



**REPORT TO: COMMUNITY PLANNING BOARD 13 SEPTEMBER 2018**

**SUBJECT: LOCAL OUTCOME IMPROVEMENT PLAN - POTENTIAL IMPACT OF BREXIT IN MORAY**

**BY: CORPORATE DIRECTOR (ECONOMIC DEVELOPMENT, PLANNING AND INFRASTRUCTURE), MORAY COUNCIL**

**1. REASON FOR REPORT**

- 1.1. At the Community Planning Partnership Board meeting in February 2018 it was decided that a composite report from partners on the potential impact of Brexit in Moray should be presented at a future meeting. This was followed up by a verbal update in April 2018.

**2. RECOMMENDATION**

- 2.1. **It is recommended that the Board considers and notes the report.**

**3. BACKGROUND**

- 3.1. Considerable amount of research on the potential impact of Brexit has been undertaken on a UK and Scottish wide level across sectors.

On a regional level, the Highlands and Islands European Partnership (HIEP), which comprises of 7 Local Authorities (Argyll and Bute Council, Comhairle nan Eilean Siar, Highland Council, Moray Council, North Ayrshire Council, Orkney Islands Council, Shetland Islands Council), Highlands and Islands Enterprise (HIE) and the University of the Highlands and Islands (UHI) has produced an in-house report providing research and background information on the implications of the UK's withdrawal from the EU for the Highlands and Islands region, as discussed at the Community planning Board April meeting. A shorter version with key messages centring on Regional Policy is attached as **APPENDIX I**, which has been widely circulated to MSP's, MP's, Scotland's MEP's, Scotland Europa, the Convenors of three Scottish Parliamentary Committees (Culture, Tourism, Europe and External

Relations Committee, the Economy, Jobs and Fair Work Committee and the Rural Economy and Connectivity Committee), the Scottish Office etc.

- 3.2. In addition, the Highlands and Islands Local Authorities Leaders' Group decided to prepare papers on Agriculture, Migration and Access to EU Markets in May 2018, with the latter two being based on the original HIEP document. The Agricultural paper was based on a separate report commissioned by the Highlands and Islands Agricultural Support Group. The Highlands and Islands Local Authorities Leaders will meet at the end of September to consider the papers and it is anticipated that they will be available for distribution in due course.
- 3.3. On a local level, the Community Planning partners who supplied a contact person for their organisation and from those who did not respond, it has become apparent that there is very little or no information gathered at local level.

#### 4. **SUMMARY OF BREXIT IMPACTS**

- 4.1. The potential impact of Brexit in Moray in relationship to the priorities of the Local Outcome Improvement Plan will affect in particular the 'Growing, diverse and sustainable economy' and 'Empowering and connecting communities' in terms of following the key highlighted areas set out below.
- 4.2. **Policy** – The EU Cohesion Policy allowed the region to attract substantial amount of EU funding for a range of infrastructure investment, transport and business development to social inclusion programmes.
- 4.3. Moray greatly benefited from the last European Funding programme 2007 – 2013 and details are enclosed in **APPENDIX II**. It excludes transnational projects.
- 4.4. For the European Structural Investment Fund (ESIF) 2014 – 2020 programme the allocation to the Highland and Islands area is in the region of €192 million with final allocations of funds to be completed before Brexit date.
- 4.5. Post Brexit, the UK Government is planning a UK Shared Prosperity Fund (UKSF) as EU replacement fund with consultations expected to be during autumn 2018. For the Highland and Islands it is important that a regional policy framework is in place with any replacement fund recognizing the geographic, demographic and economic challenges of the region.
- 4.6. **Economy** – Studies carried out including by the University of Strathclyde and Fraser of Allander Institute for the Scottish Parliament predicts Brexit will have a negative impact on the Scottish economy,

including significant implications for tariffs, free movement, future investment plans, administrative burdens, competitiveness, supply chains, loss of skills, funding and access to research and innovation. All the scenarios modelled show a reduction in total exports.

The London School of Economics has produced a paper that provides predictions on the impact of Brexit across Local Authorities in two different scenarios; namely soft and hard Brexit. For the Moray Council area, the percentage change in Gross Value Added is minus 0.7% under a soft Brexit and minus 1.3% under a hard Brexit.

These predictions are based on the fact that areas which have a high reliance on European trade will be worst affected, as will those with higher wages, and that Moray's key sectors are less reliant on European supports than those in other areas. For example Moray's key sectors are agriculture, fishing and forestry (positive impact predicted despite potential impact on workforce, available funding to support these industries etc.), construction (low negative impact), professional, scientific and technical (not shown), retail (low negative impact) and accommodation and food (minor negative and positive impact predicted respectively).

The full report is available here:

<http://cep.lse.ac.uk/pubs/download/brexit10.pdf>. However, recently published figures by the UK Government, estimates suggest that Britain would lose 8% of GDP over the next 15 years, while the EU would lose 1.5%.

