

**The Highland Council**  
**Planning, Development and Infrastructure Committee**

Agenda Item	<b>11</b>
Report No	<b>PDI/ 64/16</b>

**2 November 2016**

**European Engagement and Funding**

**Report by Director of Development and Infrastructure**

**Summary**

This report brings Members up to date with the current situation regarding European policy work and European funding following on from the UK referendum decision to leave the European Union, and makes recommendations on an approach to future policy development.

**1. Background**

- 1.1 On 17 February 2016 the Planning, Development and Infrastructure Committee (PDI) considered a report on the Council's European Engagement for 2016. The report also recommended that "Given the changes that will take place in the Council over the coming months it is proposed that the priorities for Council engagement with Europe be reviewed to reflect resources available."
- 1.2 Since the above report was considered by Members, a number of changes have taken place which will impact on the Council's approach to European Engagement. These include:
- the decision of the UK to leave the European Union following the result of the 23 June 2016 referendum;
  - a continuing period of uncertainty over the level of access to European funding programmes as a result of the decision of the UK to leave the European Union; and
  - the loss of a dedicated Principal European Officer through the Council's voluntary redundancy scheme.
- 1.3 This report brings forward a number of suggestions on a revised approach and priorities that takes into account the changes above.

**2. 2016 Activity to date**

- 2.1 The report to Committee in February 2016 proposed, and provided details of, a range of activities for 2016 which are summarised in **Appendix 1**, with a brief outline of the current position with each activity. In addition, work has continued on the restructuring of the Highlands & Islands European Partnership (HIEP). A dedicated HIEP officer has been recruited as planned, taking up the post in October 2016. HIEP has had significant involvement in discussions regarding the implications of the UK decision to leave the EU.

### **3. European Policy Engagement in the short term**

- 3.1 Access to various European funding programmes for partners across Highland, and for the Council itself, can be seen as the most important element of European Engagement. However, while this is clearly important, the range of funding programmes available is driven by the European policies in place at the time so it is important that the Council plays a role in policy development.
- 3.2 In a European context, the Highlands and Islands are a small player so the normal approach to influencing policy development has been to work with other partners. At the most local level this has been to work with Highlands and Islands partners, often through HIEP but work also takes place domestically with other Scottish partners including the Scottish Government or internationally by working with other European regions that have similar characteristics or face similar issues. This policy development work is often done through networks of regions such as the Conference of Peripheral and Maritime Regions (CPMR) or Euromontana which acts on behalf of mountain areas.
- 3.3 Recent indications are that the UK Government is likely to trigger Article 50 in March 2017 which sets in motion the process of the UK leaving the EU. This in turn would mean the UK is likely to cease being a member of the EU from early spring 2019.
- 3.4 Despite the indicative timetable for the UK's departure from the EU there does however remain a great deal of uncertainty over what form this might take and this has implications for policy development. In very general terms, a so-called "Hard Brexit", which sees the UK sever most ties with Europe, is likely to mean European policies have a very limited impact on the UK, whereas a "Soft Brexit" could mean many policies still influence UK business and life and, as such, there would still be benefits to be gained by continuing to work with others in trying to influence at least some European policy.
- 3.5 The report presented on 17 February 2016 recommended some continued engagement in European networks. In view of the current level of uncertainty it is recommended that membership of all these networks be continued for the remainder of this Council and that decisions on future involvement be made based on their relevance to delivering the programme of the new Council that will be elected in May 2017.

### **4. Longer term Policy Engagement**

- 4.1 Once the UK leaves the EU, and a number of EU policies cease to apply, there is likely to be a need for alternatives to be put in place by either the UK or Scottish Governments, and it is important that the issues affecting Highland, and the needs of the area, are taken into account as these policies are developed. As such it is envisaged that some elements of what was previously EU policy development will become part of domestic policy development instead.

