

Local Government and Communities Committee

Implications for Scottish Local Government of the United Kingdom Leaving the European Union

Written Submission from David Eiser

Introduction

In this short note I outline some of the areas in which Brexit might affect local government in Scotland. The precise scope and scale of impacts will clearly depend to an extent on the type of post-Brexit arrangement that the UK agrees with the EU. The areas I consider include:

- A deterioration in the public finances
- Reduced in-migration and consequent recruitment issues
- The potential cessation of access to EU Structural Funds, and the scope for any replacement funding
- The devolution of further fiscal powers to Scotland from the EU.

Deterioration in the public finances

The Office for Budget Responsibility (OBR) forecasts that the decision to leave the EU will significantly worsen the UK's economic outlook in coming years. In the short-term, this deterioration in outlook is driven largely by the effects of uncertainty on investment and consumption decisions; longer-term, it is driven by reduced trade and reduced migration.

The deterioration in economic outlook results in a substantial deterioration in the public finances, as revenue forecasts fall and welfare spending is expected to increase. Thus far, the response of Chancellor Phillip Hammond has been to leave UK departmental spending unchanged, and simply to borrow more than his predecessor George Osborne had planned.

Nonetheless, should this deterioration in public finances continue, it will potentially imply further fiscal consolidation by the UK Government in the medium to longer term. In turn this may result in the Scottish Government being allocated a smaller block grant, relative to what would have been the case in a no-Brexit counterfactual world.

Given that the Scottish Government's policy preference in recent years has been to protect real terms expenditure on health and various other specific policy priorities – with local government forming the 'balancing item' – deterioration in the public finances may be felt more heavily by local government than other areas of public spending.

Furthermore, to the extent that Brexit has raised inflation forecasts, current Scottish Government commitments to protect health and police spending in real terms are likely to become more expensive to finance, resulting in fewer resources for 'unprotected' areas such as local government.

EU funding streams

Scotland has been allocated over €900m of European Structural and Investment Funds (comprising ERDF and ESF funds) over the 2014-20 programming period¹. Around 45% of these funds had been committed by summer 2016.

Local Authorities are 'lead partners' in the ERDF and ESF programmes, responsible for administering and delivering interventions in areas including business competitiveness, employability, social inclusion, and Smart Cities.

The UK and Scottish Governments have guaranteed to pass on, in full, all funding that is committed to specific projects before the UK leaves the EU, even if the payments extend beyond the date of Brexit. However, no guarantee has been made in relation to projects or proposals that come forward after the UK has left the EU. These EU funding streams provide local government with an important income source to enhance local service provision, particularly in recent years when revenue grant support from Government has been falling.

It remains to be seen whether the UK Government would seek to replace the ERDF/ESF programmes with a similar programme of activities post-Brexit, potentially funded through a repatriation (in full or part) of its fiscal contribution to the EU.

If it were to do so, this would presumably result in an uplift to the Scottish Government's block grant. The terms of this uplift to the Scottish block grant would need to be negotiated (would it be made on a per capita basis, or some other basis?). And it would then fall to the Scottish Government to decide how to use those funds.

Impact on employment of EU nationals

Depending on the post-Brexit arrangement that the UK makes with the EU, Brexit may reduce the movement of EU nationals to Scotland, or the numbers of EU nationals employed here. Some concern has been expressed that a reduction in freedom of movement could create recruitment difficulties and/or skills shortages in particular sectors.

I am not aware of any data which analyses how many of those employed directly or indirectly by local government in Scotland are EU nationals. However, a recent Spice

¹ <http://www.gov.scot/Topics/Business-Industry/support/17404/EuropeanStructuralFunds>

briefing² indicates that there are some 115,000 EU nationals in employment in Scotland, with around 20,000 employed in public administration, education and health. Of these, 12,000 are employed in health and social care (accounting for 3% of total employment in this sector).

To put this in some perspective, local government employs some 243,000 people in 2016 (199,000 on an FTE basis), down from 290,000 pre-recession (and on a like-for-like basis, i.e. excluding police and fire services)³.

The extent to which local government might experience heightened recruitment difficulties as a result of Brexit is thus not entirely certain, and depends on part on the type of Brexit arrangement negotiated.

Opportunity for devolution of further fiscal powers

If Brexit removes an obligation to adhere to EU law, then the Scottish Parliament may gain legislative competence in the areas of agricultural, fisheries and environmental policy. (Because these policy areas are not explicitly 'reserved' to Westminster under the 1998 Scotland Act, the presumption is that they will come under the remit of the Scottish Parliament following Brexit.)

Whether or not this might subsequently provide opportunities for local government is unclear. On the whole, many of the policy and fiscal competences that seem likely to come to the Scottish Parliament following Brexit would arguably be most effectively designed and delivered at national level.

(As already noted, a replacement Structural Funds policy may provide opportunities for local government, although the scope of these opportunities would presumably be framed by the Scottish Government).

Legislative impacts

Brexit may provide opportunity for legislative reform in areas including waste disposal, energy efficiency, and procurement. Most of the EU Directives in these areas have been transposed into UK law, and would thus not be repealed automatically on Brexit. As an economist, I would defer to a lawyer on the potential significance of these issues.

Concluding thoughts

Brexit may have a number of direct and indirect implications for local government in Scotland, the precise scale of which is unclear until we have further details on the UK Government's negotiating strategy and objectives.

² http://www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB_16-86_EU_nationals_living_in_Scotland.pdf

³ <http://www.gov.scot/Topics/Statistics/Browse/Labour-Market/PublicSectorEmployment/exeltables>

However, Brexit is arguably not the most significant issue or the key challenge facing local government in Scotland over the next few years. Prior to the referendum decision, local government was already facing a somewhat uncertain and challenging outlook in relation to issues including the balance of services it is expected to provide, the autonomy it has over aspects of local service provision, and the level and composition of its funding. The potential effects of Brexit should be seen in this context.

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