



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 APRIL 2019

SUBJECT: AUDIT SCOTLAND PAPER - WITHDRAWAL FROM THE EUROPEAN UNION

BY: CHIEF EXECUTIVE

1. REASON FOR REPORT

- 1.1 To provide Committee with information following consideration of a recent Audit Scotland paper on the implications for the public sector of the UK's withdrawal from the European Union (EU).
- 1.2 This report is submitted to Committee in terms of Section III (I) (3) of the Council's Scheme of Administration relating to considering reports from Audit Scotland on council functions.

2. RECOMMENDATIONS

2.1 Committee is asked to:

- i) note that the council has been monitoring the potential impacts of 'Brexit' having regard to information contained in the Audit Scotland paper, and in line with additional guidance circulated by Scottish Government;
- ii) acknowledge that uncertainty will remain while negotiations between the EU and the UK government are progressed and potentially for an indeterminate period thereafter; and
- iii) agree that the council should continue to monitor national developments and take a proportionate risk based approach to mitigate any issues presenting that fall within the remit of the council to be managed.

3. BACKGROUND

Audit Scotland Paper

- 3.1 Audit Scotland published a paper in October 2018 entitled 'Withdrawal from the European Union' which considered key audit issues for the Scottish public sector.
- 3.2 The paper presented a number of issues that Audit Scotland believed councils and other public bodies should have under consideration in the lead up to the date of the UK leaving the EU, which, at that time, was scheduled to happen on 29 March 2019. A copy of the report is available at http://www.audit-scotland.gov.uk/uploads/docs/report/2018/paper_181011_eu_withdrawal.pdf
- 3.3 The paper considered the issues under three themes; People, Finance and Rules and Regulations, recognising that the risks and opportunities presenting as a consequence of EU withdrawal would likely vary markedly between organisations, and noting that uncertainty had created challenges for public sector bodies in terms of determining the extent of planning that would be necessary. The paper also noted that, as the effects of EU withdrawal became clearer, Audit Scotland would expect public bodies' preparations and responses to intensify.
- 3.4 At the time of drafting this report in early April 2019, there is still no certainty around what the UK's future relationship with the EU might look like. Various options remain under consideration at Westminster. Timescales for further deliberations were running short, increasing the risk of a 'no-deal Brexit', although a flexible extension period for negotiations to continue has now been granted through to 31 October 2019.
- 3.5 The Audit Scotland paper indicates that the UK government had allocated £37.3 million to Scottish Government to manage 'short term funding pressures' resulting from EU withdrawal noting that a large proportion of this money has been allocated to fund additional staff to help the Scottish Government and public bodies prepare for EU withdrawal.
- 3.6 It is understood the £37.3 million forms part of the Barnett consequential included within the total Scottish Government Budget, and the Local Government Settlement "reflects the maximum that can be allocated from within this". Government officers have stated that there is nothing specific set aside for local government Brexit costs within the Settlement or elsewhere in the Scottish Budget.
- 3.7 The Cabinet Secretary for Communities and Local Government has however indicated the Scottish Government would consider any quantified needs that Local Government has around Brexit preparations, and there is presently an indication through COSLA that Scottish Government may make up to £50k available to each local authority. This would be to fund a 'policy officer' type post where

councils deem this an appropriate means of assisting services with Brexit preparedness. In Moray, staff time is being utilised for this purpose and the council has expressed an interest in securing this funding.

People Issues

- 3.8 The Audit Scotland paper estimates that in 2017 around 20,000 non EU nationals were employed in the public sector for Scotland – the equivalent of 3% of all public sector employees. Data on the nationality of employees in individual public bodies is not routinely collected, however, Scottish Government estimates 4.4% of the total health and social care workforce are non-UK EU nationals (around 17,000 people), and Scottish Care estimates that between six and eight per cent of the workforce in the independent social care sector in Scotland are from the non UK European Economic Area.
- 3.9 The paper suggests that Brexit is likely to impact on recruitment and retention with some of those affected leaving the UK and others who may otherwise have intended to come to work here choosing not to do so. It also stresses the importance of public bodies giving consideration to how many non-UK EU nationals they employ and in which areas, and also on the likely impact of EU withdrawal on the workforces of organisations that provide services on the council's behalf.
- 3.10 In relation to people, concerns are also raised about the impact on the wider community and on economic development given the potential implications for some of the main employers in Moray.

