

## Highlands and Islands of Scotland European Partnership



**Highlands & Islands of Scotland  
European Partnership**

European and External Relations Committee Scottish Parliament Holyrood Edinburgh EH99 1SP	Please ask for: Direct Dial: E-mail: Our Reference: Your Reference: Date:	Colin Simpson 01463 702957 <a href="mailto:colin.simpson@highland.gov.uk">colin.simpson@highland.gov.uk</a>    12 September 2016
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### **European and External Relations Committee call for evidence on the implications for Scotland of the EU referendum result.**

In view of the significant potential impacts on the Highlands and Islands, the Highlands and Islands European Partnership (HIEP)<sup>1</sup> welcomes the opportunity to contribute views on the implications for Scotland of the UK decision to leave the EU.

HIEP recognises that there is still a high degree of uncertainty over the detail and timing of the process of leaving the EU yet appreciates that to be of real value any response must be well informed. The lack of existing data makes it very difficult to give a clear indication of the impacts in individual parts of the region or in particular business sectors so a key task for HIEP in the coming weeks is to gather more robust information to better inform our future engagement as discussions on leaving the EU progress. This response is therefore limited to some of HIEP's early thinking on the expected impacts on the Highlands & Islands, its economy and communities that are common to most or all partners.

The Highlands and Islands and its communities have faced considerable economic and social challenges for many decades which in turn led to depopulation across many parts of the area. It is only in recent years that has this been reversed and that is in a large part due to the policies promoting regional convergence that have been a cornerstone of European policy and the related financial and funding support that this has brought to the area. The lack of such a policy framework and the reduction in levels of support which would likely follow means there is a significant likelihood that progress will not be maintained or, worse still, we will see a return to the issues of previous decades.

1. The Highlands and Islands European Partnership has a membership of:

Argyll & Bute Council	Comhairle nan Eilean Siar
Moray Council	North Ayrshire Council
Orkney Islands Council	Shetland Islands Council
The Highland Council	Highlands & Islands Enterprise
University of the Highlands & Islands	

In considering the likely implications for the Highlands and Islands two main areas have been identified:

1. The immediate impacts related to current EU funding programmes
2. Medium and longer term impacts on the region that will need to be addressed during the process of leaving the EU in order to protect the Highlands and Islands, its communities, organisations, institutions and businesses.

### **Immediate impacts related to current EU funding programmes**

The current EU Structural Fund Operational Programmes for the Highlands and Islands offer grant assistance totalling £95.2m of ERDF and £69m of ESF. The expenditure profile to the end of 2018 (taken as a possible / assumed exit point) is £66.7m and £48m respectively and so, on the basis of the anticipated profile, the projected loss of funding to the Highlands and Islands would total £28.5m (ERDF) and £21m (ESF), i.e. £50m of grant assistance. Taken together with co-finance the loss of development activity in the area would be approximately £90m – excluding any reduction in spending in the 2015-18 period due to the delays associated with full implementation of the Programmes. Further impacts in relation to specific funding for the agriculture and fisheries sectors are considered below.

As Scotland's only Transition Region, the Highlands and Islands' main concern is, of course, with the European Structural and Investment Funds. However it should be noted that HIEP partners are also engaged to a significant extent in many other EU programmes – most notably INTERREG (Cross Border, Northern Periphery & Arctic, North Sea, North West Europe, Atlantic Area) Horizon 2020, COSME and Erasmus+. Much of the added value from these initiatives has been the ability to deliver in some of Europe's most remote and sparsely populated areas and there are serious concerns about how such activities will be supported without EU intervention.

Whilst the recent Treasury letter offers some degree of comfort about ongoing support, there remains concern about longer-term short-fall of domestic assistance, compared to the projected expenditure contained in the programmes for 2014-20. It is HIEP's view that Scotland should continue to utilise EU funds where possible and indeed all HIEP partners wish to maximise their own access to such funding in order to continue delivery of projects and services in the period prior to the UK leaving the EU. Following earlier discussion with Scottish Government Officials HIEP officers have previously submitted a number of suggestions as to how this might be achieved including the key points that::

- The Scottish Government should ensure that the full range of Investment Priorities identified in the Operational Programmes are covered by Strategic Interventions. At present there is no SI for either ICT or Innovation (in respect of SFC and links between industry and academia specific to the Transition Region).
- The Scottish Government should extend existing Operations (from the end of 2018 at present) to the end of 2019 in respect of existing commitments, allowing for a longer period to spend existing co-finance, and further extend Operations for additional commitment to the end of 2021. Extensions to these operations should not be restricted by the undertaking a mid-term review, which instead could be used to inform post 2020 plans.

