

## Potential Impacts on Inverness

### A. National and Regional Impact: Inverness & Highland

For the purposes of this report a “Soft Brexit” scenario has been taken to mean one where the UK leaves the EU, retaining access to the single market and remaining within the European Economic Area. Different forms of a “Hard Brexit” have been identified ranging from a situation where the UK negotiates bilateral agreements from within the single market like Switzerland through to a situation where the UK defaults to World Trade Organisation rules.

#### “Soft Brexit” – City Implications

According to the Fraser of Allander Institute report,<sup>1</sup> Scottish GDP is projected to be 2%-5% less over the next ten years. Assuming changes in Highland mirrored the national pattern this would equate to a fall in annual GDP of between £106m and £265m in Inverness & immediate area or between £186m and £465m for the wider Highland Council area by the end of the 10 year period. Real wages are projected to fall between 3%-4% with average full-time earnings reduced by £800-£1,200 per annum. A 1%-2% reduction in total employment is projected over a ten year period, which could mean the loss of up to 2240 jobs across the wider Highland area. Scottish exports are expected to reduce by 12% in Goods and 8% in Services within the next ten years. This may have less of an impact on Inverness and Highland than nationally due to the greater (and increasing) importance of service industries.

#### “Hard Brexit” City Implications

The Fraser of Allander Institute forecasts expect that, depending on the terms of new trade arrangements, Scottish GDP could decline by up to £11.2 billion per year by 2030. In these harder Brexit scenarios, there may be as many as 80,000 fewer jobs in Scotland as a result of leaving the EU which. Scottish Government figures for 2015 show Highland having 4.8% of Scottish employment so, on a pro rata basis this would equate to around 3800 fewer jobs in Highland. The Fraser of Allander Institute also forecasts that Scottish exports of goods could reduce by between 12% and 25% and the exports of services by between 18% and 25% over a ten year period. Neither Highland nor Inverness city figures are available but if it was assumed that the Highland area has a share of Scottish exports equivalent to its share of the population exports of goods from Highland could reduce by between £132m & £275m.

<sup>1</sup>: Long-term Economic Implications of Brexit. October 2016.

#### Foreign Direct Investment – City implications

The UK is by far the largest benefactor of (Foreign Direct Investment) FDI within the European Union (47%) and the impact on the decision to leave the EU on this is unknown. While Scotland is the region with the highest proportion of FDI in the UK after London this is more heavily concentrated in and around the larger Scottish cities so it is anticipated that Inverness and Highland may be less heavily impacted. However there are sectors which have seen investment in the larger cities in recent years where investors are now beginning to see the potential of and are developing an interest in Inverness (e.g. the hotel sector) where this fledgling growth could easily be reversed. The Highland area has also seen considerable overseas investment in land and estates in recent years – both in terms of land purchase but also in many instances investment in the properties

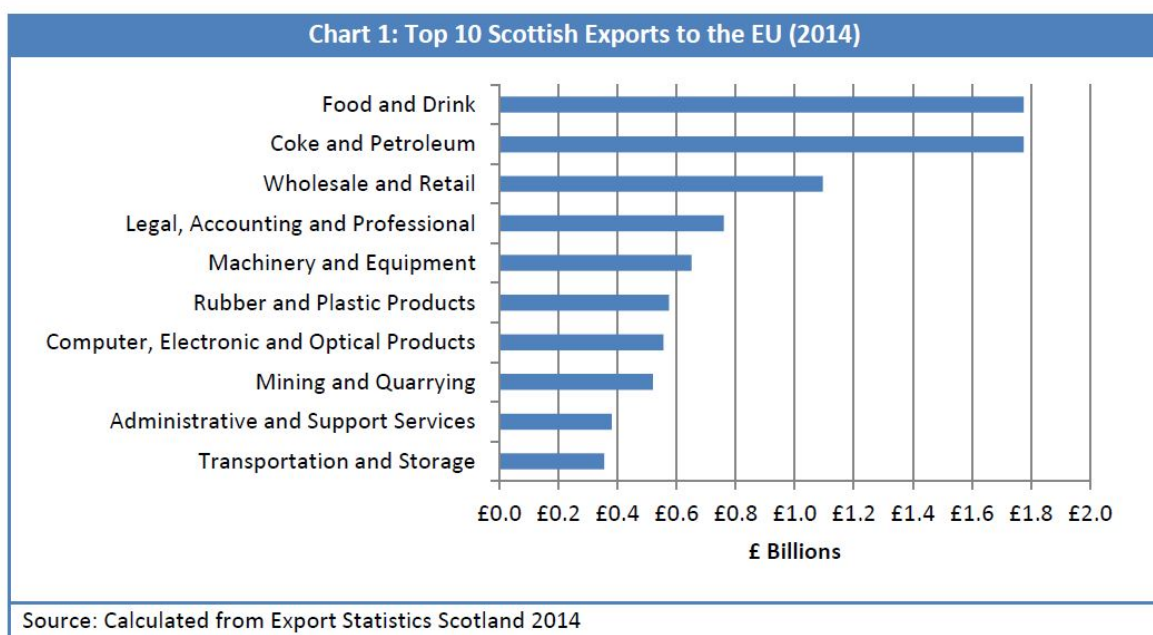
themselves. While some elements of this are politically sensitive and there are conflicting views on the success of some property purchases, it is clear that this sector is an important part of providing jobs and business in rural areas.

