

L/COSLA

The Impact of Brexit on the Scottish Budget

Introduction

1. COSLA is pleased to provide a written response to the Finance & Constitution Committee's call for evidence on the impact of Brexit and the Scottish Budget. It updates earlier submissions and oral evidence that we have made to this and other Committees of the Scottish and UK Parliaments.
2. COSLA's Leaders and Convention are continuing to consider the implications of Brexit for local government, local economies and communities in Scotland. From the very beginning of the discussions concerning the outcome of the EU Referendum, it was clear that the role of local government had scarcely featured in the debate. This was despite the fact that local government has a legitimate place as a sphere of democratic government in Scotland. COSLA is therefore actively seeking a formal governance or consultative model to be developed that engages with Scottish councils.
3. We believe therefore that the Committee should hear local government's viewpoint about the implications of Brexit in Scotland. Given the Scottish landscape of a devolved Scottish Parliament and Government, this in itself creates a different dynamic from rUK when it comes to how the impacts of Brexit will be felt.
4. From the outset, we need to be clear that the negotiations and policy direction around these are far from clear as to what a settlement will eventually look like. It is too early to be able to provide definitive answers to the Committee's questions. Our evidence is of necessity high level therefore and not specifically focussed on the budget implications of Brexit. Nonetheless we hope the Committee will find our evidence helpful in understanding the interests of local government, in particular the implications for local democratic control and for local government's role in protecting and enhancing local communities and economies.

What local Government has said so far

5. We think it would be helpful for the Committee to be aware of what local government's take has been on Brexit so far and what we have said about this.
6. Local governance: Brexit will bring about a period of significant constitutional change and this will have a major bearing on the governance arrangements in Scotland. Not only does this relate to powers being exercised in the UK which are currently managed by the EU, it also has implications for how those returned powers are then managed across the UK, including by the devolved Governments. COSLA is explicitly calling for that debate to be extended to include local government far more meaningfully than has so far been manifested. Control of the budget that follows transfer of powers at reserved and devolved levels will be at the core, particularly with the prospect of negotiations to further devolve powers. As we have said, devolution does not stop at Holyrood and a proper debate is needed as to how powers will be managed in future.
7. New trade agreements: COSLA has long had representation politically and at officer level inside the European Union. Much of the focus of COSLA's work has been about influencing the EU legislation, including their trade agreements (such as recently with TTIP) in a way that protects local decision making and local economies. With new trade deals both with and outside the EU, COSLA will seek to ensure local government has a strong role in protecting the right to deliver local services and developing frameworks which can enhance local economies and not cause strain.

8. Community cohesion: COSLA is seeking to ensure that citizens' rights are protected. How future policy variations are exercised requires strong local participation.
9. Economy: It is clear that as the negotiations proceed this will have a significant bearing on the economy in Scotland and local economies therein. Clearly an area of deep concern has been around the future of the EU structural funds, including rural development funding. Whilst there are assurances in place around the existing funds, there remains uncertainty about the future and to what extent alternative arrangements, post withdrawal, will provide in terms of replacement benefits. We are keen that the main governance elements of the EU funds (strategic focus, partnership based, medium term commitments and funding certainty beyond a single parliamentary term) are retained in their domestic replacement. As opposed to EU funds which had many compulsory elements there is the risk that their eventual home-grown replacement can be seen as discretionary and that they could be redeployed to other priorities.
10. COSLA is therefore calling for a strong and sustainable Industrial and Regional Development Strategy, supported by a funding programme which can foster regional and local discretion and effective partnership approaches. This needs to be supported by a new migration policy which can respond to regional and local variation. Equally we see benefit, and we have already obtained explicit support from the EU, in enabling Councils and other bodies to access some of the EU funds post Withdrawal in the same fashion that municipalities of non-EU Member States such as Norway, Iceland and certain Eastern and Mediterranean countries do at the moment, to cooperate with their peers inside the EU on economic development, environmental or public sector reform.
11. Gathering information: As we indicate above there is not a substantial body of information yet as to the early impacts of Brexit. We recognise however that there is a need to do substantive work on the financial impacts and we need to work with our member councils to do this work. We will be more than happy to return to the Committee once we have further evidence to offer around the impacts.

