

Impact of Exiting the European Union – Update

Report by Kenneth Lawrie, Chief Executive

1.0 Purpose of Report

This report sets out a follow-up assessment of the potential impacts on Midlothian of the decision to leave the European Union, following on from the initial report presented to Council in October 2016.

The impact can be considered under a number of separate headings amongst which are: EU funding, broader economic impacts; societal; environmental and regulatory issues. The initial report concentrated primarily on the loss of European Union grant aid, leaving some of the wider questions of economic and social policy impact for a later stage when it became clearer what the new relationship with the European Union will be.

2.0 Background

- 2.1** Much of the focus to date has been on the potential economic impacts including growth rates, currency fluctuations, future investment streams, employment and inflation. The degree to which the UK has access to the Single Market following its departure from the EU will have a significant influence on these issues. In parallel with this, there is of course the matter of migration, how this will be managed in the future and the impact that will have on skills, employment and the demand for public services.

The EU also has considerable regulatory influence in relation to environmental issues such as landfill, waste water and energy efficiency directives, with associated tariffs and funding, and also rules around procurement and state aid. The negotiations relating to all of these issues will be complex and detailed and significant uncertainty is likely to continue for some time to come.

A priority for the Council is to plan for this changing landscape as the future position clarifies, assembling relevant data and evidence and using this as appropriate to lobby in respect of any particular identified interests either on its own part or through COSLA.

- 2.2** The most immediately identifiable impact of exiting the EU for Midlothian will be in respect of EU funding streams. The use of EU funding in Midlothian is broken into two broad types; funds administered by the Council or where the Council provides match funding itself, and funds flowing into the area associated with nationally operated schemes such as agricultural subsidies. The previous report (appendix 1) set out the level of direct funding coming to Midlothian through the Council management of such funds, and the estimated level of other funding reaching Midlothian businesses, farmers, research agencies, sustainability agencies and Universities.
- 2.3** As stated in the previous report, a range of organisations including the National Farmers Union, COSLA, the Fraser of Allander Institute, the Institute for Fiscal Studies, the Federation for Small Business, the Institute of Directors and a range of academic and economic research bodies have produced overviews of the potential impact of leaving the EU. Accepting that the terms of any new relationship are still unknown, with very few exceptions there is consensus that the current period of uncertainty is having, and will continue to have, a negative impact on the prospects for the UK economy, Midlothian will not be immune to changes resulting from this. The decision about the UK's relationship with the Single Market will be a key factor in bringing this period of uncertainty to a close.

2.4 Currency exchange impacts so far have seen the value of the Pound drop against the Dollar and the Euro by a significant amount. Whilst this has made the UK a cheaper destination for tourism, and exports of UK produced and sourced goods cheaper, it also means imported goods are rising in cost, leading to inflationary pressures especially on items such as imported food and agricultural supplies. These impacts are now becoming evident despite the latest months figures not breaking the 3% inflation figure as predicted in the media.

2.5 'Article 50' exit negotiations began on 19 June 2017. A prospect of another UK election with a set 2 years to complete the process of agreeing terms for leaving may in the imminent future cause disruption. The way the Scottish First Minister, Cabinet and Scottish Parliament are to be involved in these negotiations remains to be seen.

The negotiations will follow four-week cycles throughout the first phase and dates have been set up to the week beginning 9 October 2017. For several weeks during this period neither the UK Parliament nor the European Parliament will be sitting. The EU has proposed a phased approach to the negotiations, starting with three priority areas – citizens' rights, a financial settlement, and the Ireland/Northern Ireland border – moving on to the UK's future relationship with the EU if "sufficient progress" is made in these three areas.

2.6 Exit from the EU could raise the possibility of changes to regulations regarding procurement within which Council services are provided. The EU Public Procurement Directive could be amended, although this would be a matter for Scottish Government who recently introduced legislation regarding procurement.

