency apprentices
- 50 creative industries apprenticeships

Sustainable Economic Growth

The Scottish Government has set out a blueprint to create tens of thousands of green jobs over the next decade through its ten Energy Pledges. The ten pledges range across key areas of energy generation and transmission, energy efficiency and transport – focusing on addressing the short and longer-term opportunities for Scotland to benefit from its comparative advantages. There are also opportunities, as Scotland emerges from recession, in the export of new environmental technologies and the creation of new rural jobs in biomass and renewable heat.

Innovation

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Measures include innovation vouchers provided by the Scottish Funding Council to meet up to 50% of the costs of new collaborations between universities and Scottish SMEs.

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Creative Industries

Creative Scotland has created an innovative package of projects to support Scotland's artists and practitioners through the downturn. The £5 million Innovation Fund will support and sustain the artistic community, with projects including a Digital Media IP Fund, the "Odd Fellow" awards to inspire collaborations between different sectors, and an enterprise support programme, Starter for Six, for start-up creative entrepreneurs across Scotland.

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6. The Highlands and Islands

- 6.1 The unemployment rate for the Highlands and Islands remained significantly lower than in Scotland or Great Britain in October 2009. On the Claimant Count measure, unemployment in the Travel to Work Areas (TTWAs) in the HIE area was 2.6% in October 2009 (6,838 claimants), compared with 4.0% in Scotland and 4.1% in Great Britain*. The highest local rates were in Wick (4.7%) and Dunoon and Bute (4.4%). The Highlands and Islands October rate of 2.6% increased only slightly from 2.5% in September 2009, but is 50% higher than in October 2008 (1.8%). Details are provided in the November 2009 Unemployment digest produced by HIE's Planning and Economics team.
- 6.2 On the more comprehensive ILO measure of unemployment, which currently tends to be the main indicator quoted for British and Scottish unemployment, the unemployment rate in the Highlands and Islands would be 50-60% higher than its Claimant Count rate. This would give an October 2009 rate of 3.9%-4.2%.
- 6.3 Vacancies notified to Jobcentre Plus offices decreased marginally by 28 between September and October 2009 in the Highlands and Islands, to 1,865 with a reduction of 62 in Argyll and the Islands. The number of live unfilled vacancies in the Highlands and Islands fell by 7.1% over the period, from 1,680 to 1,560. Notified vacancies in the Highlands and Islands fell by 9.0% between October 2008 and October 2009.
- 6.4 The increase in unemployment between September and October in 2009 and the drop in vacancies reflects the end of the tourism season, and a further increase for this reason is expected between October and November.
- 6.5 The main factors which are affecting the Highlands and Islands economy positively and negatively as the national and international economies recover from recession can be summarised as follows:

Positive Factors

- Plans for major new developments in many parts of the region continuing to be brought forward (although implementation of major projects has been delayed in some cases). This reflects the growth impetus in the area, especially around the Moray Firth and in Shetland, that preceded the recession.
- Opportunities to attract tourist visitors from the UK and overseas through the depreciation of sterling, building on a successful 2009 season (as illustrated at 6.6-6.7 below).
- UHI growth through investment in buildings and facilities, and continuing increases in undergraduates and post-graduates (taught and research). Some 241 degrees were awarded in 2007/08 (compared with 235 in 2006/07), while there were 7,625 students (up from 6,847) and 4,742 fee students (up from 4,434). HIE's substantial grant assistance towards the UHI's SDB Programme, Greenspace and the Clinical Research Facility will help support a significant number of research posts and additional students in Caithness, Dunstaffnage / Oban, Inverness and Stornoway.
- A report earlier this year by Oil & Gas UK highlighting a £15 billion market for services needed to abandon nearly 5,000 platforms and wells in UK waters (an opportunity for decommissioning over the next 15 years), with potential opportunities in Shetland and at Nigg (if the yard becomes available for such activity).

* An alternative measure of the Claimant Count unemployment rate for Great Britain based on the workforce rather than on those of working age would be c4.8%.

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- Renewable energy projects continuing to be brought forward. New ownerships of facilities at Machrihanish and Arnish will help the region to maximise engineering-related benefits, and Nigg remains a major potential resource for this sector, particularly offshore wind. As reported under Orkney in Section 7 below, EMEC has received substantial new funding to increase its capacity, and engineering-related employment in both Caithness and Orkney should grow further as Pentland Firth projects come on-stream.
- Export growth, especially where new or expanding markets can be accessed, through the depreciation of sterling and recovery from recession of the major and developing economies.
- Scope to build on the area's success in developing a customer contact centre industry. Employment has increased by 50% in the area over the past five years to 3,400 people in 30 centres, many in smaller or remote communities, with home working a potential future growth area.
- A generally thriving salmon farming sector. As illustrated in Section 7 and in previous Monthly Reports, the major operators have been achieving high levels of profits and are planning to expand, whilst processing is to be re-established in Lewis and Edinburgh Smoked Salmon in Dingwall is expanding rapidly. Salmar, which has a 50% stake in Scottish Sea Farms, which employs about 300 people on the west coast and in Shetland, achieved record pre-tax earnings of £8.25 million in the 3rd Quarter of 2009.

Negative Factors

- Due to the recession and credit restrictions, continuing reduced demand for new housing and shelved private housing developments reducing employment in the construction sector and related trades, and the reduced grant levels for funding house building by the area's housing associations reducing affordable housing development. Between July and September 2009, the volume of residential housing sales compared with the same period the previous year ranged from no change in the Outer Hebrides to -19.1% in Shetland. The average reduction in the Highlands and Islands (c9.5%) compared with a 19.8% reduction in Scotland, with a substantial improvement on the April to June quarter, especially in Argyll and Bute and Orkney. A recently published survey by the Scottish Building Federation's Highland Building Employers Association showed that Construction companies in the Highlands are forecasting a 22% fall in turnover by the end of this year, with employment forecast to have fallen by 11% and recruitment of first year apprentices down 50%.
- The overall cumulative impact on the construction sector and related businesses and other businesses in the engineering sector and the supply chain due to reduced or delayed private sector investment.
- Poor employment prospects for school, college and University leavers in 2009 (and probably in 2010).
- Job reductions in Local Authorities through budgetary pressures (accentuated by the freezing of Council Tax), with a likelihood of substantial public sector spending cuts to enable the Government to repay borrowings and in response to reduced taxation income (especially from 2011).
- A risk of continuing sluggishness in oil and gas related investment, exploration, etc. – potentially affecting the availability of offshore or overseas work for Highlands and Islands residents as well as Highlands and Islands suppliers to the sector.

