

BREXIT IMPACTS AND STRATEGIC PRIORITIES FOR THE HIGHLANDS AND ISLANDS INCLUDING THE SHARED PROSPERITY FUND FROM 2021

1. Purpose

- 1.1. In October 2018 CoHI recognised both the importance of European funding to the economic development and communities of the Highlands and Islands and the value of retaining the character and principles present in current EU regional policy because it is so effective in identifying regional need and ensuring funding is focussed accordingly and in timeframes which are appropriately strategic. Members asked the Scottish Government to continue to work with the UK Government to ensure that the Shared Prosperity Fund, City and Growth Deals and underpinning Regional Economic Policy is:
- outcome-focused, flexible and responsive to the distinctive characteristics and ambitions of the Highlands and Islands;
 - administratively efficient and straightforward yet inclusive and collaborative with aligned local, regional and national accountability and empowerment;
 - multi-year, additional and at least comparable to previous European funding in diversity and quantum.

2. Recommendation

- 2.1. This paper (prepared jointly by SG and COHI-SOG officials) and accompanying narrative provide a framework for a discussion about: the BREXIT process; the likely economic impact of BREXIT and what is being and can be done at a national, regional and local level to encourage business preparations to mitigate that.
- 2.2. Members are also invited to discuss and recommend the strategic priorities which should be supported by the Shared Prosperity Fund (SPF) from 2021.
- 2.3. If approved, members of the COHI Senior Officers Group will:
- discuss the potential for further engagement in current European Structural and Investment Fund at the next Highlands & Islands Territorial Committee meeting;
 - intensify work between COHI partners to develop detailed thinking for regional SPF policy priorities and delivery mechanisms;
 - respond to SPF consultation when it emerges and ensure regional coherence in responses; and ensure a strong regional input to future Agriculture/Rural Development policy thinking;
 - support Government in making the case for future participation in transnational collaboration programmes and continue to develop beneficial international collaborations.

CONVENTION OF THE HIGHLANDS AND ISLANDS – MARCH 2019

3. Background

3.1. As COHI members are aware, there is continuing uncertainty around the UK departure from the EU. At the time of writing (mid-February) there are still several options in play, including a “no deal” Brexit on 29 March. All Brexit scenarios have significant implications for the Highlands and Islands, with “no deal” implications being the most immediate and severe. Given a range of uncertainties there is little merit in attempting to provide members with a written update on the current status of the UK Government’s EU Exit plans. However, this paper provides information about:

- the *February 2019 State of the Economy Report* and *No-deal Brexit: economic implications for Scotland*;
- The Prepare for Brexit campaign’
- The Shared Prosperity Fund’
- Post-Brexit Agriculture/rural development;
- Future International Collaboration.

State of the economy: February 2019

3.2. This report summarises recent developments in the global, UK and Scottish economies and provides an analysis of the performance of, and outlook for, the Scottish economy. Updates are provided on a periodic basis and the data and analysis in this edition are correct up to and including 11 February 2019. It states:

- EU exit reflects a significant change to the terms of trade for the Scottish and UK economy. The extent to which this impacts sectors and regions of Scotland is dependent on both the shape of any final political agreement regarding market access (four freedoms) and over what time period any change comes into effect.
- However, given the proximity to 29 March deadline, a no-deal Brexit remains a significant (and live) risk and would lead to a major dislocation to the Scottish economy. This would occur through a number of channels - disruptions to logistics, supply, trade, investment, migration and market confidence. Any shock is likely to have disproportionate sectoral, as well as, regional impacts and if prolonged, will lead to significant structural change in the economy.
- The uncertainty relating to this is already impacting key economic indicators for Scotland. Business and consumer sentiment surveys report notable falls in confidence. The Scottish Consumer Sentiment Indicator has fallen to its lowest reading since the series began in 2013 while we know investment decisions by business have been skewed towards supply issues (distribution, warehousing and stocks) or put on hold.
- Any consideration of the future outlook for the economy is caveated by EU exit, which even in the context of an orderly transition and a deal being agreed, has seen recent downward revisions to the UK economic outlook due to the uncertainty associated with this process.
- Current independent forecasts for the Scottish economy remain positive for 2019 with growth between 1 and 1.5 per cent, but until EU exit is finalised these remain highly uncertain.

CONVENTION OF THE HIGHLANDS AND ISLANDS – MARCH 2019

- 3.3. *No-deal Brexit: economic implications for Scotland* was published on 22 February and provides an illustration of the potential impact that a no-deal Brexit - leaving the EU on the 29 March 2019 without a transition period or agreement on any future trade deal and wider economic relationship - could have on the Scottish economy over the next 12-24 months. A copy of this report has been circulated separately to COHI members.