- The Scottish Government should maximise the intervention rate to levels allowed in the Transition area, effectively allowing the existing financial commitment to go further or to provide the co-finance to take projects into 2020.
- A higher degree of support could be offered by government departments to operations being implemented by government Departments that are based on a challenge funds approach so as to stimulate interest.
- Where plans are in place for a strategic programme of actions and where this is fully costed and deliverable, the Scottish Government should commit to this for the duration of the programme even if this is to 2021.

In addition to the European Structural and Investment Funds, communities and Organisations across the Highlands and Islands have access to a combined total of £24.7m of LEADER funding and £3.2m of European Maritime and Fisheries Fund funding for community and economic development projects. Further to the recent communication from the Cabinet Secretary where all projects which have signed contracts or funding agreements in place prior to the Autumn Statement will be fully funded, clarity is sought by Accountable Bodies (in the main Councils), Local Action Groups and Fisheries Local Action Groups whether or not the signed Service Level Agreements between Accountable Bodies and the Scottish Government are considered “committed funds” or whether this applies to individual projects.

### **Medium and longer term impacts on the region**

In the medium to longer term there are a number of other areas of activity across the Highlands and Islands where the decision of the UK to leave the EU is likely to have an impact. Due to the limitations of currently available data on many aspects, further work will be required to quantify many of these impacts but it is the view of HIEP that all the following areas are ones where substantial negative impacts on Highlands and the Islands are possible if suitable alternatives to current policies and / or support mechanisms are not put in place.

- Economic Development
- Migrant labour
- Agriculture
- Fisheries
- Communications technology
- Research
- Community Impacts

### **Economic Development**

The Highlands and Islands has faced a number of economic development challenges in recent decades particularly in relation to factors such as population retention, workforce recruitment across a diverse range of skills, communications, distance from markets and the higher cost of doing business in remoter areas. To a great extent these issues have been lessened through the regional policy approach of the European Union that has seen additional funding to the Highlands and Islands due to its previous Objective 1 status and more recent Transition status. As well as benefitting from infrastructure improvements through regional funding support the area

also benefits from supportive policies. Indeed peripheral and remote areas of the UK, as the Member State, also make a significant contribution to the UK economy. At present the degree of emphasis on regional policy within the UK is limited in comparison with the EU's focus and there are real concerns that without appropriate recognition of the significant positive impact EU funding has made to the Highlands and Islands area in terms of improved prospects and performance, using the region's unique assets and opportunities, 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 while a number of domestic sectors also depend on exporting to the EU – notably the seafood and whisky industries. Any changes to the single market arrangements that introduced barriers to trade could reduce the competitiveness of the region's businesses and make the Highlands and Islands a less attractive place to invest.

Early results from the HIE business panel and account manager feedback indicates that business confidence is down, there is caution regarding investment, and as a result investment decisions may be delayed or shelved. HIEP consider that while this may be a short term impact a strong positive message is required from government in order to increase business confidence and prevent this becoming a longer term issue.

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 on economic performance, through increased access to higher level qualifications and research capacity. HIEP has concerns that a sudden reduction in this support for the new institution will have a negative impact on innovation and skills support across the entire region and particularly in more remote and island communities. Early analysis of this impact has been carried out by UHI.

## **Migrant labour**

The Highlands and Islands are home to a large number of migrant workers (and their families), notably those from EU countries. Exact numbers are not available but estimates for Highland alone suggest there are over 10,000. More work will be required to gather robust information for the whole of the Highlands and Islands and to fully understand their importance to the economy of the area. However, it is clear even from anecdotal evidence that a number of sectors including aquaculture, shellfish processing, agriculture and hospitality can be particularly dependent on migrant workers from the EU – for example analysis by the Scottish Tourism Alliance show that across Scotland as a whole 24% of employees in hotels and 30% in restaurants are migrant workers. Indeed before the influx of migrants from a number of eastern European countries a decade ago many businesses in these sectors struggled to recruit staff at times. In areas with a smaller population these effects are often accentuated - for example in some of the island authorities the migrant workforce can be critical to sustaining the population of some of the outer islands which in turn is critical in sustaining local facilities or services such as schools.

