

Agenda Item	16
Report No	HC/10/19

## HIGHLAND COUNCIL

**Date:** 7<sup>th</sup> March 2019

**Report Title:** Council preparations for EU exit

**Report By:** The Chief Executive

### **1. Purpose/Executive Summary**

- 1.1 This report provides an up-date for Members on Council activity around planning for EU exit since the Council meeting in September 2018, when the Council agreed lobbying priorities. The Council is engaging with and contributing to planning through local, regional, national, European and professional networks.
- 1.2 The details of the terms of EU exit are not fully known and the timing could change. Although there are uncertainties and the issues involved are complex, the Council is actively participating in the local, regional and national planning arrangements around a 'No Deal' scenario and the disruption that it is expected to cause, if we leave the EU without a Withdrawal Agreement and transitional period.
- 1.3 Members are asked to agree that we quantify and seek Government support to meet any appropriate additional costs arising from EU withdrawal for the Council.

### **2. Recommendations**

- 2.1 Members are asked to note:
  - i. that the four lobbying priorities they identified in September 2018 were supported through stakeholder engagement in November 2018 and remain pertinent. There are ongoing opportunities for engaging on the Shared Prosperity Fund and the UK Government's White Paper on immigration with further reports to be brought back to Members on these issues;
  - ii. Council engagement continues through a range of networks and partnerships at local, regional, national and European levels including COHI, Cosla, and the H&I Leaders Group; and
  - iii. that Council staff are participating in the planning for a No Deal EU exit. This is focused on mitigating against disruption and is organised through the national framework for resilience planning. Some potential impacts are clearer than others and advice and guidance are evolving at pace.
- 2.2 Members are asked to agree :
  - i. that we quantify and seek Government support to meet any appropriate additional costs arising from EU withdrawal for the Council.

### **3. Up-date on actions since September 2018**

- 3.1 At the Council meeting in September 2018 Members agreed [four policy statements](#) to inform Council lobbying following exit from the European Union. These covered:
- Agriculture, crofting and land management – seeking income support to maintain active and viable land management in vulnerable farming areas and more targeted support for our environmental and natural assets;
  - Inward migration – recognising our need to attract people to live and work in Highland to address our demographic and geographical challenges and implications for the Highland workforce and economy;
  - Access to EU markets – enabling our businesses to remain competitive and recognising the challenges Highland businesses face when exporting; and
  - Regional policy – that addresses disparity with investment to improve regional competitiveness and inclusion and aligned to UK and Scottish agriculture and rural policy.
- 3.2 In November 2018 the Council hosted a seminar for Members, partners and business organisations to raise awareness of the need to prepare for EU Exit and to seek views on whether these were the most important policy areas to lobby on. Over 40 delegates attended. Presentations covered the policy statements and the work the Council is doing, including identifying EU nationals in the Council workforce and supporting them to stay in Council employment. External contributions were made from topic experts from: the University of Strathclyde; Scotland's Rural College (SRUC); the Scottish Council for Development and Industry (SCDI); University of Highlands and Islands (UHI); and Scotland Europa. Feedback on the Council's actions and intentions was positive and awareness was raised among others of the need to plan.
- 3.3 The Council continues to engage with the Convention of the Highlands and Islands (COHI) in understanding wider regional impacts and planning with neighbouring authorities. A verbal update can be provided on any EU exit issues arising from the next COHI meeting on 3<sup>rd</sup> and 4<sup>th</sup> March, 2019.
- 3.4 The political leadership of the Council is engaging with:
- Cosla, including most recently at the Cosla Leaders' meeting on 22<sup>nd</sup> February 2019; and
  - the Highlands and Islands Leaders' Group, particularly on the development of a Post-Brexit Regional Policy for the Highlands and Islands and influencing the UK Shared Prosperity Fund. This is the "successor fund" to replace European Structural and Investment Funds and aims to tackle inequalities within communities by raising productivity, especially in parts of the UK whose economies are furthest behind. In addition, the Council Leader has written to Lord Duncan, Parliamentary Under-Secretary of State for Scotland on behalf of the H&I Leaders' Group regarding the new fund and inviting him to a meeting of the Group.
- 3.5 Officer leadership has included:
- participating in the UK Government's practitioner events in February 2019 to gather evidence on practical issues with the current EU funding schemes so these can be considered in the forthcoming UK Shared Prosperity Fund;
  - engaging with SOLACE, including most recently on 22<sup>nd</sup> February where Chief Executives of local authorities were able to share perspectives; and
  - engaging through professional networks and with the Scottish Government on

assessing impacts and identifying suitable actions e.g. Environmental Health Officers and Scottish Welfare Fund Officers.