Finance Issues

- 3.11 Between 2014 and 2020 Scotland expects to receive £2 billion in EU funding, equivalent to 14% of the UK's allocation albeit Scotland has around 8% of the UK's population. Most of the funding comes through the Common Agricultural Policy (81%), the remainder as European Structural Funds (17%), and the European Maritime and Fisheries Fund (2%).
- 3.12 Payments under the Common Agricultural Policy are made by Scottish Government; the Forestry Commission and Scottish National Heritage. The UK government has guaranteed the same 'cash total' in funds for farm support until the end of the current UK parliament, expected to be in 2022. The European Structural Fund (ESF) comprises European Regional Development Fund and the European Social Fund, both of which the council has accessed in the past to support economic development, skills and training, and business support and infrastructure developments. Again UK government has confirmed it will guarantee current levels of funding under ESF until the end of 2020.
- 3.13 There is little clarity about what will happen with the funding streams in the longer term. In particular it is noted that while some EU funding is presently targeted at specific rural areas such as Moray, this may not be the same going forward.

Rules and Regulations

- 3.14 EU rules and regulations affect all public bodies specifically around trade and customs. Should trade agreements with the EU not be achieved this could see an increase in the price of food and other imported goods and services. This would adversely impact on council budgets.
- 3.15 All public bodies have to comply with EU Regulations including in areas such as employment law health and safety and procurement. In the short term, in terms of the EU (Withdrawal) Act 2018 the existing legal framework will continue.

Questions for Consideration

- 3.16 The paper asks 14 key questions of public bodies across the three headings of People, Finance and Rules and Regulations. Some are quite specific, others are more challenging and in all cases the council's approach and actions taken are likely to evolve in response to emerging circumstances. Details of the questions and council responses are provided as **Appendix 1**.

Developments in the Interim

- 3.16 The situation is changing by the day at the time of drafting this report (in early April 2019), and the paper asserts that if the UK government and EU fail to agree arrangements for the UK's exit from the EU, there will be no transition period and organisations will need to respond immediately. Accordingly, the recommendation from Audit Scotland is that councils need to plan for this and have contingency plans to manage risks presenting.
- 3.17 The Scottish Government, recognising that the full extent of the impact of any changes is unknown, has provided councils with a number of planning assumptions to minimise risks to the delivery of council services under any given scenario. The Corporate Management Team has looked at these assumptions and set up a virtual working group comprising officers involved in business continuity, emergency planning and risk management along with those in services or within partnerships who may be directly affected in terms of the themes of people, finance and rules and regulations as outlined above.
- 3.18 The Council is working closely with local and regional resilience partners to ensure that robust plans for a no-deal exit are in place should these be necessary.
- 3.19 The Corporate Management Team / Senior Management Team has agreed to implement a horizon scanning and assessment system to identify, assess and respond to emerging risks; a proportionate response while uncertainty prevails.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The issues highlighted in this report may impact on the corporate plan and LOIP however the extent to which these plans need to be revised will depend on the terms of the agreement reached between the EU and UK government.

(b) Policy and Legal

The council's regulatory framework will be revised if and when required. There are no matters to report at the present time.

(c) Financial implications

No direct implications from this report although clearly there may be cost impacts in the event of changes in the labour market or an increase in the cost of goods and services purchased from the EU.

(d) Risk Implications

Brexit is a corporate risk given that the potential multiple effects as outlined in this report on staff, on costs and on regulation may impact on the council as a consequence of the UK's departure from the EU.

(e) Staffing Implications

There may be staffing issues relative to recruitment and retention of non UK EU nationals who for whatever reason either decide to leave the UK or not migrate into the UK post Brexit. This is considered to be low risk within the council's own staff complement and may have some limited impact in organisations the council contracts with e.g. in the care sector.

(f) Property

No implications directly arising from this report.

(g) Equalities/Socio Economic Impact

It is not feasible to quantify any socio economic impacts at this stage.

(h) Consultations

The Chief Executive, Corporate Director (Economic Development and Infrastructure) Corporate Director (Corporate Services Resources), Head of Financial Services and the Monitoring Officer

have been consulted, any comments received have been considered in writing the report.

5. CONCLUSION

- 5.1 The council is taking proportionate steps to consider the potential impacts that may arise from Brexit while recognising that circumstances to be addressed may change quickly depending on how negotiations currently ongoing are finally concluded.**

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Background Papers: Audit Scotland Paper - Withdrawal from the EU

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