

Initial Analysis of Implications of EU Exit on Argyll and Bute, and the Council's Response to the Call for Evidence by the European and External Relations Committee on Scotland's Relationship with the EU.

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to provide Argyll and Bute Council with an overview of the known or likely impacts of the outcome of the European Union referendum on European funding programmes accessed by the Council and within the wider region.
- 1.2 The paper also provides members with the response submitted by officers to the Scottish Parliament's European and External Relations Committee's Call for Evidence on Scotland's Relationship with the EU, whilst providing an opportunity for Members to propose additions to the response.
- 1.3 The paper provides a summary to the response. The full response can be found in **Annex 1**.
- 1.4 The recommendations to Argyll and Bute Council are as follows:
 - members note the content of this paper;
 - members note the submission of officers' response to the relevant issues in the Scottish Parliament European and External Relations Committee Call for Evidence to meet the 5/9/16 deadline; and
 - members to propose any additions to the submitted response which can be submitted to the Committee Clerk as a late response.

Initial Analysis of Implications of EU Exit on Argyll and Bute, and the Council's Response to the Call for Evidence on the Implications of the European Union Referendum Result for Scotland/Argyll and Bute.

2.0 INTRODUCTION

- 2.1 The purpose of this report is to provide Argyll and Bute Council with an overview of the likely impacts of the outcome of the European Union referendum on European funding programmes accessed by the Council insofar as these are known to officers. The report will also address the wider implications of EU exit to key sectors within the Argyll and Bute area.
- 2.2 The paper also provides members with the response submitted by officers to the Scottish Parliament's European and External Relations Committee's Call for Evidence (**Annex 1**) on Scotland's Relationship with the EU, whilst providing an opportunity for Members to propose additions to the response. Officers have had approval from the Committee Clerk to submit a late response following the Full Council meeting if required.
- 2.3 It should be noted that officers have not provided a response to all the issues noted, given the nature of the questions. Some questions are unanswerable at this early stage of the EU Exit process.

3.0 RECOMMENDATIONS

- 3.1 The recommendations to Argyll and Bute Council are as follows:
- members note the content of this paper;
 - members note the submission of officers' response to the relevant issues in the Scottish Parliament European and External Relations Committee Call for Evidence to meet the 5/9/16 deadline; and
 - members to propose any additions to the submitted response which can be submitted to the Committee Clerk as a late response.

4.0 DETAIL

The EU Referendum Result

- 4.1 On 23rd June 2016, the British electorate voted to leave the European

Union. A breakdown of the results is presented in **Table 1** below:

Table 1: European Union Referendum Results		
Geographic Area	Vote to Remain (%)	Vote to Leave (%)
UK	48.1	51.9
Scotland	62.0	38.0
Argyll and Bute	60.6	39.4

Source: http://www.bbc.co.uk/news/politics/eu_referendum/results/local/a

The process for exiting the European Union is set out in Article 50 of the Treaty on European Union. The Prime Minister has advised that Article 50 will not be invoked until the beginning of 2017. On that assumption, the earliest point of exit for the UK is no earlier than 2018.

Implications for Argyll and Bute Council

- 4.2 The UK will remain a full EU member until the formal exit negotiations have been agreed upon. A letter from the UK Treasury to the Department for Exiting the European Union, issued on 12 August 2016, provided a degree of comfort for projects which have approved European funding within their funding packages. All projects which have signed contracts or funding agreements in place prior to the Government's Autumn Statement will be fully funded (the Autumn Statement is issued usually late November but there is no fixed date).
- 4.3 For Argyll and Bute Council and the wider region, exiting the EU will have a profound impact on access to external funding for regional development purposes as currently accessed through a variety of Europe programmes and funding streams. For the purpose of this report, the focus will be on the immediate funding implications which currently affect the work undertaken by Council officers. This report will also address the wider implications of EU exit to key sectors within Argyll and Bute.

European Funding in Argyll and Bute

- 4.4 At present, as full EU members, Scotland benefits from eligibility to a wide range of European funds. Based on 2014-2020 allocations, Scotland is estimated to lose more than £200m of funding per year upon exiting the EU - the most notable of source of funding being the European Structural Investment Funds (ESIFs). Argyll and Bute Council's European Team work to maximise European funding coming into Council projects and to the council area as a whole, working often with community groups and charities. **Table 2** overleaf summarises the European funding streams Argyll and Bute Council either accesses or plans to access and the impact of the information in the Treasury letter from 12/8/16:

