

Impact of Exiting the European Union

Report by Kenneth Lawrie, Chief Executive

1.0 Purpose of Report

This report sets out an initial assessment of the impact on Midlothian of the decision to leave the European Union. The impact can be considered under a number of separate headings amongst which are EU funding, broader economic impacts, societal, environmental and regulatory issues. This report concentrates primarily on the loss of European Union grant aid, leaving some of the wider questions of economic and social policy impact for a later stage when it is clearer what the new relationship with the European Union will be.

2.0 Background

- 2.1** It is inevitable following the referendum in June that there is considerable uncertainty at this stage about the full impacts and consequences of leaving the European Union. Much of the focus to date has been on the potential economic impacts including growth rates, currency fluctuations, future investment streams, employment and inflation. The degree to which the UK has access to the Single Market following its departure from the EU will have a significant influence on these issues. In parallel with this, there is of course the matter of migration, how this will be managed in the future and the impact that will have on skills, employment and the demand for public services.

The EU also has considerable regulatory influence in relation to environmental issues such as landfill, waste water and energy efficiency directives, with associated tariffs and funding, and also rules around procurement and state aid. The negotiations relating to all of these issues following the triggering of Article 50 will be complex and detailed and significant uncertainty is likely to continue for some time to come. The priority for the Council is to plan for this changing landscape as the future position clarifies, assembling relevant data and evidence and using this as appropriate to lobby in respect of any particular identified interests either on its own part or through COSLA.

- 2.2** The most immediately identifiable impact of exiting the EU for Midlothian will be in respect of EU funding streams. The use of EU funding in Midlothian is broken into two broad types; funds administered by the Council or where the Council provides match 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 only estimated, as data is not available at the Midlothian level.

2.3 Council EU operated programmes

European Social Fund

The current programme is operational up to December 2018, with costs allowed until June 2019 for evaluation. Within Midlothian there are two main elements as follows:

ESF Midlothian Employment Pipeline Programme

This has a total budget to deliver all 10 projects of just over £1m, of which 40% is ESF grant (£407,000) and 60% is match funding from partner organisations delivering Midlothian Employment Pipeline objectives. £31,000 of the match funding is provided directly by Midlothian Council.

It is anticipated that there will be 900 beneficiaries over 28 months through the 10 projects that will target key beneficiary groups resident within Midlothian. The projects 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 including basic, certificated and intensive employability support for those involved in the criminal justice system - Total Cost £60,000.
- Project 7 - Supported vocational learning including 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 –.Total Cost £1,514.
- Project 10- Basic certificated Literacy and numeracy provision. Total Cost £50,000.

The management costs for the project are £14,685.

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 the 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 and no post 2020 funding has been confirmed.

ESF Poverty and Social Inclusion Fund - This is a strand of work linked to the local employability pipeline clients with over £200,000 ESF funding sought over the same period. It is intended that there will be 500 beneficiaries over a 28 month period. Funding for this has just been confirmed allowing tendering work to be undertaken.

European Regional Development Fund (ERDF) - Aside from Leader, 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. An outline of each of these funds is set out below.

East of Scotland Investment Fund (ESIF) – Midlothian Council invested £300,000 in this fund. This was topped up with bank funding and matched 40% through ERDF to provide 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 this new pan Scotland loan fund. The size of the fund will be £525,000 which includes £157,500 (30%) from ERDF.

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 £511,000 of which some £204,000 (40%) will come from ERDF.

LEADER - Midlothian operationally manages a programme run jointly with East Lothian Council. The budget for the LEADER Programme is just under £3.5m. With a maximum of 25% of this allocated towards administering the programme, Midlothian based projects might expect to receive over £1.3m on the basis of a 50/50 split 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. No bids have been submitted to Leader from Midlothian for the November funding round.

2.4 Other EU funds applicable to the Midlothian area.

There is no breakdown to a Midlothian level of the following funds provided by EU. Whilst Midlothian is a small Council area of a mixed urban and rural nature, it is clear that 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, depending on what may be put in place to replace them.

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. There are two elements to this fund as follows:

Pillar 1 - Direct farm subsidy payments – The Scotland-wide budget is nearly £3billion over the 6 years of the programme.