### Import Price Pressures – City Implications

No specific consideration has been given to this to date. However, as an area which is more remote and with related high costs of transportation there is likely to be a negative effect if these costs were combined with high import costs.

## Industry Sector impact key sectors for Inverness & Highland and implications

The Fraser of Allander Institute report includes national sector based projections which have been described quite comprehensively in the Aberdeen City deal area submission so these are not repeated here. However some useful observations regarding the Inverness City Deal area may be made in relation to expected impacts on exports. Chart 1 below details key export sectors for Scotland and while regional figures are not available it can reasonably assumed that certain sectors in Highland are likely to be impacted significantly.



The food and drink sector which is of most importance in terms of exports nationally is of greater significance in the Highlands and Islands (which is wider than the City deal area), for example 47% of Highlands & Islands growth sector businesses are in food and drink versus 23% nationally so this sector is likely to be disproportionately impacted by any changes that impact on exports. None of the other sectors in the top 10 are major industrial sectors for Highland.

Another identified growth sector - sustainable tourism also has a higher proportion than nationally (20% versus 19%), with fewer in Financial and Business Services (19% versus 36%) and the Creative Industries (8% versus 19%).

Further details are provided below for different sectors but due to levels of uncertainty and limited data no attempt has been made to differentiate between soft or Hard-Brexit Scenarios.

## **Scottish Industry Sectors: Economic Projections : implications for Inverness & Highland**

### **Wholesale, Retail & Trade:**

In 2016, Wholesale, Retail and Repairs & Transportation and Storage (G & H) industries in Highland had an annual turnover of £3,308 million, representing 4.2% of total sector turnover in Scotland. Highland had 1,870 enterprises and 1.6 % of Scotland's enterprises in this sector and 21,520 employees – 4.7% of Scotland's total within this sector (Businesses in Scotland, March 2016).

According to the Fraser of Allander report, Wholesale & Retail Trade, Transportation and Storage Industries are projected to see the second greatest reductions in exports after primary industries. However with the size of the sector in Highland being roughly proportional to Highland's share of the Scottish population (smaller in relation to the number of enterprises), it is likely that this sector contraction would have a lesser proportional effect on the Highland economy.

### **Professional, Scientific and Technical Activities:**

In 2016, Highland had 1,485 Professional, Scientific and Technical enterprises, with 4,940 employees and turnover of £401m. Highland had 4.5% of enterprises, 3.3% of employment and 2% of total turnover of Professional, Scientific and Technical enterprises in Scotland.

According to the Fraser of Allander report, Professional, Scientific and Technical is another sector projected to see more significant reductions in exports. Again the size of the sector in Highland is proportional to Highland's share of the Scottish population but with a smaller proportion of both employment and turnover suggesting that contraction in this sector would have a lesser proportional effect on the Highland economy.