2.7 The free movement of labour is another concern. There is currently a national shortage of teachers in Scotland and concerns have been raised regarding whether exit will discourage EU nationals applying for opportunities working in Scottish schools. The impact of the referendum result has been calculated as leading to a possible 2.5% reduction in the total UK workforce over the next five years suggesting EU nationals will leave the UK causing a skill shortage in areas such as teaching.

2.8 One of the greatest demands for local authorities and communities in Scotland and across the UK is access to the NHS. Scotland already has an acute problem in recruiting and retaining GPs. The Royal College of General Practitioners Scotland recently said 226 GPs took their primary degree from a European Economic Area (EEA) country. Concern has been raised that, post-exit, many of these GPs will return to their country of origin with a projected deficit of 828 doctors in General Practice by 2021. Similarly, recent figures show a drop of 96% in the number of applications to the UK for nursing posts from individuals from the EU.

2.9 There are approximately 90,000 non-UK EU nationals resident in Scotland with over 30,000 in Edinburgh alone. These non-UK EU are currently eligible to vote in local government, Holyrood and European Parliament elections. EU nationals were able to vote in the Scottish independence referendum but not in the EU referendum. It is not clear at the moment if these voting rights will be retained post-exit. This is an area which is contributing to a level of anxiety among EU nationals regarding their immigration status.

Added to that anxiety there is a feeling in communities that after the UK leaves the EU then they will lose their rights to Council service areas such as housing, schools and health and social care. Fortunately, Scotland has not significantly experienced an increase in hate crime as in other areas of the UK after the referendum. The recent terrorist attacks in London and Manchester have however fed a perception that the UK needs to close its borders to non-UK nationals. Combined with leaving the EU, the situation has contributed to further anxiety among minority ethnic groups who can feel isolated at an uncertain time.

The Council needs to reach out to communities that do feel threatened and give them reassurances that their status is safe.

- 2.10** The Queen's Speech on 21 June was dominated by exit issues. There were eight Bills on the process of withdrawing from the EU:

Repeal Bill

This measure will repeal the 1972 European Communities Act and convert EU law into UK law. It is the centre piece of the Queen's Speech and is probably the most significant bill seen in decades.

Customs Bill This will ensure the UK has a standalone UK customs regime on exit.

Trade Bill This puts in place a legal framework to allow Britain to strike free trade deals with countries around the world.

Immigration Bill This enables the government to end the free movement of EU nationals into the UK, but still allows the country to attract "the brightest and the best".

Fisheries Bill Enables the UK to control access to its waters and set UK fishing quotas once it has left the EU.

Agriculture Bill This measure will support UK farmers and 'protect the natural environment after the UK leaves the EU and therefore the Common Agricultural Policy'.

Nuclear Safeguards Bill This establishes a UK nuclear safeguards regime as the UK leaves the EU and Euratom.

International Sanctions Bill ensures that as a permanent member of the UN Security Council, the UK continues to play a central role in negotiating global sanctions to counter threats of terrorism, conflict and the proliferation of nuclear weapons and returns decision-making powers on non-UN sanctions to the UK.

The Repeal Bill is the most important bill of the eight. The Bill repeals the European Communities Act, which says EU law is supreme to the UK's, and will transpose EU legislation into domestic UK law. It will affect thousands of EU laws on everything from workers' rights to the environment that are to be transferred into UK law. It would also end the jurisdiction of the European Court of Justice.

The Bill is likely to be "one of the largest legislative projects ever undertaken in the UK", a report by the House of Commons library predicts, with "major swathes of the statute book" needing to be examined to see how they will work. It is not likely to be debated on the floor of the Commons until the autumn. The Institute of Government identified four elements of the Bill that could decide whether it succeeds or fails in Parliament:

- Its objectives.
- The transfer of powers and responsibilities it outlines.
- The role of parliament and, finally
- the role of devolved governments.

2.11 Rights of EU citizens in the UK post exit

The government has published its policy statement on the rights of EU citizens living in the UK and of UK citizens in the EU. The key issues covered include:

Settled Status— All EU nationals who have five years' continuous residence will be invited to apply for "settled status" covering the right to reside, to undertake any lawful activity, to access public funds and apply for British citizenship.