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- Reduced demand for business services providers in the region, due in particular to employers focusing on core functions and protecting the jobs of permanent staff and to public expenditure cuts.

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- Fragility of businesses with low profit margins, e.g. some food processors.
- Rising unemployment with the end of the tourism season and through those businesses faced by a sustained or increasing reduction in demand unable to economise on operating costs any further through reducing the hours or pay of employees. Major closures or rationalisations have not been as evident in the Highlands and Islands as in previous recessions.
- Rising induced unemployment through reduced spending by those who lose their jobs or have reduced income from their employment, and slowing growth in the retail sector through the reducing rate of growth of the region’s population and the return home of a number of migrant workers.

Tourism

6.6 The September 2009 Scottish Visitor Attraction Barometer Report provides the following evidence of increased visits in 2009 in all parts of the Highlands and Islands. The January to September 2009 figures showed higher increases from 2008 than the January to July annual comparison – i.e. August and September were particularly strong months.

	% change Jan-Sept 2008 on Jan-Sept 2009
Caithness & Sutherland	+0.7
Inner Moray Firth	+13.2
Lochaber	+6.2
Skye & Wester Ross	+11.7
Orkney	+1.0
Outer Hebrides	+10.8
Shetland	+1.2
Moray	+7.5
Argyll and the Islands	+3.1
Scotland	+3.4

6.7 The RET pilot and the introduction of Sunday sailing between Ullapool and Stornoway have helped the Outer Hebrides, although the Western Highlands have also had a very good year. Skye and Lochalsh has had a particularly successful season, with Eilean Donan Castle reporting an increase of around 25% on 2008 to around 300,000 visitors for 2009. The Inner Moray Firth area also had a very good season, and achieved an increase of 18.1% in September 2009 on September 2008. The relatively low increases in Orkney and Shetland could be due to the cost of holidays in these islands and limited scope for short-break holidays from centres of population.

6.8 The tourism industry in the Highlands and Islands might not have as strong a year in 2010, however, even if Sterling’s exchange rate remains favourable. Many British residents have taken the opportunity in 2009 for a “staycation”, and some are likely to revert to overseas holidays in 2010, especially if there is confidence that the country has recovered from recession or if they were disappointed with the weather during their summer 2009 holiday in Britain.

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House Prices

- 6.9 House price trends in the Highlands and Islands from Registers of Scotland data are summarised below. The figures are not available below Local Authority area, and Argyll and Bute can be regarded as a proxy for Argyll and the Islands.

	Average Residential Property Prices			Median Residential Property Prices		
	July-Sept 09 £	Annual Change %	Quarterly Change %	July-Sept 09 £	Annual Change %	Quarterly Change %
Argyll & Bute	157,755	1.5	9.2	133,000	6.4	7.5
Eilean Siar	94,279	-9.4	7.8	85,150	-6.4	10.6
Highland	153,216	-4.8	0.7	136,250	-5.8	-0.9
Moray	143,581	-3.8	4.4	125,000	0.0	4.2
Orkney	115,985	5.8	2.1	108,500	9.0	5.3
Shetland	108,394	-10.3	-3.4	97,118	-17.3	3.9
Scotland	154,453	-3.6	6.1	130,500	-1.1	4.4

- 6.10 House prices are particularly high in Argyll and Bute and Highland, and relatively low in Shetland and the Outer Hebrides, although private sector earnings are also relatively low in the Outer Hebrides (as in Moray), with military and related jobs the main exception.

Military Employment

- 6.11 Recent analysis by Fraser of Allander shows that Moray is relatively highly dependent on military employment. Service personnel in Moray totalled 3,100 ftes, the highest number of any Local Authority area in Scotland, representing 5.9% of its working age population and 6.9% of people in employment. Argyll and Bute has a similar dependence, although much of this employment is not within the HIE area.

Broadband

- 6.12 A recent survey (Press & Journal, 25 November) found that Inverness has the slowest internet connection of any city in Scotland, with an average broadband speed of 2.52Mb compared with well over 6Mb in Dundee, Edinburgh and Glasgow. This is a particular problem for business users needing speedy access to handle large volumes of information. Slow broadband has also been an issue in the Outer Hebrides, and, as noted in Section 7, the Connected Communities project is being reviewed.
- 6.13 A study undertaken for HIE estimated that it would cost in the region of £81 million to upgrade networks to provide Next Generation Access (NGA), which could operate almost 20 times faster than current connections. HIE believes that NGA would be commercially viable for 40% of the Highlands and Islands, and is developing a business case and exploring funding options for the estimated £68 million that it might cost to deliver to the other 60% of the region. A telecoms operator might invest about £22 million of this sum. At present, about 5% of premises are unable to access broadband at all, and 28% are unable to receive it at a speed of 2Mb.

North of Scotland Industries Group

- 6.14 AMEC has recently become the 100th member of NSIG, whose membership has more than doubled in two years. AMEC, which employs more than 21,000 people in 30 plus countries is now the largest NSIG member. HIE provides funding towards NSIG's operating costs, and an evaluation of the impact of this is in progress.

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Gaelic

- 6.15 A study by Highland Council, based on exam results in 2009 by Secondary One and Two pupils across the region, has found that Gaelic-medium pupils have achieved a higher proportion of credit level awards than other pupils over a range of subjects, including English and Maths. These findings support the view that exposure to bilingualism at an early age increases the overall learning capacity of children.