It is HIEPs view that any future negotiations over the UK's relationship with the EU will need to consider the often unique needs of those sectors and of businesses in more

remote and peripheral areas in general to prevent recruitment difficulties impacting on business growth. Furthermore, without the free movement of labour, the skills and knowledge provided currently by our EU citizens may be difficult to replace and could impact negatively on the economic growth of the region's dispersed, remote, rural and island communities.

## **Agriculture & Forestry**

The importance of CAP Rural Development and Direct Aids for Agriculture to the Highlands and Islands should not be underestimated. The geographical characteristics of the Highlands and Islands combined with distance from markets mean that direct support is essential to many agriculture businesses to remain viable and indeed the level of intervention required in the Highlands and Islands is generally higher than elsewhere. In addition the industry supports both upstream and downstream industries such as agricultural contractors/suppliers, logistic providers, engineering support services, vets, auction mart, butchers etc. as well as delivering other benefits, or 'public goods'. These include a distinctive landscape, aspects of biodiversity and elements of cultural heritage which, while valuable to society, are areas where market forces alone are not sufficient to ensure their provision. Some forms of agricultural support and the environmental cross-compliance conditions attached to eligibility for these payments are essential in protecting or enhancing the local environment, which can also be dependent on other EU policies or forms of EU intervention for its protection.

The critical mass that exists because of farming also creates the need for further jobs in sectors such as health & social services and education – and indeed some of these jobs will even be filled by people also employed in farming. This situation is particularly apparent in smaller communities and on many of the islands to the extent that in some cases the very sustainability of smaller island communities could be at risk if agriculture support is withdrawn.

Current methods of recording payments at a national level make it difficult to obtain overall figures for the whole of the Highlands and Islands, but some work undertaken at a local level give some examples of the scale of funding. In Orkney £8,560,997 in rural development funding and a further £10,608,439 in direct aid (a total of £19,169,436) was received in the period from October 2014 to October 2015 meaning 1899 people (approx. 1300 households) in Orkney earned at least part of their income directly from agriculture. In Highland prior to the 2014 CAP reform, direct payments were calculated as being around £70m and while the problems experienced in issuing payments in the first year of the new system mean the final position in terms of the distribution of payments to individuals and regions will not be known for some time yet modelling suggests a slight increase in the level of direct aid. Using these figures provides an overview of the importance of the sector to the Orkney and Highland economies, which will be replicated in other areas of the Highlands and Islands to a greater or lesser degree depending on the prevalence of agriculture.

The forestry sector also sees a degree of dependence on EU funding support. Most replanting currently undertaken requires a degree of support such as through woodland grant schemes and any loss of such support could require restructuring of the industry as well as having an impact in other policy areas such as carbon capture. Also notable is the fact that many community owned land often includes a significant forestry element

which is critical to their economic viability and it is likely that future levels of community land buy outs would be affected by any reductions in support.

The total removal or even any reduction in the level of agriculture or forestry support would therefore have a huge negative impact not only to those involved in these sectors but also to the wider community and other businesses throughout the Highlands and Islands.

## **Fisheries**

The fisheries and aquaculture sectors, and the local communities where these are key sectors, have seen significant investment as a result of EU funding, which has also supported local and regional research and scientific projects. ERDF support has also helped provide upgraded infrastructure for marine and port projects. As an example of the scale of activity, Shetland accessed in the region of £10 million from the EFF programme 2007-13 which represented a total investment of just under £30 million in fisheries/aquaculture projects. While access to future funding is one issue, a number of other areas of uncertainty, related to wider fishery policy discussions may have a significant impact on parts of the Highlands and islands and will require careful consideration:-

- Continued access to EU markets for export of fisheries produce from the UK.
- How the UK is going to manage and control fisheries in the greater area of sea that it will have, including to what extent the UK will be able to exclude non-UK vessels?
- Making sure that Scotland benefits to the full as the UK renegotiates a share of fish quotas.
- How vulnerable are fishing rights to a trade-off when the UK is renegotiating wider trade deals with the EU?
- The extent of local influence and accountability in terms of the designation and management of current and future Marine Designated Areas

## **Tourism**

Another key sector in all parts of the Highlands and Islands is tourism and while levels of inbound tourism are influenced by a number of factors (including exchange rate variations which may boost visitor numbers and spend in the short term), there are concerns over the longer term development of the industry. Tourism growth needs continued investment not just by the private sector but also public sector investment in areas such as infrastructure and business and skills development. The loss of European funding to tourism projects allied to any reductions in public sector support should public sector finances come under further pressure could significantly limit the growth potential of this sector.

