

Impact of Exiting the European Union

Report by Kenneth Lawrie, Chief Executive

1 Purpose of Report

This report sets out an initial assessment of the impact on Midlothian of the decision to leave the European Union. It concentrates on the loss of European Union grant aid, leaving wider questions of economic and social policy impact for a later report when it is clearer what the new relationship with the European Union will be.

2 Background

- 2.1** The use of EU funding in Midlothian is broken into 2 types, funds administered by the Council or where the Council provides matching funding itself, and funds flowing into the area associated with nationally operated schemes such as agricultural subsidies. The first type of funding can be easily quantified, the second can only be estimated as data is not available at the Midlothian level from Scottish Government.

2.2 Council EU operated programmes

European Social Fund

Current programme – operational up to December 2018 (with costs allowed until June 2019 for evaluation).

ESF Midlothian Employment Pipeline Programme

Total Budget to deliver all 10 projects £1,017,799 (figures rounded up to pounds).
Breakdown of Budget:

- 40% ESF Grant, £407,120.
- 60% Match funding from partner organisations delivering Midlothian Employment Pipeline objectives, £610,679 (£579,771 funding from third party organisations and £30,908 funded directly by Midlothian Council).
- 900 beneficiaries are anticipated -over 28 months 10 projects will target key beneficiary group's resident within Midlothian. These are:
 - Project 1 - Supporting young people with chaotic lifestyles and multiple barriers -Total Cost £270,000.
 - Project 2 - Engaging and supporting adults with learning, physical and mental health barriers to employment -Total Cost £120,000.
 - Project 3 - Support veterans and extended families into next steps, employment and in work support= Total Cost £180,000.
 - Project 4 - Tailored support for adults and youths on the autistic spectrum-Total Cost £120,000.
 - Project 5 - Barrier free fund including childcare Total Cost £51,600.
 - Project 6 - Supported vocational learning basic, certificated and intensive employability support for those involved in the criminal justice system- Total Cost £60,000.

- Project 7 - Supported vocational learning basic, certificated and intensive employability support for those who have experienced problems with substance misuse. Total Cost £60,000.
- Project 8 - Targeted support for parents/carers. Total Cost £90,000.
- Project 9 - Adults accredited learning opportunities, Sector Specific qualifications – REHIS, First Aid and CSCS -Total Cost £1,514.
- Project 10- Basic certificated Literary and numeracy provision. Total Cost £50,000.
- Management costs. The council is paid for setting up the project Total - £14,685.

State of Development

Projects 1 through to 8 have been put out to tender, and 6 tenders have been selected with 2 being re-tendered. Projects 9 and 10 have been allocated in house to Council. Midlothian Council has to this date not drawn down any of the ESF Structural Funds to support the above projects. There is no draft or future funding plans in place to sustain these projects beyond the current ESF Funding period of 2016- 2020. There has been no post 2020 funding confirmed.

ESF Poverty and Social Inclusion Fund

A strand of work linked to the local employability pipeline clients with £211,433 ESF funding over the same period. 500 beneficiaries planned for over 28 months. Funding for this has just been confirmed allowing tendering work to be undertaken.

European Regional Development Fund (ERDF)

Midlothian Council does not directly manage any projects that have been ERDF funded, however it is a partner in wider funds that benefit the area including Business Gateway Plus, Business Loans Scotland and the East of Scotland investment Fund.

East of Scotland Investment Fund (ESIF) - £300,000 invested by Midlothian Council, topped up with bank funding and matched 40% provided a total pot of just over £500,000. This fund has now closed but some businesses which have received funding are still paying back their loans.

Business Loans Scotland – the balance from ESIF is being transferred into the new pan Scotland loan fund. There is a new ERDF application. The size of the fund will be £525,000 which includes £157,500 (30%) from ERDF. Both of these loan funds are being managed by West of Scotland Loan Fund.

Business Gateway – as part of the East of Scotland consortium managed by West Lothian Council, Midlothian is set to benefit from Business Gateway Plus2 funding running to Dec 2018 amounting to £510,919, of which £204,367 (40%) will come from ERDF.

LEADER - Midlothian operationally manages a programme run jointly with East Lothian. The budget for the LEADER Programme is £3,490,769. With a maximum of 25% of this allocated towards administering the Programme, Midlothian based projects might expect to receive £1,309,038 on a 50/50 basis with East Lothian based projects.

This programme has been “suspended “to new bids beyond November 2016, pending a review by Scottish Government. There is at this point no clarity about when it will be reopened although there are indications from the Scottish Government that it will reopen and will not have a reduced allocation. No bids have been submitted to Leader from Midlothian for the November funding round. Other EU funds applicable to the Midlothian area.