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7. Sub-Regions

7.1 The notes below relate to events and announcements between early October and 20 November.

Highland

- 7.2 The Claimant Count unemployment rate in Highland rose from 2.6% to 2.7% between September and October 2009, having fallen from 2.8% in August. Between October 2008 and October 2009, the number of people unemployed rose by 51.3%, an increase in the rate from 1.8% to 2.7%. The main areas of increase from September to October 2009 were Wick (up from 4.3% to 4.7%), Thurso (up from 2.5% to 2.8%), Badenoch (up from 1.4% to 1.8%), Dornoch and Lairg (up from 2.9% to 3.3%) and Skye and Lochalsh (up from 2.0% to 2.3%). Wick had the highest unemployment rate of the HIE Area Travel to Work Areas in October 2009. The rate in Ullapool and Gairloch fell from 1.9% to 1.8%.
- 7.3 Some 615 people in the Inner Moray Firth had been unemployed and drawing benefit for more than 6 months in October 2009, an increase of 161.7% from October 2008. This was the highest rate of increase of HIE's Area Offices, and much higher than the increases in the rest of Highland: Caithness and Sutherland (+41.2%) and Lochaber, Skye and Wester Ross (+31.6%).
- 7.4 In October 2009, Notified Vacancies in Highland (1,007) were 17.8% lower than in October 2008, and Live Unfilled Vacancies at 762 were 89 down from September 2009.

Events and Announcements

- Nairn has been awarded £800,000 from the second round of the Scottish Government's Town Centre Regeneration Fund for streetscape work, and Fort William £317,000 towards environmental improvements. The bids for Thurso and Wick were unsuccessful, however.
- SSE is to consult on plans for a pumped storage hydro scheme on the shores of Loch Ness at Balmacan between Drumnadrochit and Glenmoriston, which could produce 600 megawatts of electricity. This would be Scotland's largest hydro electric power station, producing up to six times more electricity than the recently-opened Glendoe plant near Fort Augustus. The proposal is at a very early stage.
- Fujitsu has won a further 5 year ICT contract worth £66 million from Highland Council, and has announced plans to establish a "north of Scotland centre of excellence". Twelve Fujitsu staff based at the Council's headquarters will move to this centre once a site has been found.
- A site behind Inverness Retail and Business Park is the preferred location for a new £40 million prison (HMP Highland). The facility could be built by the end of 2015.
- Inverness-based engineering recruitment firm Orion has signed an agreement with Shell as its preferred supplier of generic technical manpower for its worldwide operations. The company's turnover is expected to reach £287 million this year, compared with £175 million in 2007, and £370 million in 2012. The company expects to take on up to 30 additional staff in the next 18 months.
- Inverness businessman Doug McGilvray (Weldex) has won an award as best chief executive in Scotland and Northern Ireland from the British Venture Capital Association. Weldex made a profit of £7.9 million in the year to November 2008 on a £26 million turnover, and has 22 cranes working on the London 2012 Olympics site.

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- A 400 tonne feed barge constructed at Gael Force's Thornbush yard in Inverness has been completed for a Norwegian fish farm, the first of the company's new generation of open water barges with living quarters. Expansion plans include rolling out the Marine MegaStore retail concept which has been successfully trialled in Inverness, entry into the marine renewables engineering and fabrication market and developing floating homes for inland waterways and dockland developments throughout the UK.
- HIE is to spend £750,000 on a design team and consultation for the Beechwood Campus.
- A new charter flight linking Zurich and Inverness is to operate weekly between May and September in 2010, with 3 year funding from HIE. The 100 seat plane could bring up to 2,000 visitors per annum to the Highlands.
- A £4 million five-star 37 bedroom boutique hotel is to open in Inverness next spring. The Kings Club will be built in the grounds of the Kingsmills Hotel, for which a £7 million extension is planned, adding 56 bedrooms and a suite of five conference rooms to the 80 bedroom hotel. The Kingsmills has been running at around 90% occupancy, and the new 90 bedroom Ramada Encore Hotel in the city centre achieved 93% occupancy during July and August.
- Highlander Music, based at Muir of Ord, is to take over the Beauly Centre building, a heritage centre that was put up for sale in June by the Beauly Firth and Glens Trust. Much of the building would be taken up with storage, but the business plans to retain the existing bookshop and gift shop.
- British Waterways has plans for a 62 mile canoe trail from Inverness to Fort William, with low level pontoons and informal camping sites en route. A project officer is being recruited.
- According to the Inverness Polish Association, the number of Poles in the city has fallen from around 8,000 to around 5,000 due to the recession, although some are returning and other new Poles are arriving in Inverness.
- Vertex, with HIE support, is piloting a homeworking project that will create up to 15 jobs in the seaboard communities of Easter Ross. Recruits not normally able to work in a traditional workplace – due to disability, home-care responsibilities, lack of access to transport, etc – are being targeted.
- Dingwall-based Edinburgh Smoked Salmon is planning a £2 million extension that could create 100 new jobs and secure the existing 250-300 workforce. The company is the sole supplier of Asda-branded smoked salmon products to all of its 350 UK stores, and has experienced sales growth from £8.5 million to £23 million per annum.
- The slump in demand for oil and gas has increased rig servicing at the CFPA base at Invergordon. In early November, 500-600 people were employed in servicing seven rigs berthed in the Cromarty Firth. A record number of cruise ship passengers (48,787) visited Invergordon this year, generating benefits estimated at more than £7 million in the area's economy, with a 20% increase in passenger numbers expected in 2010.
- Some 89 Isleburn workers have been issued with redundancy notices due to a downturn in oil and gas-related work.
- Burghfield House Training Hotel in Dornoch has been opened by North Highland College UHI as a fully operational hotel with six letting bedrooms, 40 seat restaurant, production and training kitchens and a private dining and conference lounge, following a £3.8 million conversion of a historic hotel.