### **Construction:**

In 2016, there were 1,485 Construction enterprises in Highland, with 7,210 employees and an annual turnover of £876 million. Highland had 7.7% of Construction enterprises, 5.7% of Construction employment and 5.1% of Construction turnover in Scotland. The relatively high proportion of Scotland's construction businesses but lower proportion of employees is probably reflects that the area's geography has led to there being a large number of small companies dispersed across the area. While the impact on the area as a whole is unlikely to differ significantly from the Scottish average there could however be much more significant local impacts most notably in peripheral areas.

### **Manufacturing:**

In 2016, there were 565 Manufacturing enterprises in Highland with a workforce of 7,020 people and an annual turnover of approximately £1,294 million. In total, 6.3% of enterprises, 3.9% of employment and 3.4% of turnover from Scottish Manufacturing was attributed to Highland. As with construction, the relatively high proportion of Scotland's businesses but lower proportion of employees and turnover is likely to reflect the large number of small companies dispersed across a large area. Again this may mean more significant local impacts even if the overall impact is closer to the Scottish average. Impacts on small businesses are also expected to be greater if aspects such as compliance or certification requirements increase following Brexit.

### **Aviation:**

Uncertainties regarding post-Brexit trade deal negotiations are already prompting some concerns in the industry with media coverage suggesting some limitations to flights between the UK and the EU. Inverness airport currently has only two direct scheduled international connections (Amsterdam & Dublin) with both these and routes via key English airports being well used to access a range of international destinations. Relatively small reductions in traffic levels - for example if trade with the EU reduced, could put such connections at risk which in turn could have an adverse impact on inbound tourism and the area's ability to attract further inward investment.

### **Public Sector: Public Administration & Defence ( including Higher Education sector)**

The Scottish Government has projected that the decision of the UK to leave the EU could reduce Scottish tax revenues by between £1.7 billion and £3.7 billion by 2030 - the equivalent in a reduction of the Scottish Government's budget by between 6% and 13%. The impact of this on the public sector would be substantial across the Highland area in general and Inverness in particular. As Inverness is home to a number of Highlands and Islands and Scottish public sector organisations (e.g. the headquarters of the Crofters Commission and Scottish Natural Heritage), as well as key facilities like the main hospital for the Highlands & Islands, the city would be affected to a greater degree than Scotland as a whole.

### **Oil & Gas Sector & Renewable Energy:**

The Scottish Government's 2016 report on Scotland's Economic Strategy - Growth Sector Statistics shows the Energy sector (including renewables) in Highland has 260 enterprises (10% of the Scottish total) with a total of 2500 employees (5.5 % of the Scottish total) although turnover figures for Highland are not disclosed. This sector is of greater significance to Highland and in particular to certain areas of Highland e.g. Caithness which would be disproportionately impacted by Brexit. The decision to leave the EU is projected to have a negative effect on investor confidence. The dominance of non UK EU companies in parts of the renewable sector, for example onshore turbine manufacture, means that any barriers that reduce their ability to operate Highland or increase costs is likely to threaten the current levels of growth being seen in the sector.

As a result of the decision to leave the EU, the UK may have disassociated itself from the EU Renewable Energy Directive. The UK will no longer be obliged to meet the EU climate and clean energy targets and the absence of this is a threat to the renewables sector. The UK has been a large benefactor of EU renewable energy funds. When the UK is outside of the EU, it could potentially lose of billions of pounds of renewable energy projects.

### **Fishing:**

The Scottish Fishing Industry holds a very positive view of leaving the EU and expects to benefit from the UK withdrawing from the Common Fisheries Policy particularly if the Scottish fleet has a significantly larger amount of or even sole access to the 200-mile Exclusive Economic Zone which could allow the harvesting of greater quotas bringing prosperity to both fish sectors and the wider supply chain. While not of the scale of the North east or Shetland fishing is still of significant importance to Highland. Kinlochbervie, Lochinver and Scrabster are the most important ports with their access to the fishing ground to the north-west of Scotland meaning they often receive landings from fishing vessels from other EU countries. Other important Highland ports include Ullapool and Mallaig. All of these ports as well as numerous smaller ones lie in more peripheral parts of the Highlands and are disproportionately important elements of the local economy.