## **Communications technology**

One 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. The large geographical size of the area, combined with population sparsity tends 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. While progress has been made in many areas in recent years much remains to be done and

the pace of technological change suggests this will continue to be the case for some time. Ensuring such support is continued throughout the exit period and beyond will be critical if business competitiveness is to be maintained.

## **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. An excellent example of this is the energy research cluster found around Orkney and the Pentland Firth. Most local authority partners in HIEP are involved in the delivery of business and skills development through the EU funded Local Growth Accelerator Programme which is designed to make businesses more competitive and any withdrawal of match funding for this work without alternative provision would have a detrimental effect on the Highlands and Islands economy.

As another example, the University of the Highlands and Islands has been working with the Scottish Funding Council over the last two years to develop a strategic programme of additional activity designed to deliver higher level skills and a curriculum aligned more closely to the local labour market and meeting the needs of employers across the Highlands and Islands (Developing Scotland's Workforce). SFC has committed £29.2m to deliver a phased package of investment from 2015-2021 incorporating:

- FE Credit Growth
- Undergraduate growth in key sectors (UGT)
- Additional post graduate taught places (PGT)
- Additional post graduate research places (PGR)
- Curriculum development in key sectors
- Sector engagement

The challenge for UHI and SFC is to ensure that the momentum gained from these investments is maintained. The benefits from the growth in UGT where courses last four years will not be realised until 2021 whilst PGR's require three and a half years to complete resulting in outputs in 2020. Continuity of funding is essential both to ensure the delivery of what has been planned and to prevent the potential loss of students and researchers from the Highlands and Islands.

## **Impacts on communities**

It is clear that any impacts on any of 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 with many of these being heavily reliant on EU funding such as LEADER or the European Fisheries Fund Axis 4. This has included investments in facilities such as village halls and community buildings, sports and leisure facilities, facilities for children, local transport initiatives, environmental enhancements or projects to help the preservation of local cultural or natural heritage.

In the current programming period, around £25m has been allocated to LEADER Action Groups across the Highlands and Islands. The EMFF is based on a single UK Programme with an allocation of £44m to Scotland, so assuming a 60% apportionment to the fisheries dependent areas of the Highland and Islands this gives a possible fund of

£29m. Significant elements of community development would be affected were such funding to no longer be available. Also of concern is the shorter term uncertainty over LEADER funding most notably communities not knowing if they will have their project approved after October 2016.

In addition to physical developments a number of communities benefit from the activities of third sector organisations which can be dependent on EU funding or who may act as delivery agents for other EU funded initiatives which in themselves can underpin the viability of the organisation. Much of the work of these organisations 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.

The principle of cohesion that underpins many European policies allows derogations to address particular issues in certain types of areas such as remote and peripheral areas and this has been used to good effect to reduce the costs of living and working in some of the remoter parts of the Highlands and Islands. Two notable examples of this are the fuel tax derogations available to many islands and certain other remote areas and initiatives similar to the road equivalent tariff (RET) method of setting ferry fares. Any changes that threatened the continuation of such schemes would be likely to have a negative impact on these communities, many of which are already fragile.

In conclusion it is clear that the Highlands and Islands could face significant negative impacts from the decision of the UK to leave the EU. As indicated earlier a clear indication of the impacts in individual parts of the region or in particular business sectors will require gathering more robust information over the coming weeks. It is therefore suggested that this initial thinking on the expected impacts should not be taken as a comprehensive HIEP response on all impacts. Instead, HIEP members wish to stress the fact that they would expect further discussions between the Scottish Government and individual partners to take place over the coming months which will allow more detailed information on specific impacts to be articulated.