Prepare for Brexit

- 3.4. With only a minority of businesses currently taking steps to plan for and manage Brexit risks and opportunities, the coordinated Prepare for Brexit campaign developed by HIE, SDS, Scottish Enterprise and Business Gateway is designed to help create a sense of urgency, raising awareness among more businesses and translating that awareness into action:
- The campaign aims to stimulate many more companies to actively plan for Brexit, supporting business and wider economic resilience in the face of significant change. It's delivered both online and face to face, offering online information, advice, events and financial support to actively translate awareness into action.
 - Support is available to any company anywhere in Scotland, covering all aspects of Brexit from skills to trade to legal issues
 - It includes a new self-assessment tool to help companies identify their potential exposure to Brexit risks/opportunities which takes 6 minutes to complete and companies receive a report which they can use to develop their Brexit plans.
 - The response to the campaign has been very good – the number of companies completing the self-assessment tool and accessing other information is growing daily. Since November 2018 there have been over 25,000 unique visitors to the site and over 1,500 businesses have so far completed the self-assessment tool.
- 3.5. The HIE Business Panel reported in November that 17% of Highlands and Islands businesses had a Brexit plan in place with a further 20% recognising the need to do so. At this time 56% don't anticipate having to plan (7% didn't offer an answer). Larger and account managed businesses are more likely to have a plan in place. The subsequent Business Panel survey, currently underway will provide further insight into the Brexit responses of businesses. Activity on the Prepare for Brexit website suggests that more businesses are now actively planning for Brexit with particular consideration for "no deal" Brexit.

The Shared Prosperity Fund

- 3.6. EU Regional Policy has been instrumental in the development of the Highlands and Islands over the past three decades, with over €1bn invested in the region's infrastructure, business support, research and innovation capacity, communities and training programmes. UK Ministers have announced that a Shared Prosperity Fund will be set up to deal with policy areas which are currently supported by the European Social Fund, European Regional Development Fund and some elements of CAP funding (including LEADER).
- 3.7. Its objective is to "*tackle inequalities between communities by raising productivity, especially in those parts of our country whose economies are*

CONVENTION OF THE HIGHLANDS AND ISLANDS – MARCH 2019

furthest behind by strengthening the foundations of productivity as set out in our modern Industrial Strategy to support people to benefit from economic prosperity”¹.

- 3.8. There is regional consensus around a number of key principles of future regional policy:
- Improved regional competitiveness and inclusion, recognising and responding to regional disparity.
 - Focussed on regions with the greatest challenges. Not all regions will benefit to the same degree. Clear and objective criteria are required, considering spatial scale and definition of selected regions.
 - There is the opportunity to consider more sophisticated selection criteria, beyond GDP per capita, (for example, population sparsity, employment / participation rates, average wage levels, skill levels, economic concentration, “remoteness”, “fragility”).
 - Delivered with funding that is available over the long term at a level commensurate with the scale of challenge and opportunity, rather than short term, one off allocations of funding.
 - Adopting a more flexible approach, with a high degree of input from regional stakeholders, to address the specific regional challenges and opportunities in the region.
 - Development and delivery mechanisms that are simple, streamlined and, as far as possible, align with wider delivery structures.
 - Ensuring that UK / Scottish Regional Policy is closely aligned with UK / Scottish Agricultural policy), bringing together the two most significant place based development policies.
- 3.9. These have also been shared with Scottish Government and formed the basis of evidence to the Scottish Parliament and the Westminster All Party Parliamentary Group (APPG) on post Brexit Regional Funding. The Westminster APPG made its recommendations to the UK Government in November 2018 and its thinking aligns, largely, with the Highlands and Islands’ regional view.
- 3.10. The stated purpose of the Shared Prosperity Fund is to be aligned with the UK Industrial Strategy. Whilst the design of the Fund is far from complete it is clear that in Scotland, at least, there is a need to recognise the importance of skills and inclusive growth and geographic disparities (national, regional and local) as well as productivity and the high proportion of micro enterprises in our rural economy. Repeated questions at Westminster have highlighted that the size of the Fund will be a matter for the anticipated UK Spending Review.
- 3.11. An SPF consultation exercise is overdue and is being preceded by a series of UK Government workshops to seek stakeholder views on the scale, focus and operation of the fund. Highlands and Islands organisations have participated in these, ensuring that the specificities of the region are included in discussions. In each of these workshops, the UK has confirmed the role of each devolved

¹ <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-07-24/HCWS927/>

² <https://www.postbrexitappg.org/report/>

CONVENTION OF THE HIGHLANDS AND ISLANDS – MARCH 2019

administration in the design and delivery of the Fund. Work is progressing within the Scottish Government on where the Shared Prosperity Fund might differ in its focus and better contribute to the National Performance Framework.

