

Agenda Item	11.
Report No	CPB 12/17

Meeting: Community Planning Board

Date: 28 June 2017

Report Title: Potential impacts of the vote to leave the European Union and any contingency plans partners may have in response

Report By: Stuart Black, Director of Development and Infrastructure, Highland Council

Purpose/Executive Summary

The result of the June 2016 referendum and subsequent moves towards the UK leaving the European Union (EU) will clearly have an impact on the Highland area and its people. In some cases impacts in Highland will be no different to other areas of the UK but, in other cases, the fact that Highland benefitted from the EU “cohesion policy” approach designed to reduce disparities between regions is likely to mean that impacts in Highland may be more significant than in many other areas. Notwithstanding the current level of uncertainty as to the terms of the UK’s withdrawal from the EU, this report aims to identify some of the areas most likely to be impacted by the UK’s withdrawal.

Recommendations

The Board is invited to note the content and agree any actions required by the Community Planning Board.

2. Introduction

2.1 The result of the referendum on 23 June 2016 saw a majority vote in favour of the UK leaving the European Union. In the year since the referendum there has been a significant level of debate about the UK's departure not least in the run up to the formal triggering of Article 50 of the Lisbon Treaty in March 2017 and in the recent General Election campaign. In reality, no decisions have yet been taken other than that the UK will leave the EU on or by Friday 29th March 2019. It is however still clear that the UK leaving the EU will have an impact on the Highland area and its people.

2.2 The Council, normally in conjunction with its partners from the Highlands & Islands European Partnership (HIEP), has already been called on to respond to some initial consultation on the possible impacts of the UK's withdrawal from the EU. Unless the consultation specifically raised questions on other subjects, these responses have largely focussed on the priorities agreed by the Convention of the Highlands & Islands, namely:

- Digital, Energy and Transport Connectivity
- Education Research and Skills
- Economic and Quality Employment Opportunities
- Community

To date, consultations responded to have included those undertaken by the Scottish Government, COSLA and the Scottish Cities Alliance.

2.4 Since the precise impacts on Highland will remain unknown until further details on the terms of the UK's withdrawal from the EU become clear, current HIEP activity is focussed on gathering evidence on the areas that are likely to be impacted rather than speculating as to what the many scenarios that might arise might be. In undertaking this work HIEP has recognised that a number of ways of describing the areas that might be impacted are possible but, in HIEP's work, and for the purposes of this report, likely areas of impact have been considered in three broad groupings:-

1. Impacts on communities and the people of Highland
2. Impacts on the economy of Highland
3. Impacts on the land and environment of Highland

3. Impacts on communities and the people of Highland

3.1 The UK's membership of the EU has had a day to day impact on the people of the Highlands in part through the legislation that influences areas such as workplace conditions and protects worker's rights. In general these are not unique to Highland and as such it is not anticipated that any effects on Highland will differ significantly from the effects across the UK as a whole.

3.2 Despite their small size, many Highlands communities have a diverse population with residents drawn from across Europe. While the implications for the individual residents remain unclear, what is clear is that the communities themselves are likely to be impacted, in particular in terms of demographics. Recent years have seen a growth in the overall population of Highland, most notably in the Inner Moray Firth area, but there has also been a welcome return to growth for many more peripheral areas following decades of depopulation.

3.3 However, although the population of Highland has increased, the natural levels of births and deaths would have led to continuing population decline were it not for net in-migration, with much of this coming from EU countries. In addition, many births in

Highland were by mothers who were themselves born in EU countries outside the UK illustrating the importance of non-UK EU nationals in maintaining the Highland population. For example, 2015 figures (the latest full year figures published) show deaths exceeding births by 318 and of the 2220 births, 203 (9.5%) were by non-UK EU mothers.

- 3.4 Data on the origin of their workforce is not commonly retained by organisations beyond the recruitment process so it can be difficult to quantify the numbers of migrants undertaking particular roles. However, some business survey work along with further anecdotal evidence suggests that certain sectors of the economy are more reliant on migrant workers (described further below) but also that certain public services, particularly in more remote and rural areas, have a degree of dependence on migrant workers. In broad terms migrants have tended to come from younger age groups, often bringing families with them which can help to sustain other local services – for example, by increasing the school roll in a given community.
- 3.5 Many Highland residents rely on some form of support from the third sector and this area of Highland life may also be impacted by the UK's withdrawal from the EU. A recent Third Sector Interface survey showed over half of the organisations responding received European money in the last 3-5 years. A quarter of those considered this essential to their survival and a further half saw it as important but not essential. Many also had volunteers who were EU nationals with some concerned about the potential impact if fewer non-UK nationals are available to volunteer.
- 3.6 In addition to the demographic impacts, communities have previously benefitted and continue to benefit directly from European funding. Some of these benefits have been through larger public sector led projects such as road, ferry or digital infrastructure improvements while in other cases the projects themselves have been community led initiatives. Community focussed funding programmes such as LEADER have not just been able to support the delivery of community projects but have also provided significant benefits by developing community capacity and skills.