**Food & Drink:**

The Scottish Government's 2016 report on Scotland's Economic Strategy - Growth Sector Statistics shows the Food & Drink sector in Highland has 2,120 enterprises with a workforce of 12,400 people (2015 figure). In total, 12.2% of enterprises and 10.8% of employment. Nationally the food and drink sector is of most importance in terms of exports and is of greater significance in the Highlands and Islands (which is wider than the City deal area). For example 47% of Highlands & Islands growth sector businesses are in food and drink versus 23% nationally so this sector is likely to be disproportionately impacted by any changes that impact on exports.

The Food and Drink growth sector across Scotland employs 8,000 non-UK EU nationals accounting for 11.3% of all employed in that sector again suggesting this sector in Highland will be disproportionately affected if access to this labour market is restricted.

Despite negative projections, there exists a feeling of confidence within some in the Food & Drink sector that Brexit will not have an adverse impact, with a feeling of opportunity for potential new markets. Given the international appeal of some Highland products, which are often high value (including whisky), there may be benefits in terms of access to new markets after leaving the EU.

**Life Sciences:**

The Scottish Government's 2016 report on Scotland's Economic Strategy - Growth Sector Statistics shows the Life Science sector in Highland has only 25 enterprises and employment figures are not given due to issues around disclosure data. However one of those enterprises is the largest private sector employer in Highland and the sector is seen as one with huge growth potential for the city of Inverness, linked in part to the opening of the new Inverness campus in 2016. This sector is closely tied to research and as such the potential loss of EU research funding is a large threat to the life sciences sector as would be any loss of researchers and academics in higher education – 17% of whom are EU nationals.

**Financial & Business Services:**

The Scottish Government's 2016 report on Scotland's Economic Strategy - Growth Sector Statistics shows the Financial & Business Services sector in Highland has 1,180 enterprises with a workforce of 5,600 people. National figures are not given for comparison but based on Businesses in Scotland data for the similar SIC "Financial and insurance activities" Highland accounts for only 3.6% of enterprises and 1% of employment in Scotland. This is not considered to be a significant sector in Highland so any impacts are likely to have a lesser effect on the Highland economy.

**Creative Industries:**

The Scottish Government's 2016 report on Scotland's Economic Strategy - Growth Sector Statistics shows the Creative Industries sector in Highland has 500 enterprises with a workforce of 3,000 people (2015 figure) and turnover of £222million (2014 figure). Of the Scottish total this accounts for 3.2% of enterprises, 4.1 % of employment and 3.4 % of turnover. This is roughly in proportion to the Highland share of population but on the basis that many creative industry enterprises are located in more rural and / or peripheral parts of the area any negative effects are likely to be more noticeable.

This sector also has close links with tourism – for example the impact the film industry has in showcasing the Highlands and attracting visitors as well as sales of high quality craft products to

visitors so impacts on either sector are likely to have an effect on the other.

**Sustainable Tourism:**

Tourism is the single most significant industry in Highland and is of particular importance to some more peripheral areas which have a less diverse industrial base than the Inverness & Inner Moray Firth area. 2015 figures show direct expenditure generated from tourism was £905m with further indirect expenditure taking the total economic impact to just over £1.1bn. The industry employs 23,000 people including the self-employed, with the majority of these in SMEs.

The Highland area sees a greater proportion of overseas visitors than the Scottish average (22% of trips to Highland in 2015 compared to 18% for Scotland as a whole) with the majority of overseas visitors coming from EU countries. While the short term has seen the tourism industry benefit from the devaluation of the pound following the EU referendum, any future decline would have a more significant impact on Highland due to its greater reliance on overseas visitors. While no evidence is yet apparent, there are concerns that the UK may be seen as a less attractive destination as a result of leaving the EU. An additional concern is that a greater focus on limiting inward migration could have a negative impact as some forms of border controls could discourage inbound visitors as well. There is some evidence of this already with the cruise industry where more time consuming immigration checks is seen by some cruise companies as a barrier to visiting UK ports.

Tourism is also a sector that is heavily reliant on migrant labour with much of this coming from EU countries in recent years. 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 while the Scottish Government reports that there are 20,000 EU migrants working in Scottish Tourism which, if the number in Highland was proportional to Highland's share of tourism employment, would mean around 1,500 EU migrants work in Highland tourism. As with some other sectors access to this workforce is disproportionately important in many rural areas which have a more limited local labour pool.

