Summary

With regard to issues identified in the Inquiry papers - Financial Settlement and Citizens Rights - key asks identified by the Council are for:

- UK Government to give early and positive clarification on the immigration status of EU citizens in the UK, and to UK citizens in the rest of the EU (EU27)
- UK government to work with the EU to guarantee continued UK access to key EU research and cooperation funding programmes after Brexit

When negotiations proceed to next Phase, the priority must be to deliver:

- A future UK/EU trading relationship that minimises barriers to trade

In seeking to ensure that Scotland’s interests are taken into account in the Brexit negotiations, the Council believes it is important to reflect the needs of Scotland’s diverse regions.

Questions posed by the CTEERC Inquiry

1. Implications for Scotland and EU citizens in Scotland of Article 50 withdrawal treaty

Article 50 withdrawal negotiations are likely to have significant implications for Scotland and EU citizens in Scotland.

Working jointly through CoSLA, the Council has agreed a number of key negotiation priorities:

- Citizens’ rights and local community cohesion
- Mobility of people, goods and services
- Transferable rights (eg pensions or healthcare)
- Continuity of environmental and climate policies, and alignment with EU targets

The following paragraphs focus on issues identified in the Inquiry papers.

EU citizens

North Ayrshire Council welcomes the declared priority of both the UK Government and the EU to secure an early agreement on the issue of the rights of EU citizens resident in the UK, and of UK nationals resident in the EU.
This is an issue of critical importance to individuals and families, and also one which has wider ramifications for population growth and for national and regional economies. Clarity on this issue is urgently required to allow adequate business planning for a range of public and private sectors.

In addition particular consideration should be given to ensuring that locally important sectors such as health and social care and tourism are able to attract sufficient workers into those labour markets at a time when local government faces a number of demand led cost pressures as a result of demographic change. A recent SPICe briefing indicates that 12,000 EU nationals are employed in health and social care in Scotland\(^1\).

North Ayrshire Council will offer more detailed comment on this issue in response to CTEERC’s concomitant Inquiry into how the UK’s immigration policy can best respond to Scotland’s demographic and skills needs.

**Financial Settlement**

The UK Government has indicated in its White Paper that: “There may be European programmes in which we might want to participate. If so, it is reasonable that we should make an appropriate contribution.”

Scottish local government is working to secure continued access to a number of EU programmes post Brexit and has been pleased to secure public support for this from EU Regional Policy Commissioner Corina Creţu.

Scottish partners have a strong history of participation in a range of research and cooperation programmes. Transnational collaboration helps to underpin Scotland’s export economy, ability to attract research, industry investment, global talent and visitors. These are important components of Scotland’s innovation base.

With support from Horizon, ERASMUS and territorial cooperation initiatives - like the Cross Border programme covering Northern Ireland, the border counties of Ireland and West Scotland – Scottish partners have found real value goes beyond the grant secured, often stemming from the collaboration itself. Participation in EU research and cooperation programmes provides greater opportunities for collaboration compared to any similar programme with a purely UK or Scottish focus.

To ensure that Scotland does not lose these opportunities, UK government should work with the EU to guarantee continued UK access to key EU research and cooperation funding programmes after Brexit.

**Additional comment: Withdrawal from EU main funding streams**

North Ayrshire Council will be making a submission to Scottish Parliament’s Finance & Constitution Committee Inquiry into the impact of Brexit on Scotland’s budget. Beyond the potential impact on the wider Scottish economy, it is clear that a significant consequence of Brexit will be the loss of access to the EU’s main funding streams.

