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Brexit update to Highland Community Planning Partnership Board

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HIE
Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Update to members of Highland Community Planning Partnership Board

Introduction

This paper provides a short update on issues emerging following the UK's departure from the European Union (Brexit). This includes details of the emerging UK Regional Funding Programmes.

Early position (January-March)

The late conclusion of the trade deal between the UK and the EU meant that businesses and sectors discovered its practicalities and implications in real time. The Scottish Government liaised closely with the UK Government to identify and remediate issues, including the development of advice/ guidance to businesses.

Issues were most visible in the food and drink supply chain (see below), but there was also concern across other sectors as issues emerged. Specific concerns are apparent over labour supply in the tourism industry and over the increasing costs of materials in sectors such as construction, manufacturing, engineering.

Although the tariff-free aspect of the deal was welcomed, some significant issues emerged around the complexity and cost of non-tariff regulations and requirements. Notwithstanding the expensive implications of goods caught at borders due to a failure to comply, the costs of administration had the potential to significantly erode margins. This could be a structural barrier for the long-term.

Ahead of Brexit, the UKG had estimated that costs of the additional administration necessary would be around 4%-15% of the value of goods transported; a similar OECD survey showed that the costs of transactions could increase from 2% to 24% of the value of goods. This seems to be indicative of what businesses are experiencing post-Brexit.

In January/ February the main issue was with fresh seafood, and the practical challenges/ costs encountered by businesses in the sector around compliance with non-tariff regulations.
There were some high-profile stories in the press as the practical implications of the trade deal became clearer. Initially, larger businesses such as salmon exporters were more confident. Recent experience and feedback is that these companies are growing frustrated at the additional costs (time and financial) of compliance. Concerns also grew for white meat and red meat exports to EU, and to Northern Ireland.

The seafood industry has been represented by bodies such as Scotland Food and Drink, Scottish Salmon Producers and Scottish Fishermen's Federation. Scottish Government has lobbied the UK Government on the Scottish industry's concerns. The UK Government had meetings with industry bodies, businesses, and the devolved administrations. UK Government created a Seafood Taskforce to look at the barrier issues, and this group began to meet in February.

Initial public sector response

- Ensure that the digital offering of advice, information and sign posting is current.
- Organise and deliver webinars as advice and information becomes available.
- Gather information from businesses on the implications of Brexit.
- Engage with businesses and business organisations to offer any practical assistance.

EU Workers and labour market

There are ongoing grounds for concern that reduced access to labour and skills will be felt across the area more acutely than elsewhere in Scotland, with particular concerns for the Tourism and Food & Drink sectors.

In 2017, an FSB survey found that 41% of Highlands & Islands employers had at least one EU worker on their books. The figure for Scotland as a whole was 25%, and for the UK, 21%. In 2020, the dependency had grown further, with 26% of UK and 40% of Scottish firms now employing at least one EU worker. The figure for the Highlands & Islands will be considerably higher, and for some firms EU workers make up more than 50% of the workforce.

European staff are taken on because they are needed, not because they are cheaper. For 2019, national insurance registrations showed that 81% of those in the Highlands and Islands were from EU countries (the equivalent for Scotland as a whole is 65%). Migrants play an important part of the regional economy e.g. in Orkney and Shetland the proportion of EU nationals in employment is significantly higher than the Scottish average (14% and 17% respectively).

Of particular concern is the fact that earnings thresholds are commonly used as part of the approval criteria for migrants to be allowed to live and work in the UK. This disadvantages areas such as the Highlands and Islands which generally have lower wage rates than other parts of the UK - median earnings in the Highlands & Islands lag behind both Scottish & UK averages. – average pay for all employees was 94% of the Scottish level in 2019.

8.3% of Scotland's employment was made up of non-UK workers, and this rose to 16% in Food & Drink and 15% in Tourism. These sectors are relatively more important in the region and especially in more remote areas (2019 IDBR data: Food and Drink and Tourism account for 22% of employment in the Highlands and Islands vs 13% across Scotland overall).