Table 2: Argyll and Bute Council – European Funding Streams			
Fund/Programme/Project	Value of European Funding	Original Prog/Project End Date	New Prog/Project End Date
European Regional Development Fund: 1. Business Gateway Local Growth Accelerator Programme (approved) 2. Green Infrastructure (in development) 3. Cultural and Heritage (in development)	1. £272,100 2. £not yet known 3. £not yet known	1. End of 2018	1. No change
European Social Fund: BIG Lottery ESF Programme Scotland (in development)	£3,770,000	End of 2020	No change
Argyll and the Islands LEADER Programme: Local Development Strategy approved and Service Level Agreement signed. Launched formally on 15 th August 2016.	£4,886,126	End of 2020	None been provided, but anticipating that this date will be brought forward to sometime during 2018.
European Maritime and Fisheries Fund: Joint Argyll and Bute and Ayrshire Programme. Local Development Strategy approved – anticipated formal launch, September 2016.	£985,000	End of 2020	End of March 2018 – formal notification from Marine Scotland.
Interreg Cross Border: Argyll and the Isles Coast and Countryside Trust (ACT) – Collaboration Action for Natura Network (stage 2 decision pending)	€1,129,862 (value will fluctuate but circa: £966,000)	2021	None been provided to date.
Interreg Atlantic Area: Connected Cultural Caminos (stage 1 decision pending)	€500,000 (value will fluctuate but circa £424,000)	2020	None been provided to date.

- 4.5 Officers will continue to deliver approved programmes and apply to eligible funding streams working either within approved or revised timescales, whilst continuing to monitor all funding programmes for any changes which will impact their delivery. In particular, officers will continue to seek clarity around the LEADER and EMFF programme dates and definition of ‘committed funding’.
- 4.6 Argyll and Bute Council currently employs officers to deliver the European programmes referred to above. The Council’s Economic Development section houses a European Team. The team has eight posts, five of which are directly financed by a combination of EU and Scottish Government funding to deliver the Argyll and the Islands

LEADER and Argyll & Ayrshire EMFF programmes, with contracts of employment until the end of 2020. However, employment may be shortened due to the uncertainty with the end date for LEADER and EMFF expenditure, which is anticipated to be 2018. The European team also hosts three posts which are core funded through the Council. The role of these posts is to cover European policy, facilitate European funding programmes and provide an audit and compliance service to European funded Council projects. The future role of these posts is also uncertain.

Other implications to Argyll and Bute

- 4.7 In addition to the work of the European Team, EU exit will have a profound impact on the wider Argyll and Bute area in relation to policy and funding. Access to other European funding streams which are currently available for public, private and third sector organisations will be affected. Officers are not directly involved in applying to these programmes, but recognise that these funds are fundamental to our key sectors. The **Table 3** below summarises the activity which is supported through these funds.

Table 3 : European Funding Stream for Argyll and Bute Region		
Sector	Fund	Activity
Agriculture	Common Agricultural Policy	Supports agricultural businesses incl. farms and crofts and agricultural investment. Provides agricultural subsidies on production
Aquaculture	European Maritime Fisheries Fund	Support measures for fishing industry, port infrastructure and community development
Education	Erasmus+	Supports programmes to modernize education, training, youth work and sport
Research and Innovation	Horizon 2020	Support large scale research and innovation projects

- 4.8 Other than limitations to accessing European funding, other business sectors within Argyll and Bute will be affected by EU exit. In the short-term, there has been some immediate gain to businesses within the tourism and food and drink sector due to the value of sterling. The longer term implications without access to the EU Single Market are not yet known. A number of Argyll and Bute businesses are dependent on exports with the EU market and trade deals EU have in place with non-EU states. Fundamental changes to this arrangement may impact on how businesses can compete. Restrictions will likely be imposed which also may result in tariffs and adhering to other legislations. Furthermore, without full access to the EU market, the UK will no longer be regarded as the gateway to Europe which may impact on inward investment of international business to the area.

- 4.9 For Argyll and Bute, the future position of EU citizens also requires consideration. Argyll and Bute Council, as well as the whole region, employs EU citizens to deliver services to individuals and communities, across the regions dispersed geography. According to the 2011 Census, Argyll and Bute has a recorded 1,763 EU citizens living in the area. (<http://www.scotlandscensus.gov.uk/ods-web/area.html>) The region has a strong reliance on EU citizens as they work in our dominant economic sectors, such as agriculture, aquaculture, food and drink and tourism. Argyll and Bute is one of the few Scottish local authority areas that has witnessed a decline in its population and the free movement of EU citizens to live and work is an essential feature to halt and reverse this trend. Furthermore, the skills and knowledge provided currently by our EU citizens may be difficult to replace and could impact on the economic growth of the Argyll and Bute area.
- 4.10 Officers anticipate that a wider perspective as well as more detailed information on the impact of the EU referendum decision on these and other areas of interest will be developed by appropriate agencies in due course. The information provided to members is to merely provide a context in looking at future limitations to funding and policy.