4. Impacts on the economy of Highland

- 4.1 Initial research by HIEP partners has suggested that some impacts are likely to be seen across all or at least most sectors of the economy while other impacts may be specific to certain sectors.
- 4.2 The main areas where impacts are anticipated to be felt across all or most sectors of the economy are:
 - Access to labour markets including migrant labour from EU countries.
 - Access to market(s).
 - Connectivity – particularly digital & transport connectivity, both of which have seen significant investment supported by EU funds.
 - Exchange rates – including import prices for inputs and export prices for finished products.
 - Legislative changes such as those affecting working hours or public sector procurement.
 - Foreign Direct Investment - where the UK is the largest benefactor within the EU and Scotland the region with the highest proportion after London.
 - The University sector, where the University of the Highlands & Islands is more heavily dependent on European links including funding, students and researchers

than the Scottish sector average.

4.3 To help illustrate some of the subtleties that have become apparent beneath the broader economic impacts, the table below outlines some of the areas that are giving cause for concern to businesses in three of Highland's key sectors - Food and Drink (which includes Agriculture & Fisheries), Energy (including Renewables) and Sustainable Tourism.

Sector	Potential issues / areas of concern
Food and Drink	<ul style="list-style-type: none"> • Food and drink is the largest export sector for Highland with EU markets particularly important. • Many parts of the sector rely heavily on migrant labour – most notably agriculture, aquaculture and food processing. <p><u>Agriculture</u></p> <ul style="list-style-type: none"> • The relatively poor land in many parts of Highland means that many agricultural businesses rely on an element of CAP direct aid to remain viable businesses. • Agriculture is a key element of the supply chain for other high value Highland products such as whisky. <p><u>Fisheries</u></p> <ul style="list-style-type: none"> • Significant differences exist between parts of the sector but some - e.g. inshore fisheries which are mainly found in peripheral areas and largely consist of locally owned boats depend heavily on EU markets. • The proximity of EU markets allow fresh seafood to be exported as a high value product - something that would be difficult to replicate with alternative markets further afield.
Energy	<ul style="list-style-type: none"> • The EU focus on Carbon reduction has influenced funding availability for the renewables sector which in turn has supported both commercial and academic research as well as development in Highland. • Sharing of knowledge and technologies is critical and the sector benefits significantly from sharing of knowledge across Europe. Highland expertise is much sought after across Europe and beyond and is in itself an export.
Sustainable Tourism	<ul style="list-style-type: none"> • Tourism is the largest industry sector and Highland sees a greater proportion of overseas visitors than the Scottish average. With 4 of the top 5 and 7 of the top 10 overseas markets being EU countries, some concerns have arisen over the perception of how welcoming the UK is to EU visitors. • The sector depends heavily on migrant labour – and any loss of EU migrants would also impact on inbound visitor numbers (friends and families visiting EU migrants resident in Highland). • Any barriers to the movement of people e.g. visitor visas, has the potential to reduce inbound tourism. • A major factor in sustaining air routes such as Amsterdam – Inverness (which in turn benefit local people and businesses) is the level of inbound tourism.

5. Impacts on the land and environment of Highland

- 5.1 The environment of the Highlands & Islands, including the marine environment, is one of its key resources impacting on sectors of the economy such as agriculture, forestry, fishing and tourism. The image of a clean and well cared for environment also provides a foundation for businesses to show a positive provenance for their products.
- 5.2 Much of the environmental legislation, many management practices and policy areas such as energy & climate change or flooding and waste directives are currently EU driven and therefore the UK's withdrawal from the EU is likely to have significant impacts on the Highland environment. To an extent similar issues will also apply to neighbouring marine areas. At present European programmes such as agricultural, forestry and environmental support schemes take particular account of remoter areas such as Highland for both economic and environmental reasons.
- 5.3 Any future changes are likely to have significant impacts, in part due to the large proportion of Highland that is covered by environmental designations that influence management but also because many land management practices are reliant on external funding. This includes schemes such as CAP direct payments that aim to deliver both economic and environmental benefits as well as funding towards dedicated projects delivering benefits such as habitat improvements or biodiversity.

6. Conclusion

The current level of uncertainty as to the terms of the UK's withdrawal from the EU continues to make it difficult to define the exact impacts the UK withdrawal will have on Highland. However, a broad range of partners in Highland, and indeed in the wider Highlands & Islands have already been considering the priorities for a post 2020 strategy that recognises the unique needs of the area. This work by both the Convention of the Highlands & Islands and the Highlands & Islands European Partnership is continuing with further evidence currently being gathered. As more detail emerges on the precise terms of the UK's exit this data will continually be refined to support partners in ensuring the interests of Highland are recognised in all consultations and future planning.

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