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**Scottish Parliament European and External Relations Committee**

**Written Call for Evidence - Scotland’s relationship with the EU**

**A Submission by:**

**The Chartered Institute of Public Finance and Accountancy**

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**September 2016**

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| **CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money. |

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**1. Executive Summary**

1.1 CIPFA’s research into the influence of EU membership on UK public services has identified a wide range of issues to consider as a result of the EU referendum result. Many of these issues are relevant to Scotland and are likely to be further complicated by the nature of current funding arrangements from Westminster.

1.2 CIPFA has identified the following issues relating to the governance and future funding of public services that deserve consideration by the Committee:

* The mechanisms for distributing replacing or maintaining EU funding streams post EU withdrawal, including EU structural funding.
* The potential for change or review of the Barnett Funding Formula to accommodate a wider stream of funding arrangements for public services.
* The impact of changes to UK immigration policy and its impact on the public sector workforce in Scotland.
* The range of EU policy and legislation that impacts on the operation of public services in Scotland. This ranges from procurement policy, environment legislation through to criminal justice and policing.
* The level of support for UK research and development within the higher education system.

1.3 CIPFA notes that these impacts are subject to a significant amount of uncertainty. This is due largely to the unknown nature of the UK’s future exit terms and any future policy interventions in the UK economy to promote growth and stability. There is also the question of the Scottish Government’s own position on its future relationship with Europe distinct from the UK.

**2. Introduction**

2.1 CIPFA’s interest in making a submission to the Committee is to provide information and evidence to support consideration of the impact of withdrawal from the EU on public service provision in Scotland.

2.2 The committee are no doubt well aware that the relationship with the EU and the UK is complex. Many areas where public services operate are intertwined with EU policy, legislation and wider economic activity. The process of withdrawal from the EU needs to consider what impacts may arise that affect the ability to maintain and invest in public services across Scotland.

2.3 Our submission will look to summarise the potential public sector issues across health and integration, local government, housing, crime and law enforcement and higher education. This will be drawn from the results of previous research commissioned by CIPFA into the influence of EU membership on UK public services.[[1]](#footnote-1)

**3. Context for Public Services**

3.1 Public services and their spending capacity can be adversely impacted by periods of economic downturn or slowdown. The resulting reductions to tax revenues and potential for the Government to increase borrowing for investment to bolster economic activity, or increase short term spending on employment support measures, can create subsequent funding pressure on other services.

3.2 Maintaining public service spending relies on economic stability. The Treasury’s analysis of long-term impacts of EU membership and alternatives[[2]](#footnote-2) estimated that the UK’s GDP growth would reduce in the event of Brexit. They estimated a loss of 6.2% by 2030 or £4,300 for each UK household. Research by the London School of Economics (LSE) in 2016[[3]](#footnote-3) estimated this figure lower, in a range between 1.3% to 2.6%. This information points to a lower than expected medium to long-term economic growth rate within the UK as a result of Brexit.

3.3 It is difficult to say with absolute certainty that this impact will be realised as it depends on a range of variables that includes possible policy interventions by government for example to support growth. One such recent policy statement is that the UK Government has announced its intention to guarantee core elements of EU funding, such as structural and investment funds, beyond the date the UK leaves the EU.[[4]](#footnote-4) Nevertheless, the subsequent impact on available resources for public services should be considered in a post EU environment.

3.4 A further funding element to consider is the availability of additional funding for services due to savings in the net contribution made to the EU by the UK. During the referendum campaign, both the leave[[5]](#footnote-5) and remain[[6]](#footnote-6) camps released financial data that either supported how the UK benefits from EU membership or how it is burdened by its fees and charges. A key message from the leave campaign was the level of financial contribution made to the EU from the UK and how this could be used to pay for public services.

3.5 In April 2016, the Institute for Fiscal Studies (IFS) reported that the 2014 annual UK public spending was £743bn.[[7]](#footnote-7) European Commission figures show that the UK’s gross contribution to the EU Budget was £11.3bn.[[8]](#footnote-8) The IFS calculated that the UK received back £5.6bn through various funding streams leaving a UK net contribution of £5.7bn. This equates to less than 1% of overall UK spend on public services and does not represent a material boost in available resources. As well as this, there is no guarantee that the UK government will choose to utilise any additional resources from EU withdrawal to support public service delivery.

3.6 If there are changes in funding of public services by the UK Government that are positive or negative, Scotland will be allocated its share through the Barnett Funding Formula arrangements. However, the current devolution settlement for Scotland means that a greater share of Scotland’s Revenue is to be raised locally. This means that the impact through Barnett Funding arrangements is likely to be small and, if negative, Scotland may have to consider increased taxation in order to maintain or improve on the current level of services to match future demands.