In late May 2021 the UK Government Home Office released the latest quarterly figures for the EU Settlement Scheme and these figures show that 10,950 EU/EEA/Swiss Citizens residing in the Highland Council area had applied for Settled Status. The deadline is 30th June 2021 for applications from EU/EEA/Swiss Citizens who wish to continue living in the UK.

Added to the on-going COVID-19 restrictions and general economic situation, the ending of the transition period has undoubtedly added to the headwinds this region's economy is facing.

Subsidy Control

Following agreement on the EU trade deal the UKG enacted the European Union (Future Relationship) Act 2020 on 31 December 2020. This gives effect in UK law to the UK-EU Trade and Cooperation Agreement (the TCA). Within Title XI - Level Playing Field for Open and Fair Competition and Sustainable Development, Chapter Three addresses Subsidy Control.

On 3 February 2021 BEIS launched a consultation Subsidy Control: Designing a new approach for the UK. The submission deadline was 31 March, with HIE and other agencies submitting responses.

UK Regional Funding Programmes

<u>UK Community Renewal Fund: 2021-2022</u>

The Community Renewal Fund (CRF) is the forerunner to the Shared Prosperity Fund, planned to start in 2022/23. The Shared Prosperity Fund is the UK replacement for EU Structural Funds, which brought over £150m to the H&I region in 2014-2020. The CRF runs for one year and has a budget of £220m for the whole UK. Funding will be allocated through a competitive bidding process. Bid are sought by 18 June 21 with decisions made in late July and spend taking place before the end of March 2022. Whilst any local authority can submit a bid, a list of 100 priority local authority areas were identified. The prioritisation methodology was released by the UK Govt in March 2021 and Highland was not classed as a priority area. From within the HIE area only North Ayrshire, Argyll and Bute and the Outer Hebrides are included.

Prioritisation has been based on an index score based on productivity, skills, unemployment rate, population density and household income, as a measure of economic resilience of an area. It is felt that the chosen metrics do not reflect the nature of economic resilience in places such as the Highlands and Islands. For example, the unemployment rate in the region has been generally lower than the Scottish average. Similarly, consideration of household income looks at only one side of the equation. Evidence shows that cost of living in much of the Highlands and Islands is significantly higher than in urban or accessible rural areas, with higher levels of fuel poverty.

UK Levelling Up Fund: 2021 – 2025

The Levelling Up Fund is a £4.8bn fund, with £800m earmarked for devolved nations. It aims to 'invest in local infrastructure that has a visible impact on people and their communities'. It will support projects with spend to March 2024 (or exceptionally, March 2025) Projects can potentially include transport, urban regeneration and cultural assets.

Any local authority can submit a bid, or bids. Funds will, however, be targeted on places with most significant need, taking into account the following – need for economic recovery and growth; need for improved transport connectivity; need for regeneration. Areas have been placed into one of three priorities. In the H&I, only North Ayrshire is Priority One. Argyll and Bute, Moray and Outer Hebrides are Priority Two and Highland, Orkney and Shetland are priority Three.

As with the Community Renewal Fund, prioritisation of local authority areas for the Levelling Up Fund has not favoured the area. Areas have been prioritised based on need for economic recovery, using productivity, unemployment and skills metrics; and the need for regeneration – using dwelling vacancy rate. The need for transport connectivity, used in England and Wales, has not been considered in Scotland as no suitable metric was deemed to be available.

Again, these metrics are felt not to convey the persistent challenges present in the Highlands and Islands. For example, the need for improved transport connectivity is a given across such a large and demographically dispersed area and not considering this in prioritisation is clearly to the detriment of the region. Similarly using the dwellings vacancy rate does not articulate the challenge of a region where a shortage of housing is often cited as a barrier to growth.

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