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- Royal Dornoch Golf Course has risen (from 18th) to a ranking of 15th best golf course in the world in the US GOLF Magazine's recent review. Machrihanish is rated 92nd best, with Great Britain and Ireland having 28 courses in the magazine's top 100.
- The Caithness and North Sutherland Regeneration Partnership helped to create 120 jobs and £24 million of investment in the year to October 2009 in its priority areas of energy, the environment, engineering and tourism.
- Plans have been announced to build two biomass heat and power plants at Georgemass and Forss in Caithness in the next 12-18 months at a cost of £35 million. Some 20-30 people will be needed to operate the two sites, and around 100,000 tonnes of timber, much of which would be delivered by train.
- Ofgem has said that it is proposing to approve £77 million for development of the electricity transmission infrastructure in the north of Scotland by 2012, including strengthening the grid connection between Dounreay and Beaully with a new substation at Knocknagael to support investment in Pentland Firth tidal and wave power over the next five years (estimated at a value of £200 million).
- 16 Nuvia employees are being paid off at Dounreay from 1 April 2010, with six DSRL workers deployed to other decommissioning jobs on the site.
- Caithness could, however, benefit from construction work associated with the new nuclear power stations planned for England and Wales through its established businesses manufacturing, assembling, testing and refurbishing components.
- A local pressure group, Cinema for Thurso, has launched a campaign to save the All Star Factory cinema complex and bowling alley in the town that closed at the end of September.
- A Gaelic development officer has been appointed in Caithness, who will oversee preparations for next year's Mod as well as having a wider Gaelic learning and development support role. The Mod could attract 9,000 people.
- The Scottish Government has pledged £20 million towards a £30 million rebuild of Wick Academy.
- Sail North Scotland Marinas Association, comprising marinas in Wick, Shetland, Orkney and Inverness, has received a £5,000 grant from the VisitScotland Growth Fund. The award will be used to raise awareness of the "Viking Trail" – the route linking north Scotland to Scandinavia.
- A £300,000 hydro project is being carried out at the Kilmalieu Estate in Ardgour by the Abernethy Trust, with the support of Highlands and Islands Enterprise. Income from the project will allow the continued growth of the charity's core outdoor education business.
- The Lochaline community in Morvern has raised funding to renew its village filling station equipment and is now investigating a community land purchase to help create employment following closure of its silica mine in December 2008 with the loss of employment of 10 people, all of whom are still seeking full time employment.
- Glencoe Ski Centre has been taken over by Falkirk businessman Andy Meldrum, a snow enthusiast. The ski resort will open this winter with six full-time workers and about 30 seasonal staff. More jobs could be created through plans to add mountain-bike trails, an adventure playground, dry ski slope and an archery range in time for summer 2010.

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- Toravaig House Hotel in Sleat has been crowned the Taste of Highlands and Islands restaurant of the year. The owners completely renovated the building six years ago.
- Macdonald Aviemore Highland Resort reported that a total of 220,000 people stayed at the resort for the 12 month period up to September 30, a 9.1 per cent increase on the period from October 1st, 2007 to the end of September last year. The business sold 73,000 rooms, up 3,600 (five per cent) on the previous year, but the real growth came in the four months June to September, with an increase of 5,100 rooms sold, up 16 per cent. An £80 million expansion plan for the resort, which could create more than 300 jobs, include more hotel rooms, residential and office blocks, additional shop and a town square; although the recession may delay development for around three years.
- With strong public support, the Strathspey Railway Charitable Trust is progressing £5 million plans to extend the Strathspey Steam Railway from Aviemore to Grantown, possibly by late 2014. An initial £1 million target has been set within the next year which will provide the Trust's contribution to constructing a tunnel beneath the A95 Aviemore-Keith road at Gaich – one of the main hurdles to restoring the rail link. Highland Council has sold a station building in the Woodlands area of Grantown to the Trust for £1, and a project manager is being recruited.
- CNPA has approved plans for a £9 million new primary school in Aviemore, which will also incorporate a library, Council service point and nursery facilities, as well as a community sports field.
- Cairngorm Brewery has applied for planning permission to build a bottling hall, storage building and office space at its site at Dalfaber industrial estate. The first phase will create three jobs, while the second will include a new brewery and malt store, with at least five new jobs. The final phase will involve the removal of the old brewery building and shop, and construction of a first-floor visitor area, including viewing areas, catering and a new shop, with brewery tours being provided for visitors.
- Balmenach Distillery near Cromdale, part of Inver House Distillers Ltd, has begun making gin using traditional methods, as well as fine whisky. Gin does not have to be aged for years like whisky, and the product has been launched in Scotland and England.

Shetland

- 7.5 The Claimant Count unemployment rate in Shetland in October (1.4%) was unchanged from September, having fallen from 1.5% in August. 48 more people were unemployed in Shetland in October 2009 than a year earlier, when the rate was 1.1%.
- 7.6 Notified Vacancies in October 2009 at 91 were 21.6% lower than in October 2008, although they had increased by 12 from September 2009. Live Unfilled Vacancies in October 2009 were 30.7% lower than in October 2008.

Events and Announcements

- Shetland Islands Council's proposed five year capital programme plan incorporates expenditure of around £160 million on new buildings and maintenance in the next five years, including a projected spend of around £47 million in 2010/11 on the new Anderson High School and housing.
- Total E & P UK Ltd has applied for planning permission to build a gas processing plant together with pipelines and associated roads at land close to the Sullom Voe Terminal. The company has also applied for a works licence to enable development of the Laggan-Tormore gas condensate

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fields west of Shetland. Early plans envisage around 150 workers coming to Shetland in phase one of the work, who would be able to be accommodated locally at hotels and guest houses.

In Phase Two, numbers would go up to about 450 by 2011, rising to 700 by 2012, and the company is actively considering housing the workers in temporary modular units at Sella Ness, near to the construction site. They would provide accommodation for around 500, with the remainder being housed locally.