3.7 A further question to consider is the future of the existing funding arrangements post Brexit. CIPFA considers the current funding arrangements through the Barnett Formula are already no longer fit for purpose.[[9]](#footnote-9) This is likely to be made more complex if the UK Government intends to replace existing EU funding across the UK and to try to make this work within existing arrangements that only cater for tax powers or Barnett formula funding as the mechanisms for providing for the Scottish Budget.[[10]](#footnote-10) CIPFA would advocate that these mechanisms need review, change or supplementing in the light of Brexit. In the longer-term CIPFA would advocate replacement of the Barnett Formula to meet clearly stated aims for distributing funding to Scotland, Wales and Northern Ireland.[[11]](#footnote-11)

**4. Issues for Public Services**

**Health and Integration:**

4.1 Government reviews show that 10% of health and social care professionals in the NHS are from countries within the European Economic Area (EEA).[[12]](#footnote-12) Nursing in particular has benefitted from the free movement of professionals.

4.2 Research by Oxford University claimed migrant workers add great value to the sector, significantly in social care.[[13]](#footnote-13) The research suggested that there is greater flexibility amongst non-UK workers, particularly to work the unsocial hours required to provide 24-7 cover. Changes to legislation have significantly closed off opportunities for non-EU care workers, increasing the UK’s reliance on support staff from within the EU. Other EU legislation, such as the Working Time Directive (WTD) and the Agency Workers Directive (AWD), has a great impact on the health sector’s workforce.

4.3 If the UK were to leave the EU then there would be an opportunity to remove policies that influence workers’ rights, such as the WTD, from UK contracts. However, Jeremy Corbyn, leader of the Labour party, in 2016 claimed this means that other policies, such as equal pay, annual leave and maternity pay rights could also be put at risk.[[14]](#footnote-14) The Scottish Government should consider the impact of withdrawal from the EU on staffing in the public sector, in particular the Health and Social Care services.

**Local Government:**

4.4 According to figures released by the Department of Local Government and Communities in 2014, local government spends around ‘£45bn – over a quarter of its annual expenditure on procuring goods and services from third parties’.[[15]](#footnote-15) This significant level of spending is subject to EU procurement rules, which were made to ensure transparency and free access on competition across member states.

4.5 The UK parliament does not have total sovereignty to amend or totally repeal procurement regulations for local authorities. The regulations mean that UK suppliers do not get priority for tender opportunities in the UK. By the same token, they are on equal-footing with other EU companies when tendering to provide goods and services to local public bodies in other member states. Before these rules were in place, local authorities were able to follow their own internal procedure rules and financial regulations. If the UK were to leave the EU, there is a possibility that authorities could implement localised procurement policies.

4.6 In a local context, state aid rules may also need consideration in the event of EU withdrawal. EU rules on state aid cover the use of taxpayer funded resources to provide assistance to one or more organisations in a way that gives an advantage over others that could distort competition. Local authorities need to consider regulations when awarding discretionary relief.

4.7 The EU has also interwoven environmental objectives into legislation. For instance, EU procurement directives mean local authorities need to ensure their contracts contain environmental criteria.

4.8 In 2016, Mary Creagh, Labour’s shadow environment secretary and Chair of the Environment Select Committee, argued that evidence given to the Committee demonstrates that the EU improves the UK’s local environments.[[16]](#footnote-16) Citing the EU’s policies on clean beaches, pollution and protected nature zones, she claimed local economies have greatly benefited from this influence.

4.9 In 2014, the Environment agency suggested the UK has gained financially from EU policies. For instance, they estimated that the EU Water Framework Directive[[17]](#footnote-17) has given England and Wales a net benefit of £9bn by 2027.

**Social Housing:**

4.10 The EU’s free movement policy has regularly been referred to by those campaigning for a ‘Brexit’ as having a significant negative effect on social housing. A common issue raised when debating the housing crisis is the idea that it is exaggerated by migration resulting from the EU freedom of movement policy, and that without EU migration, Britain would have less need for more housing.

4.11 Research does dispute this claim. A 2011 survey by the London School of Economics shows that new arrivals, including those from the EU, tend to live in denser households and take up less space.[[18]](#footnote-18)

4.12 Furthermore, according to the Oxford Migration Observatory, migrants are more likely to rent in the private sector, as opposed to buying homes or living in social housing.[[19]](#footnote-19)

4.13 Official evidence from the Government indicates that the UK’s membership in the EU has little impact upon demand for social housing. Official statistics on social housing lettings in England show that between April 2014 and March 2015 the vast majority of lettings (91%) were made to UK nationals.

4.14 However, evidence from the Chartered Institute of Building (CIB) claims that the EU’s free movement policy does affect housing supply as it provides skilled workers for labour.[[20]](#footnote-20) The CIB research suggests, caps on immigration will also potentially harm housebuilding rates, as not enough British born nationals are trained or interested in construction careers and migrants have been filling the gap.