Pillar 2 Forestry Grant Scheme – The Scotland-wide budgets is £7.875m and covers the following aspects:

- the creation of new woodlands, contributing towards the Scottish Government target of 10,000 hectares of new woodlands per year; and
- the sustainable management of existing woodlands.

Agri-environment Climate Scheme - The budget for this programme is just under £11m. It 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.

There are a number of other smaller scale funds relating to agriculture, landscape, environment and the rural economy, including the Environmental Co-operative Action Fund (£300,000), the Beef Efficiency Scheme (£1.4m) and the New Entrants Support Scotland fund (£625,000).

In addition in respect of Food Processing, Marketing and Co-operation, there is a Scotland wide budget of £2.2m to support the Scottish food and drink processing sector in line with the Good Food Nation vision, the National Performance Framework and the Programme for Government and Economic Strategy.

Broadband

There is a Scotland-wide budget of £281,250 to help 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.

2.5 Wider Implications

A range of organisations including the National Farmers Union, COSLA, the Fraser of Allander Institute, the 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 the current period of uncertainty is having, and will continue to have, a negative impact on the prospects for the UK economy. The decision about the UK's relationship with the Single Market will be the key factor in bringing this period of uncertainty to a close.

- 2.6** Immediate currency exchange impacts so far have seen the value of the Pound drop against the Dollar and the Euro by a significant amount. 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, leading to inflationary pressures especially on items such as imported food and agricultural supplies.
- 2.7** Capital investment through the UK National Infrastructure Delivery Plan is committed to deliver over 600 projects by 2020/21 costing a total of £420bn, of which £100bn is to be Government-funded. The remainder is to be 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 full balancing figure of £320bn which may affect capital projects in Scotland.

It is unclear as yet whether this will also be a factor in the Barnett formula calculations in future years.

- 2.8** 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 £270m to research organisations. Locally, Edinburgh based universities and research companies received £256m of this EU funding.
- 2.9** Some global financial institutions base themselves in Edinburgh in part 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. The nature of the UK's relationship with the EU Single Market will influence the future investment decisions of such companies with consequences for the City of Edinburgh and the wider regional economy.
- 2.10** On 20 July 2016 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.

3.0 Report Implications

3.1 Resource

The UK Government has made a commitment to the continuation of the 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. The Scottish Government, through its Standing Council of Experts, is working on a spectrum of options, relating to the single market, the free movement of labour, workers' rights and various funding and security arrangements. The implications of these considerations are not yet known. As the position clarifies with regard to future funding arrangements, the Council will need to consider the impact on Midlothian and what actions or lobbying it may wish to undertake as a result of that to support investment in Midlothian.

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 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 SMP commits Midlothian to closing the gap in economic circumstances between residents in the area, and between Midlothian and the rest of Scotland. Loss of EU funds is potentially a major setback to achieving this goal, depending on what alternative arrangements are brought forward over time by the UK and Scottish Governments.

3.5 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 from 2020.

3.6 Adopting a Preventative Approach

Existing EU funds support the preventative approach in various ways. ESF funds are preventive of long term unemployment and ERDF funds support business sustainability and growth. The EAFRD funds play an important role in sustaining agricultural and food industries.

3.7 Involving Communities and Other Stakeholders

This report is simply an initial analysis of some of the potential impacts on Midlothian of the UK leaving the EU, but as the position clarifies, there may be a role for the Council in supporting organisations, businesses and communities through the changes in funding, regulation or other issues that may follow.

3.8 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 or Scottish sources. More generally, the Council will need to consider the impacts on the communities of Midlothian as the details of the new post EU arrangements are clarified.

3.9 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 or Scottish sources. Again, this is a matter that the Council will need to keep under review.

3.10 IT Issues

None specifically.

4.0 Recommendations

Council is recommended to:

- (i) Note this initial analysis of the potential impacts on Midlothian of the UK leaving the European Union.
- (ii) Note the need for the Council to continue to monitor the impact on Midlothian as the future position clarifies, assembling relevant data and evidence and using this as appropriate to lobby the UK and/or Scottish Governments in respect of any particular identified interests either on its own part or through COSLA.
- (iii) Request further reports to Council as appropriate in due course.

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Background Papers: none

