

Agenda item	11
Report no	EDI 10/17

HIGHLAND COUNCIL

Committee: Environment, Development and Infrastructure Committee

Date: 8 November 2017

Report Title: European Engagement

Report By: Director of Development and Infrastructure

1. Purpose/Executive Summary

- 1.1 This Report outlines the Council's European work which is undertaken both directly by the Council and jointly with the Highlands & Islands European Partnership. It brings Members up to date with the current situation regarding European policy and funding following on from the UK referendum decision to leave the European Union and makes recommendations on an approach to future European engagement and policy development.

2. Recommendations

2.1 Members are asked to:

- i. note the European work currently undertaken by the Council and how it works collaboratively with other partners through the Highlands and Islands European Partnership;
- ii. note the potential impacts on Highland and the Highland Council that may arise as a result of the UK decision to leave the EU; and
- iii. endorse the approach to continuing the Council's engagement described in paragraph 5.4.

3. Background

- 3.1 Recognising that Highland alone can be seen as a relatively small player, much of the Council's European engagement is undertaken with partner organisations. The Council is a member of the Highlands and Islands European Partnership (HIEP), which brings together all the Highlands and Islands local authorities along with Highlands and Islands Enterprise and the University of the Highlands and Islands. To assist it in its work, HIEP is also a member of the Scotland Europa – an organisation set up by the Scottish Government to support Scottish interests, businesses and organisations in Europe.
- 3.2 On 2 November 2016 the Planning, Development and Infrastructure Committee (PDI) considered a report on the Council's future European Engagement that reflected the changed circumstances due to the decision of the UK to leave the European Union. Further changes to Council budget, the formal triggering of Article 50 in March 2017 combined with continued uncertainty over the detail of how the UK's departure from the European Union will ultimately turn out, suggest that this approach requires to be revised.

4. Brexit

- 4.1 It will be clear to Members from other sources and ongoing media coverage that while some progress is currently being made, a huge amount of uncertainty remains about what Brexit will mean for the UK and indeed for Highland. This makes it particularly difficult for either the Council or HIEP to engage fully with either the UK or Scottish governments to ensure the best possible outcome for the area. However, in order to keep Members informed, some of the Council's current activity is described below.
- 4.2 In view of the fact that local authorities are the level of government closest to communities and that local authorities will be directly affected by Brexit, the umbrella bodies representing local authorities across the UK have been particularly active in trying to identify impacts and develop positions on a number of affected areas. The Convention of Scottish Local Authorities (COSLA) includes Brexit as a regular item at their Leaders meetings as well as inclusion in the work of a number of their themed boards. In addition a Brexit officers group has recently been set up – initially involving a cross section of councils, with Highland being one, with a view to this being widened out to all councils in the near future. COSLA provides regular updates to Council officers on emerging issues while also inviting the views of councils to assist in responses to government consultations and in formulating a national and / or local authority position on relevant issues.
- 4.3 Over the last year the Scottish Government has undertaken a number of consultations on the expected effects of Brexit and to ensure a Highlands and Islands perspective is included, HIEP has responded to a number of these. To try and ensure there was continued input from the Highlands and Islands, the HIEP Board approached the Scottish Government with the suggestion that a Highlands and Islands representative be appointed to the First Minister's Standing Council on Europe. While this was rejected on the basis that all representatives were appointed because of their individual skills rather than to represent a given area or interest, the Scottish Government did subsequently appoint Mr Malcolm Burr, Chief Executive of Comhairle nan Eilean Siar. HIEP have since agreed to support Mr Burr in this role to help ensure a range of Highlands and Islands views can be put forward.
- 4.4 The HIEP Board has also approved a programme of work to gather more detail that

helps quantify the local effects of Brexit. This will be used to support Mr Burr in his work with the First Minister's Standing Council on Europe and to support HIEP or individual partners' responses to future consultations. It will also provide a more robust evidence base when a Highlands and Islands case is made to either the Scottish or UK Governments. Rather than covering issues that affect the whole of the UK it has a specific focus on issues that are either unique to, or which are considered to disproportionately affect, the Highlands. A good example of this is identifying the degree of dependency on migrant labour from the EU. A recent survey undertaken by the Federation of Small Businesses showed that at a UK level 20% of their members employed 1 or more migrants from the EU. In Scotland the proportion was 25% while in Highland this was 41% indicating the impacts of any future changes would likely be much greater in Highland than across the country as a whole.

4.5 While the HIEP work relates to the wider Highlands and Islands, most if not all subject areas are also of direct relevance to Highland. **Appendix 1** gives an overview of the expected areas of impact.