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Once built, the Total gas processing plant will require about 60-70 permanent employees to operate the plant and remotely operate the offshore wells.

- Oil company Dana Petroleum has discovered an oil and gas reserve off Shetland. The Aberdeen-based company is part of a consortium that has been drilling in the Tornado well 80 miles west of the isles. Tests are being carried out to determine the overall size of the new field. The discovery is close to the Schiehallion field, which ships oil to the Sullom Voe terminal.
- Engineering company AMEC has been appointed by BP to test the potential for further development in the Clair oil and gas field in the North Sea. The Clair field has been one of the largest undeveloped reserves on the UK Continental Shelf. The first stage of the development started up in February 2005 and accessed an estimated 250 million barrels of oil. The next stage will target the Clair Ridge area of the field, which has been extensively appraised over the last three years.
- Street furniture and plants, improved access to the lanes and better lighting are to be introduced in a bid to enhance the appearance of Lerwick town centre after a grant of just over £300,000 was awarded from the Scottish Government's Town Centre Regeneration Fund. It will go towards a series of projects costing £627,000 put forward in the recently published Lerwick Town Centre Action Plan 2009-2012. Other work will include signage and information boards, improvements to commercial premises and improvements to the small boat harbour already underway.
- A 3,000 sq metre office development has been approved by SIC for North Ness business park, on the site of the former WAG construction base.
- A planning decision on the controversial Viking Energy windfarm in Shetland will be delayed well into the New Year after the company announced they would lodge a revised application for a smaller windfarm. The developer said that they had listened to public opinion as well as the objections received from SNH, SEPA and the RSPB.
- Householders and community groups in Shetland have been deterred by operator SSE from connecting new wind turbines to the local electricity grid for the next four years. The islands' stand-alone 40MW grid can only cope with a limited amount of "non-firm" generation – electricity coming from an inconsistent source such as wind.
- SIC's development committee has approved a £150,000 budget to help launch external organisation Shetland Telecom. It is hoped that hooking into the fibre optic cable laid from Faroe to Scotland to Shetland's network will improve broadband reliability, boosting communication links for businesses and households. This initiative follows BT's reluctance to help improve broadband services in the isles imminently, although Councillors would still help BT to bring its own plans to fruition.
- The Hillswick shop is re-opening after being completely refurbished by the local community. The century-old establishment was purchased in July by the Northmavine Community Development Company (NCDC), with the help of a £50,000 grant from HIE's Community Land Unit. Around 90 per cent of the work has been carried out by local volunteers.
- The volume of fish landings in Lerwick fell by almost half in the first nine months of this year compared with the same period in 2008, according to the Port Authority. By value, however, the drop was much smaller at 3.8 per cent, the result of the decision by Shetland Fish Products to concentrate on handling offal from pelagic and salmon processors at the expense of industrial landings at the fishmeal plant at Heogan in Bressay.

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- Local organisers of the visit of the Tall Ships Race to Lerwick in two years are confident of raising £400,000 in sponsorship. Lerwick, as one of the host ports for the event, hopes to attract more than 70 tall ships, with a total crew of about 3,000 sailors.

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- Shetland Amenity Trust has received a £683,000 grant from the Heritage Lottery Fund towards restoring the 188 year old Sumburgh lighthouse and improving access. The existing engine room will be refurbished and used to interpret the story of the lighthouse and the Stevenson family, while the radar huts will be opened up to tell the history of the site during World War Two. There will also be an interpretation facility featuring the natural heritage of Sumburgh Head. The West Pavilion will be developed into self-catering holiday accommodation, generating income to maintain the other buildings.

Orkney

- 7.7 Remarkably, Orkney's Claimant Count unemployment rate in September 2009 at 0.9% was no higher than it had been in September 2008 (possibly uniquely within the UK), although there was a small increase to 1.0% in October 2009, which compares with 0.9% in October 2008.
- 7.8 Notified Vacancies in Orkney in October 2009, at 49, were up 17 from September 2009 and 19 higher than in October 2008. Live Unfilled Vacancies in October 2009 (20) were similar to the numbers a month and a year earlier.

Events and Announcements

- Funding worth £8 million from the UK Government's Department for Energy and Climate Change will support the creation of four nursery sites to add to EMEC's capacity, two for tidal and two for wave machines. These will allow developers to trial smaller scale marine energy devices – as well as full size prototypes – in less challenging sea conditions than those experienced at EMEC's main test sites.

EMEC is also to receive an extra £2.5 million to provide extra infrastructure for wave and tidal test sites and two new posts – a technical director and a commercial director. The new funding will be made up of £1.45 million from the Scottish Government, £400,000 from Scottish Enterprise, £578,000 from HIE and £187,000 from Orkney Islands Council.

- The world's largest working hydro-electric wave energy device, known as 'Oyster', was officially launched on 20 November. The device, developed by Edinburgh wave energy company Aquamarine Power, is currently the world's only hydro-electric wave energy device which is producing power. This will be fed into the National Grid to power homes in Orkney and beyond. A farm of 20 Oysters would provide enough energy to power 9,000 three bedroom family homes.

Developing Oyster's prototype to the point where it can deliver power to the grid has cost around £11 million, with Aquamarine estimating it will require around £30 million more to take the technology into the commercial marketplace. The Scottish Government has recently announced funding worth £975,000 to help Aquamarine to create the next generation Oyster Two machine.

- Fred Olsen Renewables has invested £6.2 million in Stromness-based Scotrenewables (Marine Power), which is testing a one-fifth scale prototype of its tidal turbine.
- Orkney Islands Council has commissioned Energy4All to investigate starting up a community-based energy company in Orkney. The company would offer Orkney residents and businesses the chance to make investments in local renewable energy developments while maximising opportunity for profits generated by renewable energy to remain in the Orkney community.
- Stromness has received £381,000 from the Scottish Government's Town Centre Regeneration Fund to install high speed fibre optic cables and to replace concrete paving within the town's conservation area with flagstone.