- 3.6 The Council continues to engage with European networks to influence policy and programmes. Issues associated with EU exit have been raised recently:
- in the Highlands and Islands European Partnership (HIEP) Board, with invites to the Scottish Government to attend; and
  - with the Conference of Peripheral Maritime Regions (CPMR), and notably in using the General Secretariat's work in calculating regional funding in making the case for at least an equivalent and fair share from the replacement Shared Prosperity Fund for the H&I.
- 3.7 At the time of writing the details of EU exit are not fully known. In addition following the Prime Minister's announcement in the UK Parliament on 26<sup>th</sup> February 2019, the timing could change from EU exit on 29<sup>th</sup> March 2019. Although there are uncertainties and the issues involved are complex, since December 2018 planning for a 'No Deal' exit, where the UK leaves the EU without a Withdrawal Agreement or transition period, has accelerated. The Council has actively participated in the local, regional and national planning arrangements around a No Deal scenario and the disruption that it is expected to cause.
- 3.8 The potential for disruption already reported publicly includes:
1. disruption to business, caused by new barriers to trade with the EU (e.g. potential delays at borders, new tariffs, new administrative burdens such as licenses, permits or certificates) and workforce difficulties (e.g. EU nationals leaving their jobs in the UK or not being attracted to jobs in the UK).
  2. disruption to supplies from the EU, including food and medicines;
  3. community incidents and safety e.g. disruption at ports, with consequences for policing;
  4. disruption to higher education in terms of attracting students, staff, research funding and exchange programmes;
  5. labour force and migration issues – with the workforce difficulties above also affecting public services, notably in health and social care, and the potential for some UK nationals living in the EU returning.
- 3.9 How long disruption will last for is not known, so planning will have to consider scenarios for both a short term period and an extended period. This is not without some difficulty. Difficulties in planning for short term disruption are noted by the UK Government, and in its guidance note on [Implications for Business and Trade of a No Deal Exit on 29 March 2019 \(26.2.19\)](#) it states:
- “Government has been accelerating its preparations for a no deal scenario since September, with a particular emphasis since December 2018. However, the short time remaining before 29 March 2019 does not allow Government to unilaterally mitigate the effects of no deal. Even where it can take unilateral action, the lack of preparation by businesses and individuals is likely to add to the disruption experienced in a no deal scenario.” (paragraph 51)
- 3.10 From the potential short term disruption in supplies, it would not be unreasonable to assume and plan for potential price increases. This could have impacts for public authorities/bodies, business and households.
- 3.11 Planning for disruption over a longer period is not without difficulty either and relies on

reasonable assumptions and forecasts to identify likely events and impacts. The Scottish Government's Chief Economist's paper, '[No Deal' Brexit – Economic Implications for Scotland](#)', includes potential impacts of: a drop in Scottish exports by 10-20%; reduced business investment in Scotland by £1 billion in 2019; economic slowdown which could result in a 10%-30% depreciation of sterling; reduced migration into Scotland possibly with more people leaving than arriving; unemployment rates increasing from below the current rate of 4% to 5.5-8%; all combining to push the Scottish economy into recession during 2019 with the potential for GDP to contract between 2.5-7%.