Short term impact of Brexit

12. As we highlight above, it is still too early to understand the full extent of financial impact of Brexit in Scotland, even in the short term, and more work will of necessity be undertaken around this. As the Committee notes however there are already implications at a national level resulting from higher inflation, the reduction in the value of the pound and this continues to be a volatile landscape.
13. The recommendations of the budget review group which COSLA supports call for a longer-term approach to the Scottish budget with much earlier engagements by Parliamentary Committees. Brexit complicates the picture and needs to be a feature built into longer term national and local budget plans. This should not therefore be an excuse for continuing with short term politically expedient budget planning.
14. The Scottish Government will need to prioritise areas of the budget which address many of the concerns, looking at whole policy considering the factors such as Brexit and where there is a new landscape of powers emerging.

Migration and the Scottish Budget

COSLA has undertaken substantial work around migration to Scotland and we think this is worth highlighting to the Committee as a substantive topic area on the implications of Brexit and the Scottish budget. Key points we would like to put to the Committee and are happy to engage in further discussion with Members are as follows:

- Scotland is differentially dependent on migration than rUK – over the next decade, 10% of projected increase can be attributed to natural increase (more births than deaths) while 90% is due to assuming continuing inward net migration to Scotland. This is critical as population growth is a key driver in economic growth, therefore reduced migration which could be a consequence of Brexit will impact Scotland more than rUK and negatively impact the Scottish economy. NRS projected that the impact of Brexit could see a reduction in population growth from 7% to 3% in Scotland by 2039, compared to a drop of 15% to 11% for the whole UK.
- A recent paper by the LSE's Centre for Economic Performance and Centre for Cities put Aberdeen as the most adversely impacted in Gross Added Value city by Brexit, Edinburgh at sixth most affected.
- In terms of workforce challenges, many local authorities rely heavily on EU migrant workers, with the current UK position being that we will no longer be a member of the single market, there will be significant implications for the workforce and the local economy. Councils are already facing acute shortages in a number of key sectors that would only be exacerbated. In particular, teacher recruitment is extremely challenging for many councils, and shortages and gaps in skills in social work and the care sector.
- To get a full grasp of the potential implications on teachers, COSLA approached the General Teaching Council for Scotland (GTCS) for a figure on how many teachers in Scotland are EU nationals. According to GTCS records, there are currently 670 teachers qualified in other EU/EEA Member States registered with them. GTCS could not confirm how many of these teachers are active and in employment in Scottish local authority schools, but it is fair to assume that the large majority are.
- Regarding social care services, this sector suffers from similar issues as teachers, e.g. rural and regional variation, an ageing workforce, and high vacancy level. According to Scottish Care figures there is a 28% vacancy level in social care nursing in Scotland. There are a variety of estimates of how many EU nationals work in the care sector. The Accounts Commission Report: Social work in Scotland (2016) has drawn on a 2008 workforce survey which indicates that 6.1% of the social care workforce in Scottish care homes for older people were EU nationals. No matter what figures we draw upon we can confidently say if EU migration was drastically curtailed there would be a significant impact on the care sector.
- From speaking to local authorities, there would also be a significant impact on lower and unskilled sectors such as agriculture, fishing, hospitality, and the food industry. A prime example of the potential economic impact is in Angus, where the local agricultural economy relies heavily on seasonal migrants. In Angus, the number of migrants can reach 3 – 4,000 over the season and farms advertise abroad and recruit through agencies regulated through the Gangmasters Licensing Authority and the National Farmers Union. Perth and Kinross Council also highlighted the potential impact for agricultural seasonal workers and to a somewhat lesser degree, the hospitality sector. The food and drinks sector is a major export for Scotland, insufficient workforce would impact this.
- Similarly, many councils have key businesses that employ significant numbers of migrant workers: both Perth and Kinross and North Lanarkshire highlighted local business that have expanded and grown successfully partly facilitated by the availability of an EU workforce. There is real concern that if companies do not have access to this workforce they would move abroad. In addition, there are highly skilled and specialist areas that could also be affected, such as the technology and engineering sectors.