There is no breakdown to Midlothian level of the following funds provided by EU. Whilst Midlothian is a small Council area of mixed urban/ rural nature, it is clear those local rural businesses, from farming to food production, environmental improvement/ protection and forestry here in Midlothian will be affected by the ending of these funds.

European Agricultural Fund for Rural Development - EAFRD

The European Agricultural Fund for Rural Development (EAFRD) is part of a suite of funding opportunities available for agricultural and rural businesses. It is part of the wider Rural Development Programme which will also run from 2014-2020.

Pillar 1 - Direct farm subsidy payments – Scotland wide budget - £2,929,827,303 over the 6 years (nearly £3 Billion).

Pillar 2 Forestry Grant Scheme Scotland wide budget - £7,875,000:

- The creation of new woodlands – contributing towards the Scottish Government target of 10,000 hectares of new woodlands per year.
- The sustainable management of existing woodlands.
- Support under eight categories: two for the creation of woodland six for management of existing woodland.

Agri-environment Climate Scheme Scotland wide budget - £10,937,500

Promotes land management practices which protect and enhance Scotland's natural heritage, improve water quality, manage flood risk and mitigate and adapt to climate change. For example funding will help to:

- Deliver the 2020 Challenge for Scotland's Biodiversity supporting appropriate management of protected nature sites.
- Contribute to Scotland's world-leading climate change targets.
- Preserve the historic environment.
- Improve public access.

Environmental Co-operative Action Fund Scotland wide budget @£312,500

Promotes the delivery of landscape-scale environmental projects by groups of farmers, foresters and other land managers. It supports planning and facilitation costs of co-operative projects to deliver environmental priorities throughout Scotland for example:

- Conservation of Vulnerable Priority Species.
- Control of Invasive Non-Native Plant Species.
- Woodland Creation.

Beef Efficiency Scheme Scotland wide budget @£1,406,250

To assist in the development of suckler herds to become as efficient as possible. This is a five-year scheme which will contribute to a range of improvements focusing on cattle genetics and management practice on-farm to help deliver against climate change targets by reducing emissions from beef production.

New Entrants Support Scotland wide budget @£625,000

Three dedicated schemes:

- **Young Farmers Start-Up Grant Scheme**
Aimed at those who are starting an agricultural business for the first time or who are taking over an existing agricultural business.
- **New Entrants Start-Up Grant Scheme**
Aimed at those who started their agricultural business in the last 12 months.
- **New Entrants Capital Grants Scheme**
Provides grants for people new to farming to make improvements to their agricultural business and help to promote sustainable development.

Food Processing, Marketing & Co-operation Scotland wide budget @£2,187,500

Supports the Scottish food and drink processing sector in line with the Good Food Nation vision, National Performance Framework, Programme for Government and Economic Strategy:

- Start-up grants for a new business.
- Development grants for an existing business.
- For example, funding can help:
 - develop or create food processing facilities, including buildings and equipment.
 - to run co-operative ventures to improve supply chain efficiencies.

Broadband Scotland wide budget @£281,250

Helps communities across rural Scotland to co-ordinate demand for broadband access by joining together with other community groups to deliver a broadband solution for their area. Open to rural communities in Scotland and is administered by Community Broadband Scotland.

2.3. Wider Implications

A range of national agencies including the National Farmers Union, COSLA, Fraser of Allander Institute, Institute for Fiscal Studies, the Federation for Small Business, the Institute of Directors, and a range of academic and economic research bodies have produced overviews of the potential impact of leaving the EU, accepting that the terms of any new relationship are as yet unknown. With few exceptions there is consensus that this uncertainty is having, and will continue to have, a significantly damaging effect on the UK economy. Almost all international economic institutions predict the wealth of the UK will continue to decline significantly over time following exit from the EU. This effect will be more so if no deal is done on participation in the single market, which requires UK agreement to the free movement of labour. Ceasing to allow this was a reason stated by many voters for voting in favour of exit.

2.4 Immediate Currency exchange impacts so far have seen the value of the Pound drop against the Dollar and the Euro by significant amount, (in the case of the Dollar by over 15%). Whilst this will make the UK a cheaper destination for tourism, and exports of UK produced and sourced goods cheaper, it also means imported goods are rising in cost. This is leading to inflationary pressures especially on items such as imported food, and for agricultural supplies for UK farmers such as fertiliser or fuel.