4.6 In addition to impacts on the Highland area, there may also be direct impacts on the Highland Council as an organisation. Again, current uncertainty prevents definitive information being provided but some areas where there are anticipated to be impacts that the Council will need to respond to are:

- Delivery of services – UK local government associations, including COSLA, are lobbying for some functions repatriated to the UK to be devolved to as local a level as possible. This may impact on the range of services councils offer.
- Environment – much of the current, legislation around environmental protection (which directly influences many Council services) comes from the EU and may be subject to future changes.
- Workforce – the Council currently employs a number of EU citizens so changes to their rights could affect Council employees. An exact number is not available as nationality is not personal information the Council holds about employees. Much of the legislation around working conditions is also derived from the EU.
- Procurement – currently this is heavily influenced by EU legislation and while future UK legislation is likely to follow similar principles the detail of the legislation may change with a consequent impact on procurement processes.
- Funding provided by the Council to the private or third sectors – this is influenced by EU legislation most notably through State Aid rules. Again future UK legislation is likely to follow similar principles but the detail may change.
- Funding received by the Council – EU legislation will apply as described above but the Council may also be affected by changes in access to funding where Highland has previously benefitted. EU funding schemes are currently based on the principle of 'cohesion', where funding is biased towards supporting areas that lag behind economically. It is unclear at present whether any successor scheme being considered by the UK Government will follow this principle.

5. Current European engagement

5.1 In a European context, the Highlands and Islands approach to influencing policy development has traditionally been to work with other partners, not just locally but also with other European regions that have similar characteristics or face similar issues. This policy development work is often done through networks of regions with the Council currently still a member of two European networks – The Conference of Peripheral and Maritime Regions (CPMR) and Euromontana.

5.2 CPMR

CPMR brings together some 160 Regions from 25 States from the European Union and beyond. CPMR campaigns in favour of a more balanced development operating both as a think tank and as a lobby mechanism for regions. Work focuses mainly on social, economic and territorial cohesion, maritime policies, accessibility (including transport), energy and climate change. CPMR's structure involves each member also participating in one or more of its six Geographical Commissions, each of which can promote its specific identity and cooperate on subjects of common interest. The Council is currently a member of one of those geographical commissions - the North Sea Commission, where Councillor Jimmy Gray is chair of the Energy Committee. As part of the process of forming the new Council in May 2017, the Council re-joined CPMR and its North Sea Commission sub group and this membership will continue until December 2017.

5.3 Euromontana

Euromontana is an association for co-operation and development of mountain areas. It promotes integrated and sustainable development and quality of life in mountain areas through activities such as the exchange of information and experience, conducting and collaborating in studies, participation in European projects and by working with the European institutions on mountain issues. In terms of membership, the Council had already paid for the 2017 calendar year prior to the Council's budget meeting in February so this membership remains in place until the end of December 2017.

5.4 In view of the current budgetary situation it is not anticipated that budgets will be reinstated to allow continued membership of the above networks in 2018. A number of other HIEP partners face similar challenges but also recognise the benefits of continuing some engagement. This led to the HIEP Board authorising officers to explore the option of combined Highlands and Islands memberships. Approaches have therefore been made to both CPMR and Euromontana to seek whether or not such a solution would be acceptable to them. As this approach would allow continued engagement in European matters while also allowing budget savings to be realised, Members are asked to endorse the approach of using a Highlands and Islands membership to continue engagement should this be acceptable to other HIEP members and the networks themselves.

6. EU funding

6.1 The Highland area, and the Council itself, benefits from European Structural Investment Fund (ESIF) programmes and has done for many years. Highland gains some benefit from a number of national programmes but, more significantly, is the beneficiary of a number of programmes delivered at a Highland, or Highlands and Islands level. These ESIF programmes have combined allocations of around €222 and comprise the:

- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- European Agriculture Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF)

The current funding allocations for these programmes were outlined in the report on the UK European referendum and its implications for Highland to Council on 29 June 2016. Allocations made for the Highlands and Islands are made in Euros as the partnership agreement between the EU and the UK underpinning these are in Euros. There will therefore have been some relatively minor changes to these in the intervening period

due for example to exchange rate fluctuations but in general terms these figures still give a good indication of the level of benefit to the area.

6.2 Using the above programmes, the Highland Council is the lead partner for three structural investments (SIs):

- business competitiveness (Business Gateway) - £1.18m;
- employability - £10.34m; and
- social inclusion and poverty - £ 1.42m.

In addition, the Council is a delivery agent in relation to a further SI – ‘Scotland’s 8th city – The Smart City’, which is led by Glasgow City Council and which has a Highland allocation of £1.8m.