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Outer Hebrides

- 7.9 The Claimant Count unemployment rate in the Outer Hebrides increased from 3.3% in September to 3.6% in October 2009, having fallen from 3.4% in August. The increase in the rate from October 2008 to October 2009 (+66.1%) was the highest increase of HIE's nine Area Office areas. The number of long term unemployed in the Outer Hebrides (205) in October 2009 was up 105% from a year earlier.
- 7.10 Notified Vacancies in October 2009 at 57 were 34 lower than in October 2008 (-37.4%), and Live Unfilled Vacancies at 29 were 31 lower than a year earlier (-51.7%).

Events and Announcements

- HIE has approved a new 25-year lease at Arnish Point, Stornoway, for a new salmon processing plant and the creation of up to 100 full time jobs in a project worth around £5 million. In December 2008, the Lighthouse Caledonia facility at Marybank, Stornoway was closed with the loss of 130 jobs, but under different ownership and with a new board in place, the business believes Arnish will provide opportunities for future expansion and upgraded facilities. The new Arnish factory will be one of very few globally that can fillet salmon immediately after the fish have been harvested, guaranteeing premium quality and extending shelf life.

Lighthouse Caledonia achieved profits of £4.3 million before interest and taxes in the 3rd quarter of 2009 compared with £495,900 in the 3rd quarter of 2008, with operating revenue up £8 million. In addition to the new plant at Arnish, the firm, based at Cairndow, Argyll, intends to develop new sites with EU funding during the next year.

- Marine Harvest has said that no inshore salmon farms will be closed as a result of creating four deep-water super sites off the Outer and Inner Hebrides. The company are currently analysing seabed quality and wave heights at 12 candidate sites within the Western Isles, Highland and Argyll and Bute council areas. More than 40 jobs will be created at the four selected sites. The sites will not become operational until 2012, although the final four will be chosen early next year, with planning permission being sought by the end of 2010.
- The Comhairle's Planning Committee has granted planning permission for a windfarm outside Stornoway (Pentland Road), despite its location within the Lewis Peatlands SPA.
- Stornoway town centre is set to undergo a major redevelopment following a grant from the Scottish Government's Town Centre Regeneration Fund of £1.5 million. The money will be used to infill Broadbay Estuary near the new Bridge Centre to provide extra land for development and parking. It is also hoped to create new retail premises and provide some space for open-air entertainment, while there are proposals for improved signage in the town.
- More than 100 houses for rent could be built in the Western Isles through a new deal signed between the Local Authority and the Scottish Government. The Scottish Government has now agreed in principle to overcome some of the previous difficulties which Hebridean Housing had in funding the completion of housing projects which had been agreed as part of the original stock transfer process.
- Stornoway based I Marvin (Plumbing and Heating) Ltd has officially folded after 70 years of trading, due largely to lack of work and economic recession. The 20 employees at Marvin's have been officially made redundant but eight have been re-employed by Nairn-based Highland Alternative Energy Limited, who specialise in green-energy systems for homes, such as ground source heat pumps and small wind turbines.

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- The Wool Development Group in the Uists has commissioned a feasibility study to examine the prospect of establishing a mechanised micro-spinnery.

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- Equateq Ltd, a pharma and neutraceutical business based in Breasclete on the Westside of Lewis, has received assistance from HIE Innse Gall for an innovative R&D project within the Life Sciences sector which is part of a comprehensive phased expansion plan. The project is expected to lead to high-spec jobs, continued investment and business growth in a remote and fragile area.
- Following the reprieve on the proposals to reduce QinetiQ's workforce in the Uist area, HIE staff are actively engaged with partners in the Hebrides Range Taskforce to create an economic diversity plan for the Uists and develop opportunities for defence and aerospace diversification and expansion. The aim is to focus policy and activity on creating a successful Uist economy and exploiting the opportunities provided by these unique assets in our area.
- HIE, Comhairle nan Eilean Siar and NHS-Western Isles are reviewing the Connected Communities wireless broadband network project with a view to agreeing a forward strategy with longer-term public sector contracts that will assist in achieving financial sustainability. The network currently serves around 90 public sector sites and some 1,400 business and residential customers across the whole archipelago.
- Comhairle nan Eilean Siar has commenced contractor tendering processes for a new Creative Industries and Media Centre in Stornoway, adjacent to the existing television studios and production offices at Seaforth Road. The new Centre will provide additional space to support growing television production connected with BBC ALBA and ensure that activities can take place in close proximity to the commissioning body, MG ALBA. The building will offer some 1,100sqm of high quality accommodation and is expected to be ready for occupation in October 2010.
- Following a scoping study in late 2008, Comhairle nan Eilean Siar is leading a steering group of agencies, including HIE and SNH, to develop a wave energy zone off the west side of the Outer Hebrides. Initial discussions have indicated the need to address environmental planning and survey activities in the early stages of development prior to the proposed wave zone being recognised as a regional initiative by the Scottish Government. Developer interest has already emerged from the wave energy sector, reinforcing the partner agencies' ambitions to exploit the significant natural resource available on this part of the North-west Atlantic coast.
- RWE nPower Renewables has confirmed that it is reviewing the 4MW near-shore wave power project planned for Siadar in North-west Lewis in an attempt to make it economically viable. The company is lobbying the Scottish Government to revise the current bar on marine energy projects accessing Renewable Obligation Certificates (revenue) income and capital grant support in order to ensure that the prototype development can proceed.

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Moray

- 7.11 Claimant Count unemployment in Moray in October 2009 remained steady, having fallen to 2.2% in September from 2.6% in August. 33.4% more people were unemployed in Moray in October 2009 than a year earlier.
- 7.12 Notified Vacancies in October 2009 in Moray (492) were 128 higher than a year earlier (+35.2%) and 55 higher than in September 2009 (+12.6%). Live Unfilled Vacancies in October 2009 (479) were 20.4% higher than a year earlier and 13.2% higher than a month earlier.