- 4.7. There are over 90 inward investor businesses in the Highlands and Islands that benefit from Foreign Direct Investment including energy, food and drink and financial and business services. In those areas where access to EU markets is a key driver, this investment may be impacted.
- 4.8. All key sectors in the Highland and Islands region stand to be affected by Brexit; those expected to be most significantly impacted are Agriculture and Fisheries, Food and Drink, Tourism, Energy and Further and Higher Education.
- 4.9. The food and drink sector is the largest of the Highlands and Islands growth sectors in employment terms. In 2013, there were over 32,000 individuals in employment in the sector, accounting for 14% of total employment in the Highlands and Islands and 28% of the national food and drink workforce. The Food and Drink sector in Moray presents an estimated 14.6% of employment. (Business Register and Employment Survey May 2016, excludes Agriculture and self-employment)
- 4.10. The UK top 10 Food and Drink exports, first half of 2017 features Whisky and Salmon as first rankings.

- 4.11. There are 93 active distilleries in the Highland and Islands region with the largest share based in Moray. The Scotch Whisky Association (SWA), in conjunction with other wines and spirit organisations across Europe, have produced a position paper that looks for a gold standard agreement between the EU and UK that preserves fair competition and maintains consumers' confidence in their products. The SWA is lobbying for an agreement that avoids border tariffs, processing delay and related administration costs.
- 4.12. The Access to EU Markets Position Paper highlights that the Highlands and Islands recognise the importance and value of access to EU markets and seeks future access post Brexit that:
- preserves fair competition and maintains consumers' confidence in their products including through Geographical Indicators
  - avoids border tariffs
  - avoids processing delay and related administration costs
  - is as seamless as possible.
- 4.13. Other key employers in Moray that contribute to the scale of the sector and that are important in employment terms currently include the headquarters of Baxters Food Group in Fochabers, where the company's main manufacturing factory produces canned soup and preserves. Walkers Shortbread, currently Scotland's largest food exporter, has a bakery and research facility in Aberlour and a production facility in Elgin. According to Jim Walker in a recent article in the Guardian, "*Foreign nationals are critical to our workforce in the Highlands. In the busy season, we employ around 1,700 workers, 500 of whom are mainly EU nationals, and that allows us to make up the numbers that we can't find locally when it is seasonal work.*" The effect of the Brexit vote on these employees has been subtle but significant: "*They don't feel quite so welcome and I can see a gradual drift of them returning home, especially as the exchange rate makes work here less appealing.*"
- 4.14. The Highlands and Islands Local Authorities Leaders' Group paper on migration highlights that in recent years, most of the population increase in the Highlands and Islands has been due to net in-migration and indeed natural change (births minus deaths) would have led to a decrease in population in almost all areas of the Highlands and Islands. National Insurance registrations can be used to show the origin of overseas migrants and for 2016 these showed that 86% of those in Highland were from EU countries demonstrating their disproportionate importance to the Highlands and Islands (the equivalent for Scotland as a whole is 74%). If these previous trends were to continue - i.e. there were no Brexit related effects - net migration is projected to remain positive, whereas natural change is projected to be negative. Any changes to migration policy that reduced inward migration in future would therefore be expected to lead to a decline in the population of the Highlands and Islands. Migration helps to address demographic

imbalances seen across the Highlands and Islands. Mid-2017 population estimates for Scotland show all Highlands and Islands local authority areas having a greater proportion of over 65s than the Scottish average. In addition, all Highlands and Islands Local Authority areas are projected to see decreases in their working age populations in the next 20 years.

- 4.15. Although on average EU migrants tend to be better qualified than UK nationals and some do work in high skilled jobs including public sector roles such as doctors and nurses, many others fill otherwise difficult to fill lower skilled positions. Particular sectors where this is the case are tourism (the area's most significant industry) and the food and drink sector including fish harvesting and processing and food processing. Not only are these sectors key to the local economy their products are major UK exports that contribute wider economic and financial benefits to the whole of the UK, for example through excise duty.
- 4.16. Migrant workers are also critical to small businesses which make up the majority of Highlands and Islands businesses. A recent survey undertaken by the Federation of Small Businesses also illustrated the disproportionate importance of migrant workers to Highland businesses. Across the UK, 20% of businesses employed 1 or more migrants from the EU; in Scotland the proportion was 25% while in Highland it was 41%.
- 4.17. If the number of EU migrants is restricted and migrants from elsewhere have to fit set criteria there is a concern that our area may be unable to recruit the workforce it requires. Of particular concern is the fact that earnings thresholds are commonly used as part of the approval criteria for migrants to be allowed to live and work in the UK. This disadvantages areas such as the Highlands and Islands which generally have lower wage rates than other parts of the UK - median earnings in the Highlands and Islands lag behind both Scottish and UK averages. Future migration policy needs to avoid a "one size fits all" approach but instead should recognise and respond to regional disparity.
- 4.18. Regarding the Highlands and Islands Local Authorities Leaders Agriculture Crofting and Land Management paper, Brexit poses a threat to farming and wider rural development on a number of fronts:
  - Uncertainty about the scale of the agriculture and rural development budget post Brexit
  - The extent of autonomy the Scottish Government will have over all aspects of future agriculture policy
  - The nature of future trade deals with the EU and others.

## **5. CONCLUSION**

- 5.1. The impact of Brexit is highly speculative, in particular as No 10 has recently begun release of 70 'technical papers' on preparing for a disorderly Brexit to be published in two batches in mid-August and early September.
- 5.2. Many studies so far undertaken have concluded that Brexit will have adverse effects on certain aspects of life in the UK and a growing movement is calling for a further referendum.
- 5.3. In the absence of local statistics it is very difficult to access the precise impact of Brexit on Moray; however any further information will be circulated when it becomes available.

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Background Papers: Held by author  
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