- 3.12. In the meantime, some opportunities remain in the current 2014-20 ERDF and ESF programmes. Even under a no-deal scenario funds committed by end-2020 are guaranteed by the Treasury, and can spend up to 2023. To date, over 80% of these funds allocated to the Highlands and Islands has been committed. Current opportunities exist in promoting sustainable and quality employment and supporting labour mobility and enhancing the competitiveness of small and medium sized enterprises.
- 3.13. The Highlands and Islands Territorial Committee (HITC) meeting on 6 June 2019 will provide an opportunity for detailed analysis of regional allocations to date and consideration of further engagement.
- 3.14. At this late stage in the programming period, however, even without Brexit complications, plans for any further potential projects would need to be fairly well developed – speculative, longer-term initiatives would not be able to be processed/delivered within the required timescales.

Agriculture & Rural Development

- 3.15. CAP funding has been critical to the vitality and viability of land based industries, enterprises and communities across the Highlands and Islands. Without it, many farms, crofts and communities face significant challenges.
- 3.16. Scottish Government policy is to ensure continuity of farm payments from the point of Brexit through to 2024, to give time both for adaptation to the unprecedented changes that Brexit will bring and for the collaborative development of policy for 2024 onwards. Their “Stability and Simplicity” programme aims to deliver continuity of agriculture support with minor changes to simplify and streamline processes. Legislation to enable the continuity of farm payments under the current CAP rules (secondary legislation made under the EU (Withdrawal) Act) is being processed through the UK and Scottish parliaments. A Scottish Rural Financial Support Bill has been announced (timetable yet to be confirmed) which will create powers to amend those rules, as set out in ‘Stability and Simplicity’, from the end of 2020. It is important to note, however, that although Scotland can make different policy choices from the rest of the UK, it is reliant on the UK Government to make available post CAP funding.
- 3.17. In the short term, Scottish Government is also devoting resource to “no deal” planning, including the development of sector plans for sheep, beef, dairy and crops.
- 3.18. In a debate on 10 January the Scottish Government set out and received the Scottish Parliament’s endorsement for five high level principles. Future support should promote sustainability, simplicity, innovation, inclusion and profitability.

CONVENTION OF THE HIGHLANDS AND ISLANDS – MARCH 2019

- 3.19. In that debate Parliament also requested that a group be established in the next few months to inform the development of policy on post CAP agriculture and rural land management support from 2024 on. The group will include a range of stakeholders including producer, consumer and environmental interests.
- 3.20. Furthermore, the final report from the National Council of Rural Advisers (NCRA) provides a blueprint for unlocking the potential of Scotland's rural economy and sets out a vision for rural Scotland at the heart of the country's economic prosperity.
- 3.21. At regional level, the Highlands and Islands Agricultural Support Group, bringing together local authority agriculture interests with SNH and Scottish Environment Link, has developed its thinking on post Brexit agriculture support.³
- 3.22. The COHI Senior Officers Group will respond to the SPF consultation when it emerges and ensure regional coherence in responses; and ensure a strong regional input to future Agriculture/Rural Development policy thinking.

International Collaboration

- 3.23. Regional and local partners have participated extensively in international collaborations, facilitated, in the main, through EU programmes such as Horizon 2020 (Innovation / R&D), and the various INTERREG programmes such as the Northern Periphery and Arctic Programme (NPA).⁵ LEADER under SRDP and EMFF has also stimulated collaboration at Scottish, UK and EU level.
- 3.24. Future access to most of these collaboration funds will be dependent on the final Brexit agreement so, at this stage cannot be guaranteed. The Scottish Government view, echoed by regional stakeholders, is that international collaboration is beneficial in a number of ways – delivering tangible economic benefits; taking a sensible approach to challenges and opportunities that cross national boundaries, such as climate change, energy security and community cohesion; and enhancing Scotland's reputation as an outward looking nation, open to collaboration and co-operation.
- 3.25. As a result, Scottish partners are focusing on activities to:
- Continue EU and international engagement to maximise participation in and benefit from the current EU collaboration programmes.
 - Make a strong case for future involvement in EU collaboration programmes, albeit recognizing that this will be determined in UK – EU negotiations.
 - Widening international engagement to identify collaborative opportunities that deliver tangible economic and/ or community benefits to the Highlands and Islands. For example, HIE and regional partners are supporting Scottish Government aspirations to create closer links with Arctic regions and is seeking out opportunities for business, academic and community collaborations that will benefit the region.

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³ <https://www.sruc.ac.uk/HIASGreport>

⁴ <https://ec.europa.eu/programmes/horizon2020/en>

⁵ <http://www.interreg-npa.eu/>