**M/Highlands and Islands Enterprise**  
The Impact of Brexit on the Scottish Budget

**Introduction**

HIE welcomes the opportunity to respond to this call for evidence. The UK decision to leave the EU will have wide ranging impacts on Scotland in general and the Highlands and Islands in particular. This call for evidence seeks evidence on the impact of leaving the EU on the Scottish budget. Given that the Highlands and Islands has been a major beneficiary of EU funds over the last three decades, HIE’s evidence will focus on the issues requiring consideration from the loss of EU funding mechanisms arising from Brexit.

**Who are we?**

Highlands and Islands Enterprise (HIE) is the Scottish Government’s economic and community development agency for the north and west of the country. Our region comprises over half the Scottish land mass (including 94 inhabited islands) and is home to around 470,000 people.

HIE’s role is to lead regional growth and development in line with Scotland’s Economic Strategy (SES), improving competitiveness and building a fairer society across the Highlands and Islands.

HIE’s approach to regional development is closely aligned to the national priorities described in SES: Investment, Innovation, Internationalisation and Inclusive Growth. We help build successful businesses, social enterprises and resilient communities; support the growth of industry sectors, and invest in the strategic interventions which create the conditions for a competitive region. Our current priorities, planned activities and budget information can be found in our Operating Plan 2017-18\(^1\).

**Background**

HIE has previously submitted evidence to the Culture, Tourism, European and External Relations (CTEER) committee (Sept 16 and Aug 17) about the implications of Brexit on the Highlands and Islands. One of the key impacts of Brexit on the Highlands and Islands is a changing policy environment and the loss of access to EU funds that have benefitted the region over three decades.

In the short term, access to EU funding remains unchanged while the UK is still a member of the EU. The major sources of EU investment in the Highlands and Islands - Structural Funds and CAP - continue to operate and organisations are still able to participate in projects funded through the numerous EU competitive programmes such as Horizon 2020 and the various INTERREG programmes.

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\(^1\) HIE Operating Plan 2017-18
In practice, the UK departure from the EU mid-way through the 2014 – 2020 programme period has caused significant uncertainty, particularly in relation to projects lasting beyond March 2019. This has been mitigated to a considerable degree by the various guarantees issued by the UK and Scottish Government, ensuring funding certainty for projects approved (and in some cases, applications submitted) prior to March 2019.

There are, therefore, a number of issues to be addressed in relation to the current position regarding EU funding in Scotland, and specifically in the Highlands and Islands.

**Maximise the use of, and benefit from, EU funding currently available**

HIE is most closely involved in delivery of the Scottish Structural Funds Programme. Government guarantees mean that all Structural Funds approved prior to departure from the EU (March 2019) will be honoured, even when expenditure takes place after that date. This provides an opportunity to ensure that all funds are committed and that funded activity delivers legacy benefits.

HIE is working closely with Scottish Government and local / national stakeholders, contributing to a mid-term review of Structural Funds programmes, following which, the objective will be to commit all funds prior to March 2019, with spend taking place up to 2022. Challenges include:

- Agreeing and implementing programme changes to enable approval of funds prior to March 2019
- Identifying match funding from domestic resources to enable projects to proceed

HIE is also working with regional partners to seek out opportunities for participation in EU collaboration programmes such as the various INTERREG programmes and Horizon 2020 (research and development funds). This has twin objectives:

- Securing funds for collaboration with EU partners where activity supports HIE delivery of its objectives and contributes to delivery of the Scottish Economic Strategy
- Supporting the development of collaborative partnerships that may endure beyond the UK departure from the EU

**Ensure a strong voice and high degree of influence over development of new UK policy**

The two EU policy areas that bring the most funding to Scotland and the Highlands and Islands are EU Regional Policy and the Common Agriculture Policy (CAP).
These policy areas will be repatriated to the UK (and potentially to devolved administrations). In each case, domestic policy will guide the allocation of domestic funding. It is not appropriate for HIE to comment on whether these policy areas sit with Westminster or the devolved administrations. Wherever the responsibility rests, there are, however, key issues to be considered from a Scottish perspective:

- Ensuring that policy can be developed to address the particular challenges and opportunities in Scotland, and the Highlands and Islands, recognising that these may be different from those elsewhere in the UK.
- Ensuring that funding is appropriate to deliver agreed policy outcomes in Scotland.

**Funding future collaboration / exchange with EU partners**

Scotland, and the Highlands and Islands, has benefitted from participation in EU collaboration programmes, particularly Horizon2020 and the various INTERREG programmes. They facilitate collaboration, exchange of expertise and ideas and enable regions and organisations to work together on common challenges and opportunities.

HIE believes that future collaboration with European partners is desirable. This could be facilitated through a continued participation in EU collaboration programmes, in return for a contribution to the EU budget (EEA members such as Norway and Iceland, as well as Switzerland currently participate in this way). In this scenario, Scotland would benefit from continuing to be part of recognised and well understood mechanisms to facilitate collaboration.

Alternatively, the UK and / or Scottish Governments could undertake to financially support collaboration with EU partners, outside of existing programmes, where this is supportive of domestic policy objectives. This would require the development of new mechanisms to facilitate collaboration.

**Conclusion**

HIE has focused its response on the impact of changes to Scotland’s access to EU funds following departure from the EU. The immediate effects have been mitigated to a degree by government guarantees of funding certainty for projects approved (or applications submitted) before we leave the EU (March 2019).

HIE is working with partners to:

1) Maximise the benefit and legacy to the Highlands and Islands of current EU funds
2) Engage in the development of post Brexit policy thinking, particularly in relation to Regional Policy and Rural Policy

3) Seek continued involvement in collaborative EU programmes where these support delivery of domestic policy objectives

The process of leaving the EU will be lengthy and complex. HIE looks forward to continued engagement with Scottish Government and other partners as the process evolves.