

## ESEC RESPONSE TO SCOTTISH PARLIAMENT INQUIRY ON THE IMPLICATIONS OF BREXIT

September 2016

The East of Scotland European Consortium (ESEC) welcomes the opportunity to respond to the Scottish Parliament's inquiry into the implications of Brexit.

ESEC's eight local authority members are fully engaged with European funding and policy programmes, and the impact of the vote to leave the EU is already having an impact on day-to-day operations. For the EU programme period 2007-2013, our members were involved in the delivery of projects which totalled upwards of £200million.<sup>1</sup> Local Authorities therefore require clarity on the future of the European Regional Development Fund (ERDF), European Social Fund (ESF) and transnational funding as an immediate priority, along with clarification from the UK and Scottish governments on amendments to policies which originate from EU legislation, including environment, employment, social, state aid and procurement law amongst others.

### Immediate and long-term impacts of Brexit on Local Authorities

The vote to leave the EU has created many immediate concerns for Local Authorities in Scotland.

With regards to national funding for which our members authorities have responsibility, there are concerns on approved (and yet to be approved) ERDF/ESF projects such as those on Smart Cities, the Employability Pipeline (ESF) and Business Gateway activity. Funding for services such as employability has relied heavily on EU Structural and Investment Funds and in order to continue to effectively deliver these services, this funding should be protected until the original termination date of 2020, and clarity given on what will happen beyond this point. The loss of European Structural and Investment Fund support would mean that a significant amount of funding may be lost and not invested in the area. Given the focus of these funds on economic development, job creation and training, this investment will be critically needed now more than ever, as the economic growth in our region is predicted to slow on top of existing contraction due to the oil and gas downturn, and could only serve to add to the economic shock.

Furthermore, there are people employed on contracts that relate directly to the delivery of many of these projects and the uncertainty over how long these programmes will continue to receive funding has created real concern for the future employment of the staff in question.

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<sup>1</sup> A breakdown of these figures per authority is available on request

There are strong concerns over continued participation in transnational funding programmes such as INTERREG. Whilst in theory we remain eligible for these programmes, there are very real anxieties that other EU regions may opt not to risk having us in the projects which are being submitted in the next 18 months due to the uncertainty around the timing of Brexit, and the fear that our involvement could be brought to an abrupt end, thereby risking the entire project and funding for the other partners.

Our member authorities have been working with a wide range of European partners over several years which has allowed for research & development, additional funding and benchmarking for officials, staff and clients. This work has had a huge impact on knowledge and service delivery for some of the most vulnerable clients with complex multiple barriers and has contributed to being able to move them into positive destinations and enhance their lives. If our members are unable to continue with this type of work it will limit and remove wider opportunities for staff and clients in the future.

Longer term concerns relate to the overall impact on our region's economy prosperity and key sectors. For example, Aberdeen City Council has on-going plans for the development of a hydrogen economy, which will build on the success of the Aberdeen Hydrogen Bus Project, part funded by the European Union. This is something which the Council had intended to take forward with continued EU collaboration, across public and private sectors. Quite how Aberdeen City Council will continue to be able to do that in the future remains unclear.

Another longer term concern is the impact on free movement of people to fill a range of roles, such as academic research. For example, Dundee University has people from over 40 countries working in the Wellcome Trust facility. It is strongly recognised that the mobility of talent is key to success in research/innovation.

The impact will also be felt across our region's colleges and universities, who in the past have secured significant research funding from programmes via FP6, FP7 and Horizon 2020. During the FP7 Programme (2007-13) the University of Dundee was engaged in over 20 research projects, securing over €65 million of FP7 funding and more than €5 million for the Scottish SMEs also involved. This equated to 12% of the university's total research funding. Since March 2015 the University has secured £7.6 million of Horizon 2020 funding. A report by the Guardian<sup>2</sup> which looked at the Russell Group of Universities and the impact of BREXIT highlighted that UK partners in Horizon 2020 projects that are in development are already been asked to consider dropping out as there is no guarantee of their funding and the other partners are concerned that their application will be looked upon less favourably if it has UK involvement. The announcement by the Treasury that it would underwrite Horizon 2020 funding even in the event of the UK's departure from the EU is welcome but feelings of insecurity around future partnerships for this fund and others remain.