**Crime and Law Enforcement:**

4.15 Much of UK legislation is influenced directly by EU Law. Public services and law enforcement agencies are shaped by EU legislation and its policies and procedures. Tracing the history of UK law, the impact of the EU has been enormous and it is difficult to disentangle one from the other.

4.16 Since 2014, the Court of Justice of the European Union (CJEU) has been able to rule on any criminal justice and policing matters. In the public debate there has been criticism that the CJEU unfairly overrides British courts on criminal law matters.

4.17 David Davis MP argued that the ‘European Court of Justice is moving to a position where it can tell our law makers and our law givers, our parliamentarians and our judges exactly what they should and shouldn’t do’.[[21]](#footnote-21)

4.18 A report from the Law Society, on the EU’s influence in the sector, suggests that the frequency of which the CJEU rules on criminal justice and policing matters is likely to increase.[[22]](#footnote-22) However, they claim that such interference is not ‘unhelpful’ and that they are likely to be respectful of the UK system. The report also argues that the UK’s justice system has a unique position in the EU. Rather than just following directives, they claim that the UK is one of the most influential shapers of justice and criminal policy.

4.19 The UK and the Republic of Ireland opted out of the internal borders policy (or Schengen agreement), but did sign up to the other agreements of the Schengen treaty. This includes the Schengen Information System (SIS) which is a database allowing judicial authorities from signatory states to access information relevant to law enforcement. It also includes enhanced police co-operation and hot pursuit, allowing police to pursue a suspect across the borders of member countries.

4.20 These arrangements feed into the use of European arrest warrants and other cooperation between the National Crime Agency, Home Office and police forces across the EU. Withdrawal from the UK could mean reviewing how these important arrangements continue to work in practice.

4.21 At present, UK citizens have the protection of the European Courts and of EU legislation on data protection. These rules regulate the way the public sector deals with data. These EU laws also mean that organisations are able to share personal data for the prevention and detection of frauds. UK organisations, within both the public and private sectors, are able to collect data on fraudsters and share their information. Due consideration will need to take place on the nature of these relationships and protections in a post EU environment.

**Higher Education:**

4.22 Higher Education can be affected by EU withdrawal in two key ways. Firstly, access to higher education for students from EU states and secondly through EU research funding.

4.23 EU legislation means that students from an EU member state wishing to study in the UK have the same access to education as UK nationals. Therefore, currently eligible EU students in many cases pay the same tuition fees as UK students and can apply for the same tuition fee support.

4.24 In 2013/14, there were 125,300 EU students in UK universities, this accounted for 28.8% of non-UK students. This represents about 6% of total university enrolment in Britain and is estimated to generate £2.27bn for the UK economy and support up to 19,000 jobs.[[23]](#footnote-23)

4.25 The 2016 Times Higher Education European University Rankings, based on several factors to do with research, show UK universities are performing strongly.[[24]](#footnote-24) In the top 200 universities in Europe, UK universities have nearly a quarter of places (46) and seven of the top ten places. As a result, the UK does well out of EU research funding based on scientific excellence.

4.26 The UK is one of the largest recipients of research funding in the EU. National contributions to the EU budget are not itemised, but the UK Office of National Statistics (ONS) indicative figure for the UK’s contribution to EU research and development from 2007 – 2013 was €5.4bn.[[25]](#footnote-25) During this time, the UK received €8.8bn - €6.9bn of Framework Programme 7 (FP7) and €1.9bn of structural funds for research and innovation activities. This represents the fourth largest share in the EU. In terms of funding awarded on a competitive basis in the period 2007 – 2013 (Framework Programme 7), the UK was the second largest recipient after Germany.

4.27 EU support also expands the UK’s research activity through promoting international collaboration and UK universities work closely with EU partners. The Horizon 2020 programme is an example of this. The programme is the largest ever European funding programme for research and innovation. It has a grant budget of €79bn and will run until 2020.[[26]](#footnote-26) UK universities are coordinating one-third of the projects funded by Horizon 2020 for 2014/20.

**5. Conclusions**

5.1 It is clear from the research completed that many aspects of the governance of public services and the public purse are linked to the UK’s membership of the EU. The conclusion is that withdrawal from the EU will require careful consideration of the impacts on public service management, delivery and procurement and funding.

5.2 CIPFA supports the committee in its work to identify the implications of the referendum result for Scotland. CIPFA would urge the committee to consider the far reaching issues that could affect public services and how those services are maintained and supported post any exit from the EU.