Legal basis—The proposals exclude the rights of British and Irish citizens, which will be protected by the common travel area. There will be no need for Irish citizens to apply for settled status. The rights of people in Northern Ireland to identify as British or Irish or both will be unaffected.

2.12 Devolved Governments

The position of the Scottish Government is set out in the recent First Minister's joint statement with the First Minister of the Welsh Assembly of 13 July 2017;

*"The European Union (Withdrawal) Bill does not return powers from the EU to the devolved administrations, as promised. It returns them solely to the UK Government and Parliament, and imposes new restrictions on the Scottish Parliament and National Assembly for Wales. **On that basis, the Scottish and Welsh Governments cannot recommend that legislative consent is given to the Bill as it currently stands.** The Bill lifts from the UK Government and Parliament the requirement to comply with EU law, but does the opposite for the devolved legislatures: it imposes a new set of strict restrictions. These new restrictions make no sense in the context of the UK leaving the EU".*

2.13 UK Government position papers .The UK Government has published 3 position papers, on

- Privileges and Immunities,
- Nuclear materials safeguards, and
- ongoing judicial and administrative procedures.

And three policy papers on –

- Safeguarding the position of EU nationals.
- The United Kingdom's exit from and new partnership with the European Union.
- The Repeal Bill.

These are available at:

<https://www.gov.uk/government/collections/article-50-and-negotiations-with-the-eu>

3.0 Report Implications

3.1 Resource

There are no direct resource implications.

3.2 Risk

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☒ Community safety
- ☒ Adult health, care and housing
- ☒ Getting it right for every Midlothian child
- ☒ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

3.4 Key Priorities within the Single Midlothian Plan

The SMP commits Midlothian to closing the gap in economic circumstances between residents in the area, and between Midlothian and the rest of Scotland. Loss of EU funds is potentially a major setback to achieving this goal, depending on what alternative arrangements are brought forward over time by the UK and Scottish Governments. It is impossible at this stage to judge the wider impacts until the form of exit that is to be undertaken has been clarified

3.5 Impact on Performance and Outcomes

As the current programmes will continue to operate, no immediate impact is expected; however planning will be required to address the potential loss of significant external funds from 2020.

3.6 Adopting a Preventative Approach

Existing EU funds support the preventative approach in various ways. ESF funds are preventive of long term unemployment and ERDF funds support business sustainability and growth. The EAFRD funds play an important role in sustaining agricultural and food industries.

3.7 Involving Communities and Other Stakeholders

This report is an analysis of some of the potential impacts on Midlothian of the UK leaving the EU, but as the position clarifies, there may be a role for the Council in supporting organisations, businesses and communities through the changes in funding, regulation or other issues that may follow.

3.8 Ensuring Equalities

The loss of ESF employability programmes will have a direct negative impact on disadvantaged local residents if there is not a replacement of these funds from other UK or Scottish sources. More generally, the Council will need to consider the impacts on the communities of Midlothian as the details of the new post EU arrangements are clarified.

3.9 Supporting Sustainable Development

The loss of EAFRD in particular will impact negatively on the sustainability of the local environment if there is not a replacement of these funds from other UK or Scottish sources. This is a matter that the Council will need to keep under review.

3.10 IT Issues

Despite the Repeal Bill the new EU General Data Protection Regulations (GDPR) will still be coming into force next spring with major implications for the way partnership working is undertaken, data is held and shared with explicit consent.

4.0 Recommendations

Council is recommended to:

- Note this updated analysis of the potential impacts on Midlothian of the UK leaving the European Union.
- Note the need for the Council to continue to monitor the impact on Midlothian as the future position clarifies, assembling relevant data and evidence and using this as appropriate to lobby the UK and/or Scottish Governments in respect of any particular identified interests either on its own part or through COSLA.
- Ensure that the risks to Midlothian by the exit process are recorded and managed through the Corporate Risk Register.

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Background Papers: Council Report of November 2016