- 2.5** Capital investment through the UK National Infrastructure Delivery Plan committed to deliver over 600 projects by 2020/21 costing a total of £420bn, of which £100bn is Government-funded, with the remainder provided by private investment and EU investment. Whilst the decision to leave the EU will not directly impact on the UK Government's commitment to invest £100bn in the plan, the decision does introduce uncertainty around the feasibility of securing the balancing figure of £320bn.
- 2.6** The UK receives a net surplus of EU research and student mobility funding. The goal of the funding programme is to produce world-class science and to remove the barriers to innovation and make it easier for the public and private sectors to work together and deliver innovation. The UK has received £1.8bn of funding over the last two years and total investment was expected to reach £10.4bn by 2020, according to European Commission figures. Of the £1.8bn grant, the bulk is directed to higher education institutions, £257m to SMEs that undertake research, £115mn to non-SME businesses and £270mn to research organisations. Locally, Edinburgh based universities and research companies receive £255.71 million EU funding.
- 2.7** Some global financial institutions base themselves in Edinburgh in order to access the wider EU market through what is termed 'passporting'. This means that any financial services firm that is authorised to conduct business in a European Economic Area (EEA) state is entitled to carry on permitted activities in any other EEA state. As is now being reported in the UK press, a full exit from the EU Single Market may prevent global (and British) financial services companies based in Edinburgh, such as RBS, Standard Life, Virgin Money, from accessing EU markets. There is a risk that these companies may move their headquarters away from the UK to an EU location to continue to access EEA markets.
- 2.8** On July 20 the EU tabled a package of proposals for climate and energy to progress the transition to a low carbon economy and fully implement the 2030 Climate and Energy Framework. There are three elements: legally binding emission targets for non-Emission Trading Scheme (ETS) sectors, new rules for land use and a strategy for low emission mobility. Covering approximately 45% of the EU's emissions, the ETS puts an overall emissions cap on high polluting industries, and then allocates carbon allowances which companies can trade. This will concern Scottish Local Government regardless of the status of relations between Scotland and the EU. The First Minister has announced that there will be new Scottish legislation on climate change. Despite the EU/UK Referendum result, it is anticipated that the UK Government will also remain coordinated with EU climate and energy action. Norway and Iceland have for example indicated their intention to participate.

3 Report Implications

3.1 Resource

The UK Government is committed to the continuation of operation of all EU funds until 2020, including providing matching funding allocations through the block grant to Scotland but has made no commitment to support for these areas of activity from UK treasury funding beyond that date.

3.2 Risk

There is a significant risk to the Midlothian area of loss of external funds currently supporting employment, business development, and agricultural activities.

The suspension of bids to the LEADER programme is of particular and immediate concern, as there are a significant number of bids in preparation.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☒ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

3.4 Key Priorities within the Single Midlothian Plan

The Single Midlothian Plan commits Midlothian to closing the gap in economic circumstances between residents in the area, and between the area and Scotland. Loss of EU funds will be a major blow to achieving this goal as it supports business growth, employability programmes for the most disadvantaged and both sustained and diversified agricultural and food industries.

3.4.1 Impact on Performance and Outcomes

As the current programmes will continue to operate, no immediate impact is expected; however planning will be required to address the potential loss of significant external funds in 2020.

3.4.2 Adopting a Preventative Approach

ESF funds are preventive of long term unemployment, ERDF of business failure, EAFRD of loss of agricultural and food industries.

3.4.3 Involving Communities and Other Stakeholders

Not relevant to this report.

3.4.4 Ensuring Equalities

The loss of ESF employability programmes will have a direct negative impact on disadvantaged local residents if there is not a replacement of these funds from other UK / Scottish sources.

3.4.5 Supporting Sustainable Development

The loss of EAFRD in particular will impact negatively on the sustainability of the local environment if there is not a replacement of these funds from other UK / Scottish sources.

4 IT Issues

None

5 Recommendations

This Report has sought to advise Council of the possible funding impacts of the decision to leave the European Union. Council is recommended to:

- Seek assurances from Scottish and UK Governments that new funds will be introduced to replace those being lost.
- Request clarification from Scottish Government as to the reason for the suspension of the LEADER Programme, the likely duration of the suspension and any changes Midlothian Council can expect to the Programme when the suspension is lifted as a matter of urgency.
- Request Scottish Government introduce new business development investment to replace loss of ESF / ERDF and Leader , especially focussing on:
 - Rural economies diversification
 - Tourism
 - Science and technology, especially supporting business development around sciences.
 - Connectivity to Global markets.
- Request Scottish Government simplify and localise employability funding and reduce overheads; in light of the loss of top sliced ESF funding on exit from the EU to Skill Development Scotland; by handing over SDS and DWP employability budgets to CPP's and transferring SDS staff to Councils.

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Background Papers: None