Call for Evidence on Scotland's Relationship With the EU

- 4.11 The Scottish Parliament's European and External Relations Committee issued a Call for Evidence on Scotland's Relationship with the EU with a deadline of 5/9/16 for submitted responses. Given the current lack of certainty about the date on which the UK will notify the European Council of its intention to leave the European Union, as well as the lack of clarity about the relationship that the UK will seek with the EU in the future, the Scottish Parliament European and External Relations Committee intends to take a flexible approach to its inquiry work and may seek further evidence on specific issues in the future.
- 4.12 The Committee recognises that there is considerable uncertainty for businesses, for organisations, for institutions and for individuals – particularly EU citizens – about the prospect of a withdrawal from the EU.
- 4.13 The submitted response is included in **Appendix A**. Argyll and Bute Council's response focuses heavily on the role Scottish regions (from 1975 to 1996) and unitary authorities (since 1996) have played in developing and delivering European funded regional development programmes. The response argues that Argyll and Bute would like to see a regional policy approach maintained in any future domestic funding programmes and for local authorities to retain their strong policy influence and delivery role.
- 4.14 The response also highlights the role of peripheral and maritime regions for balanced economic and social development, something which the EU Treaty acknowledges and an approach, which it is hoped, continues within a UK regional policy approach to economic development.

4.15 Lastly, the paper highlights the importance of the freedom of movement of people in achieving Argyll and Bute's economic growth aspirations and desired population increase.

5.0 CONCLUSIONS

- 5.1 As recognised by the European and External Relations Committee there is currently great uncertainty around European funding and policy programmes coupled with political issues has made it difficult to provide detailed responses to some of the points posed in Call for Evidence outlined in **Appendix A**.
- 5.2 Officers within the Council's European Team are actively engaged in a number of networks to keep informed of EU Exit developments. Officers will be inputting into work being undertaken by the Highlands and Islands European Partnership (HIEP), West of Scotland European Forum (WoSEF), Scotland Europa, Scottish Local Authorities Economic Development Group (SLAED) and the Convention of Scottish Local Authorities (COSLA) to lobby for the interests of Argyll and Bute. Further committee papers will be required once EU Exit issues and arrangements are clarified.

6.0 IMPLICATIONS

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| 6.1 | Policy | European funding and policy issues align with the overarching aim of the Argyll and Bute Community Planning Partnership Single Outcome Agreement (SOA) 2013-2023 and in particular the requirement to maximise European funding investment throughout Argyll and Bute which could impact on all six SOA outcomes and is a key objective within the Argyll and Bute Economic Development Action Plan (EDAP), 2013-2018 and the four area-based EDAPs. |
| 6.2 | Financial | The Call for Evidence highlights the future reduced ability for Argyll and Bute Council and its communities to access key external funding sources currently provided by Europe. |
| 6.3 | Legal | Issues surrounding the legality of committed funds, should there be any changes to already agreed programmes and projects, will need to be addressed on an <i>ad hoc</i> basis. |
| 6.4 | HR | The Council's Economic Development Section houses a European Team. It has eight posts, five of which are directly financed by a combination of EU and Scottish Government funding to deliver the Argyll and the Islands LEADER and Argyll & Ayrshire EMFF programmes. Contracts are until the end of 2020. A separate committee paper will be required once there is |

clarity around the end date for LEADER and EMFF expenditure (currently anticipated to be 2018). The future role and name of the European Team should also be considered.

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| 6.5 | Equalities | None. |
| 6.6 | Risk | The risks to the Council go beyond what this paper covers in terms of the response to this current Call for Evidence and will have to be considered within a separate committee paper(s). The immediate risks are to projects which are either accessing or plan to access European funding after March 2018 or the end of 2018 (depending on the European funding programme). |
| 6.7 | Customer Services | None. |

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7th September 2016

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Appendix A: Argyll and Bute Council Response to the Call for Evidence

Argyll and Bute Council Response to the Call for Evidence

Outlined below is the detailed response from Argyll and Bute Council to the relevant issues outlined in the Call for Evidence; submitted by the deadline of 5th September 2016. Please note, the response may be amended and resubmitted if required following the Argyll and Bute Council meeting on 29th September 2016.