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<sup>2</sup> <https://www.theguardian.com/education/2016/jul/12/uk-scientists-dropped-from-eu-projects-because-of-post-brexit-funding-fears>

**Other long term concerns include:**

- In terms of trade, leaving the EU may have a negative impact on our local businesses trading overseas. Policymakers should ensure that these businesses keep unrestricted access to the Single Market as a priority;
- With on-going cuts to core budgets, the ability to deliver a host of agendas will be impacted upon, particularly those activities which might be more innovative in nature.

**The impact of Brexit on transnational funding and European partnerships**

Our members remain engaged within their EU networks, and they have been fielding frequent enquiries requesting updates. These contacts, who are predominately European Local Authorities, have all expressed concern over Brexit and what might happen next. Some of these contacts have already stated that regrettably, we may no longer be seen as favourable partners in the future.

Taking INTERREG as an example, which is a funding programme for transnational cooperation, the process of submitting initial expressions of interest to final decisions being made on full applications can take more than a year. The next calls for these funds open in November 2016 and based on the aforementioned timetable, there is strong reluctance among our members to devote resources to submitting initial project proposals given that decisions may not be made on full applications until later in 2017, and there is just too much doubt over future commitments on this fund. At the time of submitting this evidence to the EERC, there have been no assurances from the UK government on how to proceed with this programme.

Dundee City Council is the lead partner in a new INTERREG North Sea project and the start-up meeting was held the week after the referendum. All partners had questions about the future of the project but were happy to see that the current advice was “business as usual”. However, the project is due to last until the middle of 2019 and therefore guidance on the on-going support for UK partners and lead partners in projects which have already been approved is required, and as of yet had not been forthcoming.

In addition, Dundee City Council had been developing ideas for potential INTERREG projects but these have now been put on hold. It is unlikely that they will be in a position to develop a new project given the potential timescales for submission.

At the present time, Aberdeenshire Council has a vacant position for an officer who would be responsible for applying for these transnational funds, but this role will need to remain unfulfilled until such a time that the future of the programme is clarified.

Regrettably, the INTERREG secretariats can expect to see a sharp drop in UK involvement in this programme, particularly that of Local Authorities.

Over the history of EU funding programmes, Scotland's Local Authorities have built a strong reputation as expert partners in European projects, with very positive impacts on policy and service delivery. A Dutch Local Authority partner, with whom Angus Council has developed an INTERREG project on more efficient digital public services, noted that the loss of the UK as a project partner will have negative consequences for them also. UK Local Authorities have a strong reputation for their sectoral expertise and access to networks of experts, and the loss of this participation will be felt on the continent.

While a business as usual approach is being taken, the focus for funding and policy officers over the next few months will be on delivering projects and finalising bids rather than seeking out new EU funding opportunities.

Fortunately most people working within EU funding and policy are aware that whilst the UK voted for Brexit, all regions in Scotland demonstrated their commitment to remain, but there is also a recognition that Scotland is considered by the EU to be a region of the UK rather than a Member State in its own right, so even if Scotland is able to remain via some other arrangement, the period of discussions and negotiations that would be necessary would create still more uncertainty around our role, and for other regions who might be considering working with us.

### Impact of Brexit on Local Authority-led funding

Since the vote to leave the EU and despite the reassurances around certain programmes and being encouraged to continue with bid preparations, there are concerns that it will become increasingly difficult to secure new partners for future activity, both for national and transnational programmes.

Many of our member authorities cover rural areas and manage LEADER funding, the EU fund which supports rural development.<sup>3</sup> This programme is worth many millions to each recipient and there is concern that the programme value will be reduced as part of the negotiations, dependent on the exit date agreed. This will be a major loss of income for this sector of the economy.