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\(^1\) SPICe Briefing, EU nationals living in Scotland, November 2016
EU funds contribute around 15-25% of the funds invested by local authorities in economic development activity in their area. Viewed from a local perspective, North Ayrshire was awarded over £40m from the 1997-2013 EU Structural Funds programmes, underpinning around £100m investment in the area. The area has thus far secured awards of £8.4m from the EU 2014-20 programmes for a range of local interventions:

- North Ayrshire’s Youth Employment Initiative
- North Ayrshire’s Employability Pipeline
- Business Competitiveness (Ayrshire wide)
- Poverty & Social Inclusion (North Ayrshire)
- Better Off North Ayrshire (Big Lottery Fund/European Social Fund)
- Hunterston Energy Storage Project

Following a review of EU 2014-20 funding programmes earlier this year, and subject to successful negotiation with the European Commission this autumn, Ayrshire Councils will be working to promote further EU investment in innovative infrastructure projects linked to the Ayrshire Growth Deal, and will also be seeking to secure extensions to existing strategic interventions on business competitiveness and employability.

If domestic funding arrangements fail to compensate for the loss of EU funds, the ability of local authorities and other partners to support these important areas of activity in the future will be seriously diminished.

**Key asks of Scottish and UK Governments**

Scottish and UK governments can take a number of steps to protect and support the development of Scotland’s regional economies post Brexit. These include:

- investing in Scotland’s regional infrastructure through City, Island and Regional Growth Deals, including the Ayrshire Growth Deal, to support the development of innovative, smart, productive and inclusive regional economies
- establishing funding mechanisms to compensate for the loss of EU funding, and providing additional resources to match the scale of post Brexit challenges
- prioritising support for regional inclusive economic growth in ways that deliver support more efficiently, more flexibly and with more local control
- reforming the rules on financial support to companies to enable the delivery of more effective support in the places that need it most
- ensuring economic and skills agencies develop effective collaboration across agencies and with regions to support higher levels of regional competitiveness, innovation and economic growth
- exploiting the opportunity provided by this major change to align a wider range of public spending with the priority of local and regional economic development

As noted above, the removal of access to ERDF and ESF (boosted by matched funding from government, local government, private sector and others) could leave a policy vacuum which UK governments must fill to avoid some regions and sectors losing out. The loss will not just be financial, but will also cover strategic planning, multiannual programming and multi-level governance. There is concern that, post Brexit, the UK will not have the funding or policy levers needed to respond effectively to regional economic shocks.

As part of the Scottish Government Enterprise and Skills Review, the Ayrshire Councils were invited to work with partners, particularly Scottish Enterprise (SE) and Skills Development Scotland (SDS), to develop a Pathfinder exploring how regional partnerships can stimulate local economies. This aligns with our joint work on the Ayrshire Growth Deal which we are progressing with both the Scottish and UK Governments.

The Ayrshire Councils actively engage with partners in the Industrial Communities Alliance Scotland, which supports the work of Scottish Parliament’s Cross Party Group on Industrial Communities. In recent times the focus of the CPG has been to identify the key components of industrial and regional policies which will be needed for (post) industrial communities post Brexit. The ICA Post Brexit Regional Policy paper has been produced.

The key asks of the paper arising from the loss of EU funding mechanisms are identified below, and commended to the Committee by Ayrshire Councils:

- Deliver the new UK Shared Prosperity Fund to take over the responsibilities of the EU Structural Funds
- Set the new Fund’s budget at a level that not only compensates for the loss of EU funding (£1.5bn a year) but also provides additional resources to match the scale of the challenge
- Structure the new Fund in ways that deliver support more efficiently, more flexibly and with more local authority control
- Allocate the new Fund in fair and transparent ways that give priority to the development needs of less prosperous regions and local economies
- Reform the rules on financial support to companies to enable the delivery of more effective support in the places that need it most
- Exploit the opportunity provided by this major revision of regional policy to align a wider range of public spending with the priority of local and regional economic development
It is important a replacement for EU Structural Funds aligns to the work underway on Regional Partnerships to achieve inclusive growth and also the UK Government’s Industrial Strategy.

2. Process by which UK position in relation to the Article 50 negotiations are agreed and how Scotland’s interests are taken into account

Whilst it is the UK Government which is holding the UK seats during negotiations with the EU, the best outcome will only be achieved if the interests and experience of key stakeholders throughout the UK are properly reflected in discussions.