## Potential Impacts on The Highland Council's Activity

### **B. Workforce Impact**

The government has confirmed that the proposed Great Repeal Bill will 'convert existing EU law into domestic law, wherever practical'. If this is the case then it is increasingly likely that employment laws will remain largely untouched in the short to medium term as per the previous guidance.

The Highland Council does not retain data on the origin of its workforce beyond the recruitment process but a number of EU nationals are employed by the Highland Council with numbers thought to mirror the wider demographic situation in Highland. In some Council services the numbers of EU migrant workers are fairly minimal – for example teaching posts due to the limited transferability of key qualifications and / or registration requirements. However related sectors such as pupil support assistants do include more substantial numbers of EU migrants. Not only does this assist in addressing workforce needs it can bring a wider benefit in terms of helping to address the needs of pupils who have English as a second language. Another Council service with similar patterns of EU migrant workers is Social Work including roles such as early years support workers and community based support workers. Anecdotally these migrants are thought to be particularly important in some remoter areas which face recruitment challenges due largely to there being a limited local labour force or difficulties in attracting UK nationals to the area to fill these roles.

While the UK government is currently stating that there are no plans to repatriate current employees and that a new pan UK approach to immigration, for example via a work permit scheme is likely, this could still cause issues in the Highland area due to the more limited labour pool available to recruit from. Geographical challenges such as large distances when combined with other location related limitations such as a need to be near school or childcare often mean migrant workers who have fewer ties and can be more mobile are important in filling some vacancies.

### **C. Legal implications**

The Council has not yet had an opportunity to fully look at this element but on the basis that implications are unlikely to vary from one Council to another would anticipate that the points already raised by Aberdeen City Council will also affect the Highland Council.

### **D. Procurement Regulations and Supply Chain Implications**

The Highland Council has a shared service agreement with Aberdeen City Council and Aberdeenshire Councils for procurement. As such it is considered that the impacts on the Highland Council will be the same as those already described by Aberdeen City Council so that response is replicated here.

Prior to triggering Article 50 and during the 2 year period which follows, there should be no change to EU or domestic law including financial thresholds that govern whether a contract is required to be published in the Official Journal of the European Union (OJEU). The Procurement Reform (Scotland) Act 2014, the Public Contracts (Scotland) Regulations 2015

and Procurement (Scotland) Regulations 2016 (all statutory guidance; utilities/concession regulations) still apply and are in full force. Contracting authorities need to continue to comply with the rules and bidders can continue to enforce their existing rights. Although the value of sterling has dropped against the Euro, the exchange rate for procurement purposes is fixed and not due for revision until 1st January 2018.

Beyond actual exit from the EU, an unequivocal assurance has been given by the Prime Minister that all EU legislation enshrined (and gold plated) into domestic legislation continues to apply and will apply post Brexit.

If, at this time, the UK government does not join the EEA, then the World Trade Organisation's Agreement on Government Procurement is likely to apply by default. The principles within the Public Procurement Regulations are internationally accepted and therefore the procurement regime is unlikely to change substantially. The WTO's Agreement on Government Procurement (GPA) is already compatible with basic treaty principles and sets out many of the basic procurement principles such as the rules on technical specifications and advertisement. Many other jurisdictions which are not part of the WTO have similar rules. WTO rules restrict the circumstances in which countries can discriminate in favour of each other in trade - otherwise, they must apply to each other the tariffs they apply against the rest of the world.

Procurement reform is likely to be a low priority in the broader political and legislative agenda. Rather than de-skilling procurement, this is likely to make procurement more vital and more demanding as European and global trading requirements will have to be absorbed. The principles of equal treatment/non discrimination, transparency and mutual recognition are unlikely to be absent from any new regime to follow.

Officers (across the three Councils) are continuing to monitor, and participate, in Brexit research and analysis. Some examples, with particular relevance to procurement, are:-

i. **Chartered Institute of Procurement and Supply (CIPS)**

The head of procurement law at Pinsent Masons reported to the CIPS annual conference that it is "business as usual" now, post Article 50 and post Brexit. The main points were:

- Buyers wanting to stay ahead of the Brexit curve should familiarise themselves with other regulatory environments including the World Trade Organisation agreements; and
- "Whatever agreement is reached, we will have a regime for ensuring value for money is delivered for the public purse... The names of certain things might change but ultimately the demand for consistency and transparency and non-discrimination will probably remain in some guise."