Events and Announcements

- Moray Council will need to make spending cuts of more than £20 million over the next four years, reducing its expenditure in the current year of £195 million to around £179 million by 2013/14.
- News stories report that, as part of a package for the 2010 annual spending round, the RAF is preparing to cut 10,000 staff – a quarter of its manpower – and close up to five large air bases. One of either RAF Marham in Norfolk or RAF Lossiemouth in Moray is under threat because of planned cuts to joint strike fighter numbers, and the new Nimrod MRA4 could move from Kinloss to RAF Waddington in Lincolnshire. HIE's Moray Office is monitoring developments.
- Elgin, Lossiemouth, Buckie and Forres have together received £670,000 from the Scottish Government's Town Centre Regeneration Fund, following rejection of the bid for first round funding. The total cost of the initiatives will be £954,000.
- Morrison Construction has won the £31.5 million contract to design and build the Fochabers-Mosstodloch bypass, with work beginning before the end of the year.
- Homeware retailer Matalan has opened as the first occupant of Elgin Retail Park in Edgar Road, and will employ almost 100 staff.
- The Robertson Group posted pre-tax losses of £2 million in the year to November 2008 following profits of £11.9 million the previous year, whilst Robertson Homes posted pre-tax losses of £8.1 million, with a major element a significant writedown on its land bank. The company is, however, confident that it is well positioned to exploit the next growth cycle. In total, the Group now employs 1,106 people, compared with about 1,000 a year ago, and had 42 vacancies as at early October.
- Whisky distiller William Grant made pre-tax profits of £88.9 million in 2008 compared with £86.2 million in 2007, with turnover up by 17%. Competition was expected to intensify, however, due to a slowdown in industry exports and the economic climate.
- James Johnston & Co's pre-tax profits fell from £2.1 million in 2007 to £859,000 in 2008. In Elgin, the retail business has enjoyed a much better year in 2009 as the effects of a weaker pound, increased tourist and visitor numbers and the benefits of a £1.5 million investment in new heritage and visitor centre and courtyard shop are starting to pay dividends. The Elgin manufacturing business suffered from the financial crisis in the early part of the year as customers worldwide destocked, ordered much later than in previous years and operated within much tighter fiscal constraints generally. The company has continued to invest heavily in new plant and equipment during 2009, however. The company's balance sheet and cash position remain strong, and it is well equipped to take advantage of an upturn in the global economy, which it expects to be slow and gradual.

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Argyll and the Islands

- 7.13 The number of people claiming unemployment benefit in Argyll and the Islands fell marginally by 0.8% between September and October 2009 to 1,184, having fallen by 5.1% between August and September. The two TTWAs in the area with the highest unemployment rates both achieved improvements in recent months, the rate in Dunoon and Bute falling from 4.8% in August to 4.4% in October, and the Campbeltown rate from 4.0% to 3.8%. Of the TTWAs in the HIE area with a relatively high urban concentration, the Campbeltown rate rose the least between October 2008 and October 2009 (from 3.4% to 3.8%). Dunoon and Bute now has the second highest unemployment rate of HIE area TTWAs.
- 7.14 Notified Vacancies in Argyll and the Islands fell by 62 (-26.8%) between September and October 2009, and by 24 (-12.4%) between October 2008 and October 2009. Live Unfilled Vacancies in October 2009 (198) were 12 higher than in October 2008, but 70 lower than in September 2009 (-26.1%), perhaps reflecting the end of the tourism season.

Events and Announcements

- Southworth Development LLC of Boston, Massachusetts, through its subsidiary Kintyre Development, plans to restore the Ugadale Hotel in Machrihanish and the Royal Hotel in Campbeltown. Funding of £1.12 million towards the project has been approved by HIE, with a further £744,000 from ERDF. The project will build on the previous investment in the new Machrihanish Dunes golf course, an 18-hole links course formally opened in July this year and also owned by Southworth. It has developed a golf shop, bar / restaurant and modern apartments at Machrihanish, available on a freehold fractional ownership basis.

Built in 1898, the Ugadale Hotel in Machrihanish overlooks the famous Machrinhanish Golf Course and the completed hotel will comprise 21 rooms, a malt whisky bar and seafood restaurant. The Royal Hotel, located in the centre of Campbeltown, will be comprehensively refurbished to provide 23 rooms, including three suites, a bar and an oyster and seafood restaurant. Southworth aims to complete the projects by spring 2011.

- Bowmore and Dunoon have each received £300,000 from the Scottish Government's Town Centre Regeneration Fund. Oban did not receive funding, which is a potential setback for plans for a 60-berth short stop pontoon development in the town by Oban Bay Marina. Tarbert received funding through the first round.
- Affordable housing provision will be improved through Argyll and Bute Council's planning consent for 88 new homes in Lochgilphead on the former high school and hospital site.
- Oban biotechnology company GlycoMar has acquired the assets related to commercial seafood safety testing carried out by Integrin Advanced Biosystems at nearby Barcaldine. This was made possible by a £260,000 cash injection from investors, including Scottish Enterprise and HIE. The acquisition secured nine jobs.
- The Original Factory Shop is to open in the former Woolworth's store in Campbeltown, providing 20 jobs.
- Lakeland Marine Farm Ltd plans to develop a salmon fish farm that would create four full-time and two part-time jobs. As well as 14-cages, there will be food storage and a service barge installed on site, serviced from Carradale Harbour. The plan was approved by the Council as a development that would bring younger people into Carradale and East Kintyre and improve local employment opportunities.