Scottish Government makes a strong case for Scotland’s voice to be heard at the table, and that is supported by North Ayrshire Council. The UK has much to lose if Scottish interests are not taken fully into account.

Scottish local government and civic Scotland have direct experience in many key areas and also have valuable contributions to make during the negotiations. CoSLA has established a Brexit Strategic Stakeholder Group which comprises representatives from local authorities and across civic Scotland. The Group has identified a number of common concerns and priorities where joint working is appropriate, including:

- Capacity, quality and welfare of our workforce
- Financial support for different sectors
- Trading with EU and non-EU countries
- Tourism and travel in Scotland
- Local democracy and empowerment
- Procurement of goods and services

CoSLA mandates have been developed on Constitutional Matters, Community Cohesion & Citizens Rights, New Trade Agreements, Procurement & State Aid, and Economy.

Local government is also collaborating across the UK, working on proposals for the future of EU funding and on powers that would be appropriate to devolve to local government and to communities.

Work is being done with civil servants in Scotland on establishing channels to share and specify the information needed to plan for Brexit. UK negotiators will be in a stronger position if the key points identified by Scottish partners are used to inform UK negotiating positions. North Ayrshire Council have established a Cross Council Brexit Working Group with the remit of considering all aspects of Brexit that may impact on the work of the Council or the residents of North Ayrshire and provide advice and support to the Council’s Executive Leadership Team on issues relating to Brexit.

3. Implications for Scotland of any discussions or agreement on the framework for the future relationship with the EU
The wider impact of these negotiations on Scotland’s economic growth is of principal concern. A priority must be to secure a future UK/EU trading relationship that minimises barriers to trade.

The North Ayrshire economy has taken significantly longer to recover from the 2008 financial crash than other areas in Scotland and the economy has still not returned to pre-2008 levels. Given this, we can estimate that any future downturn would be felt more severely in an already fragile North Ayrshire economy.

It is too early to know the implications of the decision to leave the EU for trade and investment, and any implications will be dependent on the terms negotiated, however, there are fears over rising material costs for business, skills shortages and delay in inward investment decisions. The removal of access to European Structural Funds (ERDF and ESF) could leave a policy and funding vacuum.

Focus will be required ensure the Ayrshire economy is ‘Brexit-ready’ for any impact, including but not limited to: public finances, loss of structural funds, supporting businesses to export, encouraging inward investment, and skills supply. Brexit may also present opportunities for Ayrshire businesses and these will need to be explored further.

Fraser of Allander research on the ‘Long Term Economic Implications of Brexit’ modelled a range of scenarios regarding the UK’s future trading relationship with the EU and concluded that, under all modelled scenarios, Brexit was predicted to have a negative impact on Scotland’s economy. The range of impacts were driven by the nature of any post-Brexit relationship between the UK and the EU – the stronger the economic integration with the EU, the smaller the negative impact. The report also notes that, in addition to the direct impact of becoming less integrated with the EU, there are also important spill-over effects from a slower rest of UK economy feeding through to Scottish sectors and firms. The scale of long-term impact depends on the precise trading arrangements negotiated post-Brexit.²

Scottish Tourism Alliance has said: “Our ability to recruit, grow and strengthen our tourism workforce from EU countries and manage the widening skills gap that exists within the industry remains a key concern for most tourism businesses.”³ Tourism is a key sector in North Ayrshire, one of the largest in terms of numbers employed. It has a heavy reliance on both domestic and foreign workforce. This reliance on foreign workers raises particular concerns on Arran, due to geography. People have to move to the island if they want to work in hospitality. The impact of Brexit on this sector will depend on the terms agreed in negotiations.

There are also issues around cost of importing materials/products. Discussion with account managed companies has highlighted this is already evident in some sectors, however no substantial evidence is available around this at this stage.

There is anecdotal evidence that potential investors are holding off making decisions and foreign owned companies’ investment plans for UK sites are being delayed.

² Fraser of Allander Institute, Long-term Economic Implications of Brexit – A report for the Scottish Parliament, October 2016
³ Scottish Tourism Alliance, January 2017