A "Health Check" has been produced by CIPS to help firms navigate their way in the post Brexit procurement world i.e. assess risks, prioritise resources.

ii. **CIPFA**

As well as reiterating the anticipated position on procurement as set out above, CIPFA



have commented that “Buy local” protectionist measures will not be possible (without infringing WTO rules) post Brexit in terms of reserving contracts to domestic/regional enterprises only.

They also state that WTO rules on subsidies are, by comparison, less draconian and provide for a dispute-settlement procedure. One obvious advantage of the WTO system, from the UK government’s perspective, is that it would be for the UK government to take a view as to whether or not a proposed subsidy measure would be consistent with WTO rules – rather than having to apply to the WTO or some other third party for clearance before the implementation of the measure.

## **E. Finance Implications**

Now that the UK has triggered Article 50 it seems as though Brexit will really go ahead. Months if not years of negotiations lie ahead and it is nigh on impossible at this stage to say what the impacts of Brexit might be. In very general terms Scottish local authorities are heavily dependent on funding from the Scottish Government- over 80% of Highland’s funding comes from the Government. Wider economic policy and performance, the state of the nation’s economy and policy aspirations of the respective governments in Westminster and Edinburgh could drive significant changes to the funding available to local authorities. The potential for a further Scottish independence referendum adds even more uncertainty!

### **Implications for the Council**

In the immediate term the impact of the Brexit decision appears to have been fairly limited. With the value of sterling falling exports become cheaper and imports more expensive. Whilst it is not possible to attribute specifically to Brexit, the Council is seeing tenders for capital projects coming in at higher levels than anticipated as well as seeing some cost increases in some of the goods and services it purchases, such as energy.

The financial settlement between the Scottish Government and local authorities for 2017-18 has been announced with no discernible impact of Brexit. The one year only settlement does put authorities in an uncertain position regarding future years’ settlements.

Changes in share prices as a result of Brexit will not directly impact on the Council but do affect the Highland Pension Fund. The fund has a diversified portfolio of investments and overall fund performance since the Brexit decision has been positive. Changes to investment markets as the Brexit process continues may well impact on the fund’s value.

### **Access to Liquidity**

The Council accesses liquidity (cash) from a number of sources to enable us to manage our cash flows and finance capital investment. We rely on the ability to raise capital financing through PWLB and other market borrowing and this could be impacted upon by the reduction in the UK’s sovereign credit rating. That said, the measures taken by the Bank of England appear to have stabilised the PWLB borrowing rates and our treasury advisor’s current forecasts are for slightly lower rates on shorter term money over the next 2 years with a gentle rise in borrowing costs after that. If the cost of borrowing increases the Council may

need to consider deferring or stopping capital projects going forward.

### **Demand pressures**

The impact of Brexit on demand for council services is unpredictable and may complicate the management of spending reductions in the coming years. The longer term impact on demand will depend on how well the local economy fares.

### **Medium Term (2 to 5 years)**

Looking at the medium term it becomes more difficult to predict what impact this may have on the Council. Potentially the vote to leave the EU means that the UK no longer makes contributions to the EU budget, offering choices on the pace of deficit reduction. However, any deal made to continue to trade with EU countries may still involve some contribution to the EU, similar to the Norwegian or Swiss models. The availability of any reduction in contributions to the EU budget to support Local Government funding will be a matter for the UK and Scottish Governments, but the scope will be affected by any impact on the general economy and the level of tax receipts. This will impact the Council directly but the nature of that impact is unknown at this stage.

Leaving the EU could potentially impact on a number of policy areas that have been affected through EU legislation e.g. waste collection and disposal, energy efficiency, trading standards, procurement and state aid. Largely speaking these have also been achieved via EU Legislation and Directives then being transposed directly into UK Law. Whilst it would be possible for the UK Government to then repeal some of these laws this seems unlikely in the short term, although some relaxation of such laws may provide financial benefits to Local Government. However, negotiations over future trade agreements might involve a continuing commitment to maintaining EU laws in these areas.

