
IMPLICATIONS OF THE UK REFERENDUM VOTE TO LEAVE THE EUROPEAN UNION FOR THE SCOTTISH BORDERS

Report by Chief Executive

EXECUTIVE COMMITTEE

1 November 2016

1 PURPOSE AND SUMMARY

- 1.1 This report sets out the implications of the UK Referendum Vote to Leave the European Union for the Scottish Borders and Scottish Borders Council and outlines how issues arising from this outcome are being addressed.**
- 1.2 The main implications of the UK vote to leave the EU on the 23 June 2016 relate to the:
- Financial issues for the agricultural sector and for rural, regional and local economic development arising as a result of losing access to EU funding streams in the longer term;
 - Lack of access to major funding for economic development that may have arisen through the Southern Scotland NUTS 2 proposal;
 - Significant number of export orientated businesses in the Scottish Borders needing continued access to the Single European Market for trade purposes; and the requirement to secure satisfactory trade agreements with countries outside the EU to make up for any loss of access to markets within the EU;
 - Uncertainty of the long term status of the approximately 3,500 EU nationals living in the Scottish Borders.
- 1.3 Since the vote, the UK Government has taken actions which have sought to mitigate some of these issues. It has announced continued support for the farming sector on the same basis as the EU Common Agricultural Policy (CAP) up to 2020. Funding commitments have also been given for EU funded structural and investment projects signed after the Autumn Statement 2016 and which continue after the UK has left the EU. The Council Leader has written to the Prime Minister outlining the concerns of Scottish Borders Council and local businesses, and requesting that these be addressed.

2 RECOMMENDATIONS

2.1 I recommend that the Executive Committee:

- (a) Notes the report and work already being carried out to highlight the implications for the Scottish Borders of the UK vote to leave the EU;**

- (b) Agrees that the Council supports the South of Scotland Alliance to develop an advocacy strategy focused on securing special status for the South of Scotland in relation to future regional policy, so that the economic challenges facing the area are appropriately addressed.**

3 BACKGROUND

- 3.1 On 23 June 2016 the UK voted in a national referendum to leave the EU. This report provides an overview of the implications for the Scottish Borders and Scottish Borders Council that have been identified up until now. These are set out in the following sections under a number of themes.

4 FUNDING

- 4.1 As a large rural area, the Scottish Borders currently receives a significant amount of European funding, primarily through the Common Agriculture Policy (CAP). The most recent figures indicate that the area's farming community receives agriculture payments of over £61.5 million annually. This is important funding for the agricultural sector and very significant for the local economy, as it represents about 3.2% of Scottish Borders Gross Domestic Product (GDP).
- 4.2 Scottish Borders Council has involvement in the following European funded grants projects and programmes:
- Scottish Borders Business Growth Programme - delivered by Business Gateway and funded by a European Regional Development Fund (ERDF) award of £546,424 for the period 1/1/15 - 30/6/19.
 - Employability Pipeline Scottish Borders - funded by a European Social Fund (ESF) award of £539,354 for the period 1/6/16 - 30/6/19. This funding is still to be formally approved.
 - Scottish Borders LEADER 2014-2020 Programme award of £4,018,427 for the period 14/8/15 - 31/12/20.
 - FORTH Fisheries Local Action Group (FLAG) covering the Scottish Borders, Fife & East Lothian with an award of £1,052,000 from the European Maritime and Fisheries Fund (EMFF) for the period 4/12/15 - 31/3/18. This programme is facilitated by Scottish Borders Council but it does not have financial responsibility for it.
- It should be noted that there are also national programmes supported by European Funding that are delivered by Skills Development Scotland, Scottish Enterprise, VisitScotland and the Scottish Funding Council which impact on the Scottish Borders.
- 4.3 On 3 October 2016 the Chancellor of the Exchequer, Philip Hammond MP, confirmed that the UK Government will guarantee EU funding for structural and investment projects, including agri-environment schemes, signed after the Autumn Statement 2016 and which continue after the UK has left the EU. The structural and investment funds subject to this assurance include the European Agricultural Fund for Rural Development – CAP Pillar 2, European Social Fund (ESF), European Maritime and Fisheries Fund (EMFF), and the European Regional Development Fund (ERDF) Structural and Investment Funds payments to the agricultural sector under Pillar 1 of the CAP have already been assured until the end of the multiannual financial framework in 2020.
- 4.4 Once the UK has left the EU, it is crucial that the UK and Scottish Governments provide funding for the agricultural sector beyond 2020 and for regional and rural development support to be put in place in a manner similar to that provided for in European Regional and Cohesion Policies.