Financial Impact of Brexit

15. The financial impact of Brexit will depend of the nature of the UK-EU Withdrawal currently under negotiation and future Partnership and Free Trade Agreements. Still, in addition to localised impacts that came up in our research with Councils, such as those outlined above, there are a few areas that are certain to change. While there is often focus on the financial transfer elements, notably the EU Structural Funds and Common Agricultural Policy, the EU currently frames in a significant amount how and how much discretion Councils have in their own budgets. This comes mainly by way of the EU Procurement and State Aid rules, whose impact in public expending far exceeds the amount of EU funds allocated to Scotland.
16. While the EU Procurement Directives have already been transposed to domestic legislation by the Procurement Reform (Scotland) Act 2014 and the Scottish Procurement Regulations 2016, some of its elements (such as reporting obligations) will be affected by the future European Union (Withdrawal) Act. However, the biggest potential change can come from the State Aid rules. The Guidelines that set out the thresholds and obligation to notify public aid for a variety of purposes (regeneration, public sector duties, transport, environment, broadband, etc.) are in fact issued as by-laws by the European Commission, which under the Treaties has exclusive power over these issues. The UK Government's successive White Paper and position papers, as well as the Explanatory notes of the European Union (Withdrawal) Act, leave the option to set up a UK-wide regulator that oversees and issues rules to prevent unfair competition and discriminatory subsidies given by public authorities across the UK.
17. Given the integration of the UK's own internal market this approach is sensible. However, it is open to question that such a UK-wide body can be considered neutral, if it is a UK government agency, as it would be both 'rule maker' and 'rule taker'. There is benefit in considering the establishment of a UK-wide competition body whose oversight is independent of UK, Devolved and Local Governments, but that the aid guidelines are drafted by a partnership mechanism by UK, Devolved and local government representatives.
18. The other key elements are the replacement policies and financial mechanisms currently organised at EU level. This is notably the case of the CAP payments to agricultural, forestry and rural businesses and the EU Structural Funds (regional, coastal and social funds), amounting to circa £1.8bn for Scotland for 2014-2020. This excludes the larger amount on farm payments (CAP Pillar I), the larger part of the EU marine funding (EMFF) that has an impact in many rural and coastal communities.
19. While the Treasury and Scottish ministers have guaranteed that current EU allocations running until 2020 (in practice 2022 given existing EU audit rules) will be honoured, there has been precious little progress in scoping the post withdrawal UK and Scottish policies to replace these EU programmes. Clearly there has been more progress on farming subsidies, and we expect that the UK will ask to opt into some EU programmes such as research funding. Opting into the European Investment Bank (EIB) where the UK is one of the main shareholders and one of the main loan beneficiaries should be considered.
20. The UK is a net contributor to the EU budget but the added value of the funds is not in the actual money 'coming from Europe' but on the priority setting, partnership-based governance arrangements and their funding certainty for Councils and other beneficiaries, that protect these investments from sudden and discretionary decisions from central government. Judging the manifestos of most parties at the General Election there is a cross party support to develop new home grown schemes to support local economic development in both rural and urban areas. As with the negotiations of the 2014-2020 programmes COSLA is ready to have early engagement to both the UK and Scottish

Governments on how these new programmes could look like. Our view, as expressed in previous submissions, is that the new domestic schemes should have the same strategic predictability beyond the term of a single parliament and partnership approach that are the key added value of current EU funds.

21. Last but not least, we see the benefit in that the EU-UK negotiations consider the possibility that Local Authorities, and indeed other bodies, can participate in cooperation programmes with their peers of the EU. This would not include just the so-called INTERREG programmes but a range of other programmes such as those dealing with environmental protection or public sector reform. Non-EU countries such as Norway, Iceland and non-EU members from Eastern and Southern Europe can participate. In essence their national treasuries rather than the EU budget provide their share of the fund, with national courts rather than the European Court of Justice being responsible for any legal issue arising from the management of the funds. Indeed there is explicit support from the EU side as shown by the resolution of the EU Committee of the Regions last March 22. This has also been explicitly confirmed to us by EU Regional Commissioner Corina Cretu earlier this year. We are also keen to provide assurances to the Scottish and UK Government so this is included in their negotiating positions.

Conclusion

22. The Brexit agenda is a complex one with many unknowns at this stage. COSLA has called for and will continue to seek far more engagement by local government on the Brexit agenda, with very significant work underway to understand and respond to the implications. Whilst it is difficult to respond directly to the Committee's questions at this stage, COSLA trusts that the Committee will find our response helpful in shaping the Committee's thinking.