Scottish Government European and External Relations Committee Written call for Evidence – Scotland’s Relationship with the EU

Argyll and Bute Council - Responses to Call for Evidence
Scotland’s future relationship with the EU.
<ul style="list-style-type: none">Scotland’s economy and culture has evolved within Europe since 1973. During this time, economic, social and cultural ties (to name a few) have strengthened and benefited from the relationship Scotland has enjoyed with the EU. Investments, significantly influenced by European funding programmes, have opened up areas of Scotland to wider economic opportunities. This includes opportunities in a variety of economic sectors including tourism and food and drink which in turn are highly dependent on a European workforce with the flexibility to travel and work throughout Europe. Scotland’s population is currently growing, but in some areas such as Argyll and Bute, the picture is less positive and halting our declining population is currently a strategic priority, along with growing our economy. Whilst much uncertainty remains about Scotland’s relationship with the EU, Argyll and Bute Council would like to see a future relationship which enables and encourages free movement of people. This has been a key component enabling economic growth and its loss will harm future growth and prosperity. We also want to be able to confidently send out a strong message to those European nationals who have chosen to live and work in Argyll and Bute that they will continue to be welcome. Argyll and Bute also has strong export industries, for example within our food and drink industry. The export of our highly sought after fisheries and aquaculture produce, not to mention whisky, to lucrative European markets and beyond should continue without interruption regardless of what future relationship models are developed.
Alternatives to EU Membership
<p><i>Views sought on:</i></p> <ul style="list-style-type: none"><i>The alternatives to EU membership and the implications of these alternatives for Scotland:</i> Scotland has enjoyed a positive and flourishing relationship with the EU since the UK decision to join in 1973. Scotland’s regions, both its regional authorities since 1975 and unitary authorities since 1996, have had positive engagement with Europe. Whatever alternative to EU membership emerges, it should seek to retain a regional policy approach to economic development, and explore ways which will enable Scotland’s regions to maximise their strengths and prevent peripheral regional decline (population and economy). Years of European funding have resulted in well organised and informed regional structures, such as the Highlands and Islands European Partnership (HIEP) and the West of Scotland European Forum (WSEF). These organisations and their members play a strong role in policy development

and programme delivery.

The withdrawal process

Views sought on:

- *How the withdrawal process might be managed at the EU and UK level:*

The withdrawal process will be multi-layered and different processes will likely be required for different policy areas such as regional development policy, rural development policy, fisheries and competition policy (state aid). The same issues will also need to be considered in terms of EU funding, such as the EU structural funds. Whatever withdrawal process is established must involve those levels of governance currently involved in delivery of EU funding and where the impact of policy and funding changes will be felt most.

Local government has a strong tradition of engaging with Europe, notably in the formulation and delivery of domestic European funding programmes (ERDF, ESF, LEADER and more recently the Community strand of the EMFF), as well as participation in numerous Interregional Territorial Co-operation Projects. This close relationship with policy development and delivery should remain. Using existing national and regional networks such as COSLA, HIEP, WOSEF, ESEP and SLAED, a group representing regional interests could be established to work alongside the Scottish Government to work on repatriation of EU monies to Scotland, adhering to the principles of regional economic development which Europe has pioneered.

- *What steps would be involved in this process and how individual policy fields might be dealt with:*

Within Scotland, a steering group or Joint Programme Monitoring Committee type model (JPMC) or equivalent, could be established specifically to deal with those policies where funding was previously provided by Europe. The first stage is to identify the policies in the domestic context (in future, this should be easier to do domestically than for Europe as a whole). In terms of policy development and funding, those currently involved in development and delivery of these policies and funding streams at all levels of governance should be involved (as per response to previous bullet point).

Europe's regional policy approach has greatly benefited Scotland's regions. Article 174 of the Lisbon Treaty aims to "promote [...] overall harmonious development" through economic, social and territorial cohesion. Further, Article 174 goes on to specify that "the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions. Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions." We would like to see a post EU UK embrace these European principles of regional development.

- *The amount of time that might be required to deal with the negotiations:*

The negotiations should be done as quickly as possible. However, if negotiations are required to take longer to get the best results, this is

acceptable. But from a funding perspective, reassurances should be put in place so as not to lose momentum from existing plans, developments and projects. For example, the uncertainty about how the current 2014-2020 LEADER programme will run is affecting the number and nature of enquiries amongst projects, but also angst for staff directly employed until 2020 to run the programme. Active participation in this process by existing umbrella bodies and regional networks such as COSLA, HIEP, WOSEF etc. as previously mentioned, should be part of this process.