5 NUTS 2 SOUTHERN SCOTLAND PROPOSAL

- 5.1 Together with other local authorities across Southern Scotland, the Council has promoted the need for an additional European NUTS 2 statistical area for Scotland. Earlier this year the Scottish Government recommended a change in these boundaries in line with the Southern Scotland proposals, and this recommendation was passed by the UK Government's Office for National Statistics to the European Commission. This was then accepted by the European Statistical System Committee in May 2016 and there is a strong likelihood that it will be accepted by the EU. Following the outcome of the referendum, the Scottish Government is continuing to support these statistical changes.
- 5.2 This change to the statistical map would show more clearly the economic and social fragility of this area of Scotland which had been masked because of the existing focus of NUTS2 areas on city areas outside the Highlands and Islands. With a Gross Domestic Product (GDP) of 73% of the EU average, NUTS 2 status for Southern Scotland would have been likely to give the area access to major European Cohesion funding post 2020. This could have led to a step-change in economic development and economic growth in Southern Scotland. The decision to leave the EU will mean that this funding will not be available to Southern Scotland.
- 5.3 In the absence of EU Funding Programmes, there will be a need for a much stronger regional policy in both the UK and Scotland. This should not just focus on cities and the Highlands and Islands but should also address other areas of need, such as the South of Scotland.

6 ACCESS BY BUSINESSES TO EUROPEAN AND GLOBAL MARKETS

- 6.1 Within the Scottish Borders there are a significant number of businesses employing large numbers of people with a high dependency on exports with the EU and the rest of the world. These include, but are not limited to, businesses in the knitwear sector, producing high end cashmere garments, and food and drink companies, adding value to local produce. In relation to European markets these business are dependent on continued access to the Single European Market for trading purposes and it is vital that this is retained.
- 6.2 As part of the EU, the UK is also a partner in a number of EU trade agreements with individual and groups of countries across the world. It is crucial that negotiations with countries are carried out quickly by the UK Government to put in place similar trade agreements to minimise any disadvantage to exporting businesses in the Scottish Borders, whoever they may be trading with.

7 EU NATIONALS RESIDING IN THE SCOTTISH BORDERS

- 7.1 There are an estimated 3,500 EU nationals living in the Scottish Borders. They make a vital contribution to both the local economy and local communities, and this needs to be appropriately recognised. It is important that the Scottish Borders continues to be an open and welcoming region, which is able to welcome EU nationals, and nationals from all parts of the globe.

8 WAY FORWARD

- 8.1 The Council Leader Councillor David Parker has recently written to the Prime Minister, Theresa May MP, to raise the concerns of Scottish Borders Council and local businesses following the Referendum Vote on 23 June 2016. The South of Scotland Alliance also met with South of Scotland MSPs on the 28 September 2016 and discussed the implications of Brexit for the economy of the South of Scotland. The Alliance intends to meet Scottish Members of the European Parliament (MEPs) from the main political parties to discuss the Southern Scotland NUTS 2 proposal and develop an advocacy strategy on this matter. It will also be important for the Council to continue to take opportunities to discuss with the UK and Scottish Governments the issues raised above.

9 IMPLICATIONS

9.1 Financial

The recent announcement by the Chancellor of the Exchequer seems likely to minimise any possible financial implications to the Council of the various European projects not being able to be fully completed by the time UK leaves the EU. However, the future implications of the loss of such regional development funding are significant for the Scottish Borders and the Council and its partners need to lobby UK and Scottish Governments to ensure that an appropriate regional policy framework is put in place to support areas of need, such as the Scottish Borders.

9.2 Risk and Mitigations

- (a) There could be significant risks to the economy of the Scottish Borders if the concerns arising from referendum vote are not dealt effectively during the Brexit negotiations.
- (b) There remain uncertainties for the future residence of EU nationals in the Scottish Borders which needs to be addressed.

9.3 Equalities

The vote to leave the EU has led to insecurity for part of the population of the Scottish Borders i.e. EU nationals, which need to be addressed.

9.4 Acting Sustainably

There could be significant impacts on the economy, community or environment arising from changes in legislation resulting from the decision by the UK to leave the EU.

9.5 Carbon Management

There are no direct effects on carbon emissions arising from the proposals contained in this report.

9.6 Rural Proofing

The decision to leave the EU could have significant implications on agriculture and development support for rural areas in the Scottish Borders.

9.7 Changes to Scheme of Administration or Scheme of Delegation

There are no changes to be made to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals contained in this report.

10 CONSULTATION

10.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted on the report.

Approved by

**Tracey Logan
Chief Executive**

Signature

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Background Papers: None

Previous Minute Reference: None

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