### **Longer Term**

The impact in the longer term is very difficult to predict and over time the impact of other events affecting the global economy will make it difficult to attribute changes directly to Brexit. The impact on the Council over the longer term will be influenced mostly by the state of the general economy and the impact that has on the level of funding for Local Government and the cost of labour, goods and services.

### **Responding to the uncertainty**

This is covered in the responses above.

## EU Funding : implications for Inverness & Highland

The table below shows the current Highland Council project activity, and the associated grant, that will be in operation beyond December 2018. The ERDF and ESF Programmes also have additional funds, as yet un-committed, for the 2019-2021 period. In addition to these projects there are similar amounts operated by our close partners including HIE and UHI for the Highland Council area along with many smaller projects operated by the third sector and other local groups. This also does not take account of the £8,805,388 allocated to Highland LEADER (a second LEADER programme operates partially within the Highland Council area operated by the Cairngorms National Park Authority, figures for this programme have not been included) and the £1,006,000 allocated for Highland EMFF. Then Agricultural funds have not been included in this outline as they are centrally administered directly to the farming sector.

The Highland Council applications/projects				
Project name and partner	Total cost	Total grant	End date	Programme
Local Growth Accelerator Programme – Highland and Moray	£ 1,545,629.86	£ 772,814.93	Oct 19	ERDF
Highland Employability Pipeline	£ 8,312,190.00	£ 4,156,095.00	Sep 19	ESF
Highland Poverty and Social Inclusion (The Highland Council)	£ 1,297,994.00	£ 648,997.00	Dec 18	ESF
Highland Smart Mobility - Part of the 8th City SI -	£ 1,000,000.00	£ 500,000.00	Dec 18	ERDF
Open Data - Part of the 8th City SI	£ 160,000.00	£ 80,000.00	Dec 18	ERDF
E-lighthouse	£ 255,541.52	£ 166,102.38	Mar 19	NPAP
Enterprise Europe Network	£ 65,744.06	£ 32,872.03	Dec 18	COSME
Language Training	£ 77,545.10	£ 38,772.55	TBC	Erasmus+
<b>Total</b>	<b>£ 12,714,644.54</b>	<b>£ 6,395,653.89</b>		<b>All</b>

- With the promised guarantee of funding to the end of the programmes in 2021/22

these monies appear to be more secure than previously expected. This may mean some of the above dates are extended or new applications are allowed.

- It is not clear what happens to the rules and other programme constraints if the UK leaves the EU under either poor terms or no terms but continues to uphold the promised guarantee. Changes in the rules and requirements of the programmes mid-stream are likely to be damaging and reduce the capacity to claim/draw down funds.
- There is no clear picture of what may replace Structural Funds Programmes following 2022 so very hard to plan what activities to include in the closing phases (2019-2022) to prepare for the future.
- Post 2022 – The Structural Funds Programmes have essentially been a regional policy programme for the UK and lack of clarity of what sort of policies will replace them (if any) makes planning and preparation impossible. As the Highlands & Islands were Scotland’s only “Transition region” and as such received a greater level of support any future arrangement that means a reduced level of support is a concern.
- The lack of potential policies/programmes to replace the EU led structural Funds and regional development funds is a significant risk for Highland, especially for areas with the greatest natural constraints.
- The transnational, cross border and inter-regional funds will not be accessible under the same terms once the UK leaves the EU but most of these funds such as the Northern Periphery and Arctic Programme allow 10%-20% participation in projects from non-member and non-EFT states (self-funding basis only). Therefore there will remain a mechanism to continue close working cooperation with many of our existing partners.

## **F. Political: implications for Inverness & Highland**

To date the Highland Council has not formally considered what political implications might arise for the Council due to Brexit and to a significant extent this will be influenced by the terms of the Brexit deal. If, as is suggested by Scottish Secretary David Mundell, the Brexit agreement delivers fundamental changes such as the return of powers over areas such as agriculture, fisheries, the environment and criminal justice to devolved administrations this may have implications for the range of services delivered by Local Authorities. Responsibility for the delivery of further services and the associated democratic processes that would be required to govern delivery of these services would likely have implications, not least due to the large geographic area concerned. For example a greater range of committees to oversee services were this to be done centrally would have significant implications on councillor’s time and related costs - particularly for those who have to travel large distances to attend.