6.3 Nationally, there was a delay with the commencement of the EU programmes, which also adversely impacted on the Highland Council projects. Work is now underway and during 2018, it is anticipated that opportunities will arise, including for the Council, to seek and secure EU funding at a higher intervention rate up until the end of 2021. This opportunity has arisen as the UK Treasury has undertaken to guarantee EU equivalent funding if it has been legally committed by March 2019 and the Scottish Government is currently in negotiation with the EU over operational amendments to the funding programmes. A key challenge faced, however, is that EU funds require to be matched and this is proving a challenge for all concerned.

7. Implications

- 7.1 **Resource:** This report highlights the importance to the Council of the European Union as a source of funding and highlights some future changes that may have resource implications for the Council.
- 7.2 **Legal:** This report does not in itself create any legal implications for the Council. However, the UK decision to leave the EU will ultimately lead to a number of legislative changes which are likely to have an impact on the Council.
- 7.3 **Community (Equality, Poverty and Rural):** This report does not in itself create any implications for communities but the UK decision to leave the EU may ultimately lead to a number of impacts on our communities. The report outlines some of the areas where such impacts are likely in order to influence future work to mitigate against any negative impacts.
- 7.4 **Climate Change / Carbon Clever:** This report does not in itself create have any climate change / Carbon Clever implications. However, since a significant amount of such work is influenced by EU directives or supported by EU funding the UK decision to leave the EU may ultimately have impacts.
- 7.5 **Risk:** The UK decision to leave the EU and the associated loss of access to EU funds presents a risk to the Council. The information in this report is designed to assist the Council in the development or influencing of policies that would minimise these risks.
- 7.6 **Gaelic:** There are no Gaelic implications arising from this report.

Designation: Director of Development and Infrastructure

Date: 23 October 2017

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Appendix 1: Key areas where the UK's withdrawal from the EU is likely to cause impacts on Highland

HIEP identified three broad areas where impacts are likely to be felt:-

1. Impacts on the economy of the Highlands & Islands
2. Impacts on communities & people of the Highlands & Islands
3. Impacts on the land & environment of the Highlands & Islands

Impacts on the economy

When considering impacts on the economy initial research suggested that there will be some impacts that are likely to be seen across all sectors while other impacts may be specific to certain sectors.

Impacts likely to be relevant to all sectors

- Access to the labour market including migrant labour
- Access to market(s)
- Connectivity – particularly digital & transport connectivity
- Exchange rates – including import prices for inputs and export prices for finished products
- Legislative changes such as working hours or procurement
- Foreign Direct Investment (where the UK is the largest benefactor within the EU and where Scotland is the region with the highest proportion of FDI in the UK after London)

Sectors where there are expected to be impacts specific to that sector

- Agriculture –this sector receives direct support and so faces some significantly different impacts to other sectors. These in turn may have wider impacts on the rural economy, rural communities and the environment .
- Fisheries – this sector is heavily dependent on exports and also inextricably linked with legislation around the Common fisheries policy so changes to this policy framework will have an impact. Impacts are likely to vary across the sector with the deep sea sector where many other EU boats operate seeing different impacts to the inshore sector which is dominated by local boats but depends heavily on the EU as a market.
- Food & Drink – this is the largest export sector where European markets are of significant importance. Variations are again likely across the different sub sectors e.g. the whisky sector is heavily dependent on exports. This sector is also one of those most dependent on migrant workers, many from the EU.
- Tourism – this is the Highlands largest industry sector with EU visitors being of significant importance. It is another sector that is heavily dependent on migrant workers.
- Energy – another important sector where Highland also has significant future opportunities. The potential for future markets in Europe and the importance of European funding for research and innovation are key issues for the sector.
- Further & Higher Education – this sector includes significant numbers of staff, researchers & students from across the EU and depends heavily on European funding such as Horizon 2020 and collaborative work with EU partners.

Impacts on Communities & People

- Population / migration - after many decades of decline Highland's population has returned to growth. However the underlying trend of birth and death rates would still be leading to a declining population were it not for inward migration some of which comes from the EU.
- Impacts on the level of local services – anecdotal evidence suggests some public service where recruitment is difficult, for example in peripheral areas are often filled by more mobile EU migrants without which some services would be more difficult to deliver locally.
Community Development - many communities have benefitted greatly from European funding towards community led projects e.g. through LEADER or the European Maritime & Fisheries Fund (EMFF).

Environment

The environment of the Highlands & Islands is one of its key resources and its management is closely influenced by Europe. Potential areas of impact are:

- Direct influences on sectors of the economy such as agriculture, forestry and fishing due to changes to environment related funding including the Common Agricultural Policy (CAP) funding.
- Impacts on the wider environment due to changes to funding towards projects that deliver benefits such as environmental improvements, habitat management or biodiversity.
- Land Management changes including those related to environmental designations which are often EU legislation based e.g. Natura sites
- Impacts on the delivery of environment related public services e.g. flooding or waste which are currently subject to EU directives.
- Policies on Energy and climate change that directly affect Highland