- 4.2 One area that is likely to be of particular importance to Highland is regional policy. An underlying principle of European policy is the concept of cohesion where policies are designed to assist less well off areas or areas facing particular challenges in “catching up” with the stronger areas. This approach has been of particular importance to Highland both in terms of supportive policies but also by virtue of the fact that this principle has guided the degree of access to funding and the amount of funding made available. The principle of cohesion and related rural policy are not areas that have any significant attention in domestic policy (notably at a UK level) and in part it could be argued that this is because European policy and funding has filled that gap. This is therefore considered to be probably the key area where future policy development is likely to need influenced.
- 4.3 As an approach to such policy development it can be useful to ignore any European components, but instead begin by defining what is important to Highland and what kind of policies would be required to support this. It is then possible to identify where these can be influenced by, or supported by, Europe and / or whether future alternative domestic policies might be required.
- 4.4 A number of issues that affect Highland, its economy and its people, have long been identified by the Council and have defined both Council policies and the Council’s approach to influencing the policies of others. In comparison with other areas of Scotland and the UK, Highland has had a relatively low wage economy with a degree of dependence on the rural industries of agriculture, forestry and fisheries. Young people have commonly left the area to seek greater opportunities, often initially in terms of further and higher education but also for work. Peripherality and poor communications have made equitable growth across Highland and between Highland and elsewhere in Scotland difficult. They have made it difficult to attract some parts of the workforce required and have added to the cost of Highland businesses accessing markets.
- 4.5 Recent decades have seen a turnaround in Highland’s fortunes with many of the issues described in 3.9 now being addressed. However, it is clear that these improvements did not occur by chance, but rather, were the result of or considerably assisted by supportive policies at a number of levels. If this is to continue it is important that the Council continues to influence the development of future policies that will impact on Highland whether these continue to be European policies or whether they are new domestic policies.
- 4.6 Recent work undertaken by HIEP in response to a request for evidence from the Scottish Parliament’s European and External Relations Committee has also involved defining some of the particular areas that will be impacted upon by the UK’s decision to leave the EU. The areas identified, all of which are also relevant to Highland, were:
- Economic Development
  - Migrant labour
  - Agriculture & Forestry
  - Fisheries
  - Communications technology
  - Research and business / skills development
  - Community Impacts

4.7 A summary of the key points from the HIEP response which could form the basis for future policy development discussions is given in **Appendix 2**. It is however clear that identifying the issues is not in itself enough to influence policy and there is a need for further work to gather evidence that can be used to influence future policy development. For example, we know that migrant labour, which is largely from the EU, is important in Highland but at present we don't have robust evidence on how many migrant workers there are, what the numbers are in different sectors or what impacts there would be on these sectors if access to this labour was to change. Bearing in mind the fact that these issues are common to all HIEP partners and a resource is now available within HIEP to develop this further it is suggested that at this time HIEP take a lead in this work.

## 5. European Funding Programmes

5.1 An announcement by the UK Treasury on 13 August 2016 confirmed that all European funded projects which have signed contracts or funding agreements in place prior to the Autumn Statement (which will be on 23 November 2016) would be fully funded. In a further announcement on 3 October, the Chancellor subsequently extended this guarantee to the point at which the UK departs the EU with the statement clarifying that "the government will guarantee EU funding for structural and investment fund projects, including agri-environment schemes, signed after the Autumn Statement and which continue after we have left the EU." For Scotland this includes European Structural Funds, CAP Pillar 2 and European Maritime Fisheries Fund money. Also of significance is the guarantee given that the current level of agricultural funding under CAP Pillar 1 will be upheld until 2020 as part of the transition to new domestic arrangements.

5.2 While these announcements go some way to providing clarity on the funding still available to UK businesses and organisations, some points of clarification are still required. The Chancellor's statement indicates that "where the devolved administrations sign up to structural and investment fund projects under their current EU budget allocation prior to Brexit, the (UK) government will ensure they are funded to meet these commitments" but some clarity is still required from the Scottish Government over the level of guarantees before some offers can be concluded. In particular a formal statement that gives clarity over LEADER funding is still awaited that would allow letters of offer to be issued.

5.3 Anecdotal evidence also suggests that the level of uncertainty over funding seen in recent months has had some negative impacts on projects in Highland. In some cases this may have been little more than delays and the above guarantees may now allow such projects to proceed as planned but there are also instances of applicants having to 'rush through' applications to meet the Autumn Statement deadline that in turn may have reduced the quality of their application or potentially the project itself. The reduction in the amount of time available for projects to be completed also has implications for projects that would have taken place over a longer time period as some may no longer be able to attract funding.

## 6. Implications

### 6.1 Resource

This report highlights the importance to the Council of the European Union as a source of funding, but does not in itself have any implications in terms of further financial resources. The activities that will benefit from ESIF funding summarised in **Appendix 1** have all had match funding towards them previously approved and these allocations are already contained in Service budgets for 2016/17.

### 6.2 Risk

The UK decision to leave the EU and the associated loss of access to EU funds presents a risk to the Council. The proposals in this report are designed to assist in the development of policies that would minimise these risks.

### 6.3 Rural

There are no rural implications directly arising from this report. However, the recommendation that developing rural policy be considered as a key area of activity in future would be expected to have positive implications for the more rural parts of Highland.

### 6.4

There are no particular equality, climate change/Carbon Clever, Gaelic or legal implications directly arising from this report. However there is the opportunity for any or all of these areas to be affected by future policies that might replace current European policies.

### **Recommendation**

Members are asked to note the contents of this report and approve the approach to influencing future policy development both individually as described in section 4.5 and collectively with the Highlands & Islands European Partnership as described in section 4.6.