Many of the nationally-managed programmes are only now beginning delivery and therefore it is difficult to make a comparison on whether the vote has impacted on applications, although Fife Council has reported that for its LEADER fund, there have been fewer enquiries that might have been expected.

Our members have been contacted by existing partners who have concerns about existing or future projects. The Employability and Employer Engagement Team within Fife Council had intended to submit a project along with a local third sector organisation, however the latter has now raised concerns with pursuing the bid

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<sup>3</sup> For more information and case studies on projects, please see Angus Council's separate submission to the inquiry

given the result of the referendum. The current climate is definitely one of concern and there is apprehension and hesitancy on how projects can be taken forward.

### Alternative funding to projects covered by EU finance

By its very nature, EU funding is designed to focus on innovation and added value, therefore there are no substitute sources of domestic funding with which it can be replaced. As an example, the European Structural and Investment Fund delivers the Low Carbon Infrastructure Transition Programme, which seeks to support the development of substantive private, public and community low-carbon projects across Scotland. Within this, there is up to £20 million available per individual project to support the roll out of demonstrator low-carbon initiatives, and it is unlikely that such a fund will be made available again.

With this in mind, both the UK and Scottish Governments need to consider what future programmes they will run nationally to support these types of activity previously delivered by the EU.

### Local Authority priorities in the event of Brexit

In the event of Brexit, and during the process of the UK Government negotiating a new relationship with the EU, there are several priorities that should be taken into consideration which will enable Local Authorities and other key stakeholders to continue to provide services while still being able to innovate.

At the national level, the UK government should arrange alternatives to EU funding programmes for agriculture, fisheries, innovation, infrastructure, rural development and social and economic development programmes. Furthermore, it would be useful to know how much of Scotland's 2014-2020 allocation of £701 million structural funding has already been drawn down, given that there has been a significant delay in starting most of the programmes, and how much of this will remain available.

Following the UK Chancellor's announcement that funding will be protected until 2020 for currently-funded projects, including ESF and ERDF, further guidance is urgently required on the timescales for forthcoming and current opportunities for EU funding bids, particularly for calls which will take place beyond the Autumn Statement. Until this takes place, we cannot develop new projects or even effectively deliver those that have been approved until an end date is identified.

Continued transitional cooperation between EU regions and local authorities should remain a priority. The UK and Scottish governments should look to protect our ability to engage and participate within the INTERREG programmes, perhaps following the model of Norway which is able to participate as a non-EU member by contributing from its own national budget into the central pot.

We would strongly encourage the UK Government to consult closely with Local Authorities to understand the programme and funding impacts as a result of Brexit and we call on the officials overseeing exit negotiation to involve local government representatives during the discussions, and to consult our representatives on an on-going and regular basis.

We would also request clarification from the UK and Scottish governments on amendments to policies which originate from EU legislation, which includes laws on environment, employment, social, waste management, state aid and procurement amongst others. For example, the growth of the low carbon and renewables sector is very much driven by EU climate change targets and legislation. The UK departure from this could mean we are no longer bound by these targets, potentially causing the industry to stall.

## About ESEC

The East of Scotland European Consortium (ESEC) was established in 1991 to represent the European interests of local authorities in Eastern Scotland. We have membership of 8 Local Authorities within this area (Aberdeen City, Aberdeenshire, Angus, Dundee City, Falkirk, Fife, Perth and Kinross, and Stirling).

ESEC aims to:

- Influence, where directly relevant, the development of emerging European policy and legislation as it affects Eastern Scotland;
- Maximise European Union financial assistance;
- Foster cooperation between local authorities in Eastern Scotland and to provide a framework for the promotion of appropriate geographic and sectoral groupings; and,
- Develop links with similar regional groupings within Scotland, the United Kingdom and other European Member States.

For more information, please contact:

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