- 3.12 In this situation there would be consequences for a range of public services, including increased demand for Council services (especially employability, social and welfare services) and with ability to respond potentially hampered by workforce difficulties and further reductions in funding/income.
- 3.13 Information on preparing for EU exit is available from:
- the UK Government –
    - general advice - <https://euexit.campaign.gov.uk/>
    - advice in the event of a No Deal exit - <https://www.gov.uk/government/collections/how-to-prepare-if-the-uk-leaves-the-eu-with-no-deal> This currently includes 20 categories of guidance with over 80 separate notes. Regular up-dates are made;
  - the Scottish Government <https://www.mygov.scot/eu-exit/>; and
  - the European Union on Brexit preparedness [https://ec.europa.eu/info/brexit/brexit-preparedness\\_en](https://ec.europa.eu/info/brexit/brexit-preparedness_en)
- 3.14 Council staff are considering the potential impacts of short term and longer term disruption for the Highlands. We could expect the impacts to be greater than for elsewhere in the UK because of:
- our distance from market, with delays at borders adding even more time for our exporting businesses to reach markets and increasing the time for EU goods to reach the Highlands and especially rural and remote areas, a particular issue for fresh produce;
  - the nature of our export business, particularly our fisheries, seafood and other foods, but also the beverage sector. Food exports to the EU would require export health certificates issued by the Council;
  - reliance on EU workers in particular sectors such as fisheries and seafood and health and social care; and
  - current levels of rural poverty linked to relatively higher costs and lower incomes in rural communities.
- 3.15 On the other hand we have prepared well for supporting EU nationals within the Council's workforce, as reported in the seminar in November 2018. In addition with over 40% of the Council's procurement spend placed locally with Highland small and medium enterprises (SMEs) price and supply impacts should be reduced.
- 3.16 It is worth noting that support to business at a Council level is led by Business Gateway and complements the business advice on Brexit readiness being delivered through the national portal at <https://www.prepareforbrexit.scot>. This includes self-assessment toolkits, small readiness grants and promotes attendance at learning events. This is supported also from HIE (through business surveys, workshops and advice).
- 3.17 Work is continuing to clarify and plan for potential impacts for the Council and communities while advice and guidance nationally evolves at pace. This is being

considered across services and with our partners through our resilience and civil contingency planning. This involves working through our local (H&I) and regional (north of Scotland) resilience planning partnerships and connecting regularly with national planning arrangements.

- 3.18 A public [webpage](#) has been established to describe the work of the Council and partners and provide more information for our EU staff and citizens.

#### **4. New lobbying opportunities**

- 4.1 Earlier agreement was reached on the lobbying priorities post EU Exit and these remain relevant and with continued action planned. For example, the Council will continue to engage at every opportunity on the Shared Prosperity Fund. A new opportunity is emerging for collaboration with Cornwall Council on the Fund. In addition, the UK Government published its white paper on 'The UK's future skills-based immigration system' in December 2018 seeking views through to the end of 2019 and the Council will participate in that and respond formally with a draft prepared for Members to consider later this year.
- 4.2 The more recent work in preparing for a No Deal exit has identified areas of potential pressure for the Council, including the potential for increased demand for services and increased costs. While these would need to be quantified when scenarios and events are clearer, it is proposed that these costs are notified to the Scottish Government along with the case for financial support to the Council.

#### **5. Implications**

- 5.1 Resource: The need for a replacement for EU structural and investment funds and for agricultural support has been identified as a priority by the Council. There are opportunities for the Council to continue to engage on the Shared Prosperity Fund. This report also highlights the potential for additional costs arising to the Council as a result of EU withdrawal. The extent of these costs may depend on whether there is a No Deal exit or an exit with a Withdrawal Agreement and transition period. It is recommended that appropriate additional costs are quantified and notified to the Scottish Government and to seek financial support. Future scenarios identified in this report highlight the potential economic impacts of EU withdrawal and these will be kept under review for planning and lobbying purposes.
- 5.2 Legal: The Council is complying with its duties under Civil Contingencies legislation by participating in the planning for a No Deal EU exit. Future legislation will be required following EU exit.
- 5.3 Community (Equality, Poverty and Rural): The report outlines significant potential impacts on Highland communities arising from EU exit. Planning for mitigation is underway although some impacts are clearer than others at this time and there are risks in mitigating against all impacts that may arise from a No deal exit at the end of March 2019.
- 5.4 Climate Change / Carbon Clever: Not all participation in EU planning forums requires attendance in person so the need to travel is limited. There are implications from EU exit around funding to support climate change projects and potential changes to regulations and legislation after exit, but these are not clear at this time.
- 5.5 Risk: This report highlights the range of risks identified from EU exit, including the disruption expected in a number of areas in the event of a No Deal exit. By participating at different levels in different forums the Council is working to mitigate the risks

identified; although both UK and Scottish Governments have expressed their concern publicly about readiness for a No Deal exit. Longer term risks are also identified for which the Council has agreed lobbying priorities. There is a risk that EU exit requires Council attention and capacity at a time when the Council has several corporate priorities to plan and deliver relating to budget reduction, increasing demand for services, service change, service improvement and partner and community engagement. It also impacts on the Council's resilience team and their capacity to deal with other emergencies that may arise including weather events.

5.6 Gaelic: There are no Gaelic implications arising from this report.

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