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## Appendix 1 – 2016 activity to date

Working with the Highlands and Islands partners and the Scottish Government to effect implementation of the 2014-20 ESIF programmes.	Formal agreements reached on 3 Council led ESIF funded projects – Business Competitiveness, Strategic Employability Pipeline and Poverty and Social Inclusion while the 8 <sup>th</sup> City project led by Glasgow City Council is signed off but awaiting ministerial approval. The Green Infrastructure project is not currently going ahead.
Work with colleagues to develop projects for the regional ESIF programmes.	No further projects developed to date.
Develop, with project leaders and the Finance Service, the management and administrative, structures and processes to ensure efficient project delivery, to facilitate grant claim and meet audit requirements.	Under way.
Appraisal of the funding opportunities for the Council beyond the ESIF programmes to assist in delivering Highland First.	On hold due to the uncertainty around what opportunities will exist beyond the UK leaving the EU.
Assist in the governance of the ESIF 2014-20 programmes.	Membership of the Joint Programing Monitoring Committee, Highlands and Islands Territorial Committee and Business Competitiveness Strategic Group continue. No recent engagement with the Monitoring and Evaluation group.
Engagement in the European networks that the Council is a member of to maximise the benefits that can accrue to the Council and Highland.	Member engagement continues with a number of networks.
Work with project managers and Finance Service in preparation for outstanding audits of 2007-13 projects	Two audits of 2007-13 programme projects undertaken in October 2016.
A review of priorities to reflect the revised Council budget and resources.	Delivered by way of this report.

## **Appendix 2 - HIEP Summary**

### Economic Development

Challenges in relation to factors such as population retention, workforce recruitment, communications and distance from markets have been lessened through the regional policy approach of the European Union that has seen additional funding and infrastructure improvements. Without appropriate recognition of the significant positive impact this has made there could be significant detriment to future economic growth. The Highlands and Islands benefit from inward investment by international companies who use the UK as an entry point for accessing European markets and changes to the single market arrangements could make the Highlands and Islands a less attractive place to invest. Historically, economic development has also been held back by the lack of a university based in the region. The advent of the University of the Highlands and Islands (UHI), supported to a significant extent by EU investment, has had a very positive impact and a reduction in this support would have a negative impact on innovation and skills support across the region.

### Migrant Labour

The Highlands and Islands is home to a large number of migrant workers (and their families), with a number of sectors including aquaculture, fish processing, agriculture and hospitality particularly dependent on them. In some areas the migrant workforce can be critical to sustaining population and sustaining local facilities or services.

### Agriculture & Forestry

CAP Rural Development and Direct Aids for Agriculture is particularly important to the Highlands and Islands due to its geographical characteristics and distance from markets and this in turn supports upstream and downstream industries as well as delivering other benefits such as landscape, environmental and biodiversity benefits. The forestry sector also sees a degree of dependence on EU funding support, notably for replanting (e.g. through woodland grant schemes) while this also has an impact in other policy areas such as carbon capture. Also notable is the fact that community owned land often includes a significant forestry element which is critical to their economic viability

### Fisheries

The fisheries and aquaculture sectors, marine infrastructure, the local communities where these are key sectors and related research have all seen significant EU investment. While access to future funding is one issue, uncertainty related to future fishery policy is also an area of concern bearing in mind the importance of EU markets for Highlands & Islands fisheries.

### Tourism

Another key sector which while it may see a boost in visitor numbers and spend in the short term due to exchange rates still has concerns over the longer term development of the industry which requires continued investment in areas such as infrastructure and business and skills development.

### Communications Technology

A challenge facing Highlands and Islands businesses in all sectors is having access to communications technology of a standard necessary for the efficient delivery of their business practices. Geographical factors tend to mean that private sector investment lags far behind that in other areas unless incentives are provided and these can be dependent on EU assistance.

### Research and business / skills development

Research and skills development, both in academic institutions and in businesses themselves are areas where there has been significant reliance on EU funding while their increased availability has also played a significant role in attracting people to live, study or work in the Highlands and Islands. Withdrawal of funding for this work without alternative provision would have a detrimental effect on the Highlands and Islands economy.

### Impacts on communities

Any impacts on the business sectors described above would also have an impact on communities particularly if there was an increase in unemployment or outward migration. In recent years communities have undertaken a huge number of projects across the Highlands and Islands for the benefit of residents and visitors such as village halls and community buildings, sports and leisure facilities, facilities for children, local transport initiatives or environmental enhancements with many of these being heavily reliant on EU funding. In addition a number of communities benefit from the activities of third sector organisations which can be dependent on EU funding. Much of this work is focussed on those who suffer a degree of social exclusion or are the most vulnerable people in the community and as such these groups are those most likely to be affected were such support to be removed.