- *How the interests of Scotland and the other constituent parts of the United Kingdom can be represented in those negotiations and what role the Scottish Government should have in those negotiations:*

As answered above the Scottish Government should ensure that the interests of Scotland are best represented in the negotiations with input from existing national and regional networks such as COSLA, HIEP, WOSEF, ESEP and SLAED, where a group representing regional interests could be established to work alongside the Scottish Government to work on repatriation of EU monies to Scotland. Such a group could be established using the Joint Programme Monitoring Committee type model (JPMC) or equivalent, specifically to deal with those policies where funding was previously provided by Europe.

- *The positions likely to be taken by other Member States in the negotiations:
Unable to respond at this time.*

The domestic process for dealing with a withdrawal from the EU

Views sought on:

- *The implications for the devolution settlement of withdrawal from the EU:*
Argyll and Bute Council has grave concerns about regional and rural funding opportunities following withdrawal from the EU. We would like to see funding levels maintained with assurances that mechanisms will be put in place to ensure that economic development funding reaches our remote and peripheral communities, including our islands as well as addressing areas of both need and opportunity to foster economic growth. As a member of the CPMR (Conference of Peripheral and Maritime Regions), an organisation which actively promotes a strong EU regional policy targeting EU's regions, Argyll and Bute Council recognises the importance of remote and peripheral communities to a thriving national economy, and the contribution they make to a balanced and fair society.
- *The implications for UK and Scots law of a withdrawal from the EU, particularly the need to repeal legislation and prepare new legislation to fill the gaps left by EU legislation:*
Whilst the answer to this question is currently unanswerable at any level, we recognise the future legal difficulties ahead. As a local authority, many of our day-to-day transactions and operations take place within a legal environment directly influenced by Europe. For example procurement legislation, state aid, food law, etc. We need to be able to deliver services compliantly and without interruption during any transition phase.

- *The scale of the task the implications for the Scottish Government and Scottish Parliament:*
Given the scale of the task it would seem appropriate for the Scottish Government and Scottish Parliament to work closely with other devolved parliaments and organisations across the UK from the outset to assist in timely negotiations and to provide ongoing support to one another through the EU Exit process.
- *The impact on Scotland's economy of termination of ESIF support and access to the Horizon 2020 programme:*
Argyll and Bute Council has accessed European Structural Funds for a number of years and has benefited from significant infrastructure investments, from the creation of a fully integrated intermodal transport hub at Port Askaig on the Island of Islay to the development of new dedicated cycle paths improving access in Helensburgh and Lomond. Support for improving employability skills for those furthest removed from the labour market was also improved and expanded through the availability of European Social Funds. Whilst delivery of the funds within the current funding period is at an early stage, commitments and anticipated commitments of European funding to projects/programmes to be delivered by Council will be in the region of £5.5 million. With match funding, this investment will be significantly more. Across other organisations operating within the local authority area such as the Highlands and Islands Enterprise, and the Scottish Association of Marine Science, this figure will rise substantially. These investments play a key role in improving our economy, and developing our key sectors.

Furthermore, the plans for the UK to exit the EU may have a profound impact on many areas of the Argyll and Bute economy and policy areas, some of which are listed below:

- Economic development – inward investment and exports;
- EU nationals living and working in Argyll and Bute;
- Tourism;
- Food and drink;
- Agricultural sector;
- Fisheries;
- Aquaculture; and
- Research and innovation.

It is likely that a wider perspective as well as more detailed information on the impact of the EU referendum decision on these and other areas of interest will be developed by appropriate agencies in due course.

- *The implications for Scotland's funding settlement of withdrawal from the EU:*
See previous responses.

The position of EU citizens in Scotland

Views sought on:

- *The position of EU citizens in Scotland in the event of withdrawal from the EU:*
Argyll and Bute Council, like many Scottish local authorities, has a culturally diverse population which is in part due to the ability of individuals to work and move freely throughout Europe. This is not only desirable, but essential for many of economic sectors and for our economic growth aspirations. EU citizens in Scotland should retain their right to live and work in Scotland following the UK's exit from the EU and this is a message we would like to strongly reinforce.
- *The extent to which EU citizens in Scotland have acquired rights:*
EU citizens in Scotland should retain acquired rights.
- *The contribution that EU citizens make to Scotland's economy and society:*
Not only does Argyll and Bute Council employ EU citizens to deliver services on a daily basis to many individuals and communities across the region's dispersed geography, but as mentioned previously, has a strong reliance on EU citizens who work in many of our key sectors, such as tourism and food and drink. Argyll and Bute is one of the few Scottish local authority areas that has witnessed a decline in its population and the free movement of EU citizens to live and work here will be essential to halting and reversing this trend. Furthermore, the skills and knowledge provided currently by our EU citizens may be difficult to replace and could impact on the economic growth of the Argyll and Bute area.