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- Unemployed people in the Oban and Lorn area are benefiting from a project to construct a scale model of a Caledonian MacBrayne ferry. The two year project, which started on April 1st this year, is giving six months' employment to approximately 30 local people who are out of work. Once completed, the boat will be handed over to Caledonian MacBrayne who will use it at Trade Shows and other high profile events.
- An Comumn Gaidhealach has hailed this year's National Mod in Oban as a massive success, with an estimated 9,000 competitors and spectators. HIE contributed up to £30,000 towards the event (against loss). Following the 2010 Mod in Caithness, the 2011 Mod will be held in Stornoway (coincidentally with the Year of Scotland's Islands) and the 2012 Mod in Dunoon.
- A lack of passengers is threatening the passenger ferry service between Jura and Tayvallich, which has now completed its second season. The service, which began as a pilot scheme two years ago, allows islanders to access mainland Argyll in less than one hour instead of travelling to the mainland via the neighbouring Isle of Islay. Argyll and Bute Council agreed to subsidise a three-year pilot scheme, but the subsidy alone may not be enough to keep the service going. Ferry operator, Jura Development Trust, is already trying to find an alternative means of funding, should Council funding cease when the pilot scheme ends. The lack of tourist traffic using the service has threatened its future.
- Easdale Island has been chosen as one of 14 projects from across the UK which will share £2 million funding from the Scottish Gas Green Streets programme. A wind turbine will be erected next to the community hall and a ground source heat pump installed using seawater to power community buildings.
- A four year old application for a 14 turbine windfarm at Stacain near Inveraray has been refused planning permission by Scottish Government Ministers. Also, Scottish Ministers have rejected a developer's appeal for a 16 turbine windfarm near Toward.
- The Kilfinan Community Forest Company near Tighnabruaich is working to raise £130,000 to buy 125 hectares of Acharossan Forest from the Forestry Commission, as a first phase in its greater ambition to buy approximately 450 hectares. Under the National Forest Land Scheme, the group has to buy the forest by March 2010, and HIE has awarded almost £6,000 to allow it to prepare documentation on the social and economic impacts that the project would have for the area.
- The Bute Community Land Company is seeking to obtain Right-to-Buy consent from the Scottish Government for the 1,700 acre Rhubodach forest at the north end of Bute. It has provisionally commissioned a feasibility study.
- The Kilberry Inn has won a prestigious Cesar award by the Good Hotel Guide and been named Scottish Dining Pub of the Year by the Good Pub Guide.
- It is possible that Arran beer could soon be bottled at a new £3.9 million site near Kilmarnock. Currently, Arran beer is brewed at Cladach, taken off the island in 180-barrel tankers, and then bottled at Dunbar and Hartlepool. The Belhaven plant at Dunbar where all Arran Red Squirrel beer is bottled will be closing down in December and the company may have to find an interim bottler until the Ayrshire plant is up and running. The company has ample capacity at Cladach to increase volume substantially. It is getting Red Squirrel bottles into ASDA stores in January, and could create nine more jobs on Arran.
- The Douglas Hotel in Brodick is being redeveloped with 21 ensuite double bedrooms, whisky bar, brasserie, and sports facilities for guests.

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- Western Ferries has outlined proposals at a meeting in Arran to build two new ships to run between Brodick and mainland Ayrshire from 6 in the morning till midnight. This would compete with Cal Mac's service.
- Celebrity yoga master Surami Ramdoor Ji is establishing a retreat billed as a top class international destination catering for up to 100 guests, following the purchase of the uninhabited Little Cumbrae for £2 million by supporters Mr and Mrs Poddar from Glasgow.

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8. Banking Issues

- 8.1 To meet state aid support approval from the European Commission, Lloyds Banking Group (43.5% owned by the taxpayer) has to sell savings and current accounts worth £30 billion and £70 billion of mortgages, while Royal Bank of Scotland (70% owned by the taxpayer) will have to shed 318 branches and about 14% of its total network.
- 8.2 Over the next four years, about 20% of the Lloyds network will be sold, including 185 branches of Lloyds TSB in Scotland, while RBS will lose 311 branches in England and Wales and 7 NatWest branches in Scotland.
- 8.3 Banks in the Highlands and Islands should be relatively unaffected – indeed there would otherwise have been a risk of “mergers” in localities with both Bank of Scotland and Lloyds TSB branches with a net loss of staff. Nevertheless, underlying staff rationalisation in banks will continue and a particular concern has been the loss of a Bank of Scotland business banking manager in Islay, with the island to be served by the business banking manager from Oban who will travel to the island for appointments. According to the Oban Times (20 November), this policy could result in the loss of eight or nine jobs in Argyll.
- 8.4 Lloyds Banking Group has said that it will reduce UK posts by 5,000 by the end of 2010, of which around 1,000 will be jobs in Scotland, mainly in Glasgow and Edinburgh.
- 8.5 It is recommended that banking services and employment should be closely monitored by HIE, with particular attention to potential closures of small branches, reductions in local professional staff and any reductions in mobile banks. HIE account managers would be best placed to monitor any changes in local bank lending policy and practice with regard to businesses of varying scale.

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9. Principal References

- 9.1 The principal sources of statistical information for this report are given below. Many of the sources are regularly updated, and more recent figures and projections could be obtained from the relevant websites.

OECD Economic Outlook No 86, 19 November 2009

IMF World Economic Outlook, October 2009

HM Treasury – Forecasts for the UK Economy – A comparison of independent forecasts, November 2009

HM Treasury Pocket Data Bank (as at 24 November 2009)

Bank of England Inflation Report, 18 November 2009

ONS – Miscellaneous Statistical Bulletins

BRC / KPMG Retail Sales Monitor for October 2009

Scottish Retail Consortium, Retail Sales Monitor for October 2009

The Scottish Government – Economic Recovery Plan Update, 29 October 2009

The Scottish Government – State of the Economy, Dr Andrew Goudie, August 2009

The Scottish Government News Releases

Registers of Scotland News Release – November 2009

Fraser of Allander Economic Commentary, Vol 33 No 2, November 2009

Monthly Economic & Social Tourism Trends for Scotland, October/November 2009 – VisitScotland

Scottish Visitor Attraction Barometer, September 2009 Report – Glasgow Caledonian University for VisitScotland

HIE Unemployment digests, August & September 2009 (Planning & Economics)

Royal Bank of Scotland & Lloyds Banking Group Press Releases and Announcements

**Steve Westbrook, Economist
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