1. CIPFA commissioned Coyne Research to speak to senior public services leaders, this included finance directors, chief executives and service leaders in central government, crime and security, education, health and social care, housing and local government. [↑](#footnote-ref-1)
2. HM Treasury, Analysis: the long-term impact of EU membership and the alternatives, 2016 <https://www.gov.uk/government/publications/hm-treasury-analysis-the-long-term-economic-impact-of-eu-membership-and-the-alternatives> [↑](#footnote-ref-2)
3. LSE, The consequences of Brexit for the UK and living standards, 2016 <http://cep.lse.ac.uk/pubs/download/brexit02.pdf> [↑](#footnote-ref-3)
4. HM Treasury: News, Chancellor Philip Hammond guarantees EU funding beyond date UK leaves the EU – 13 August 2016 <https://www.gov.uk/government/news/chancellor-philip-hammond-guarantees-eu-funding-beyond-date-uk-leaves-the-eu> [↑](#footnote-ref-4)
5. Vote leave campaign: <http://www.voteleavetakecontrol.org/why_vote_leave.html> [↑](#footnote-ref-5)
6. Britain Stronger in Europe campaign: <http://www.strongerin.co.uk/get_the_facts#8wmoFrsYFYuxkPfz.97> [↑](#footnote-ref-6)
7. The Institute for Fiscal Studies, the EU Budget: a guide, 2016 <http://www.ifs.org.uk/uploads/publications/bns/BN181.pdf> [↑](#footnote-ref-7)
8. Office of Budget Responsibility (OBR), Economic and fiscal outlook: supplementary fiscal tables, 2016 [↑](#footnote-ref-8)
9. CIPFA Briefing: Funding Devolved Government, 2014 <http://www.cipfa.org/cipfa-thinks/briefings-3> [↑](#footnote-ref-9)
10. The Scottish Parliament may need a new funding formula due to the implications of the UK voting to leave the European Union, MSPs have been told. STV News 28 July 2016 <http://stv.tv/news/politics/1362066-holyrood-may-need-new-funding-model-due-to-brexit-msps-told/> [↑](#footnote-ref-10)
11. CIPFA Manifesto 2015: <http://www.cipfa.org/cipfa-thinks/manifesto2015> [↑](#footnote-ref-11)
12. HM Government, Review of the balance of competences between the United Kingdom and the EU Health, 2012 <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224715/2901083_EU-Health_acc.pdf> [↑](#footnote-ref-12)
13. Oxford University, Social care for the older people and demand for migrant workers, 2011 <http://www.migrationobservatory.ox.ac.uk/resources/primers/social-care-for-older-people-and-demand-for-migrant-workers/> [↑](#footnote-ref-13)
14. BBC News, Jeremy Corbyn warns of workers’ rights ‘bonfire’ if UK leaves, 2016 <http://www.bbc.co.uk/news/uk-politics-eu-referendum-36039925> [↑](#footnote-ref-14)
15. Department for Communities and Local Government (DCLG), Local Government Procurement, 2014 <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmcomloc/712/712.pdf> [↑](#footnote-ref-15)
16. The Guardian, For a clean, green future, Britain must remain in the EU, 2016 <https://www.theguardian.com/environment/2016/jan/21/for-a-clean-green-future-britain-must-remain-in-the-eu-mary-creagh> [↑](#footnote-ref-16)
17. The Environment Agency, Economic Analysis Extended Report, 2014 <http://www.consult.environment-agency.gov.uk/file/3078881> [↑](#footnote-ref-17)
18. The London School of Economics, The impact of migration on access to housing and the housing market, 2011 [↑](#footnote-ref-18)
19. The Oxford Migration Observatory, Migrants and housing in the UK, 2015 <http://www.migrationobservatory.ox.ac.uk/resources/briefings/migrants-and-housing-in-the-uk-experiences-and-impacts/> [↑](#footnote-ref-19)
20. The Chartered Institute of Building, An analysis on migration in the construction Sector, 2015 [↑](#footnote-ref-20)
21. David Davis MP, Europe: It’s time to decide, 2012 <http://www.daviddavismp.com/david-davis-mp-delivers-speech-on-the-opportunities-for-a-referendum-on-europe/> [↑](#footnote-ref-21)
22. The Law Society, EU and the legal sector, 2015 <http://www.lawsociety.org.uk/News/documents/eu-and-the-legal-sector-October-2015/> [↑](#footnote-ref-22)
23. House of Commons, Exiting the EU, 2015 [↑](#footnote-ref-23)
24. Times Higher Education, University rankings, 2016 <https://www.timeshighereducation.com/world-university-rankings/best-universities-in-europe-2016> [↑](#footnote-ref-24)
25. UK Office for National Statistics, UK Government expenditure on science, engineering and technology, 2015 [↑](#footnote-ref-25)
26. European Commission, Horizon 2020 programme, 2013 <http://ec.europa.eu/programmes/horizon2020/en/what-horizon-2020> [↑](#footnote-ref-26)