

Briefing

Preparing for withdrawal from the European Union



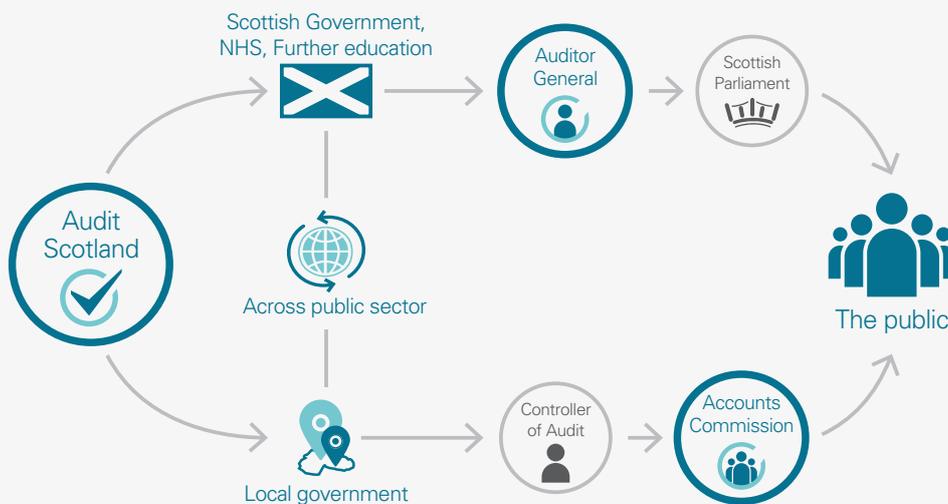
 AUDIT SCOTLAND

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The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- **Audit Scotland** is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.
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- The **Accounts Commission** is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Introduction

Following the general election on 12 December 2019, the UK is expected to leave the European Union (EU) on 31 January 2020. There remains considerable uncertainty about the longer term implications of withdrawal from the EU.

This paper draws on our audit work, our knowledge of the Scottish public sector, published material and engagement with key stakeholders over the last 18 months. It builds on the key issues paper that we published in October 2018. It highlights key messages, provides illustrations of the impact that preparing for withdrawal from the EU has had on public bodies and suggests questions for public bodies to ask themselves about their ongoing preparations for EU withdrawal.

You can find more information about our work on EU withdrawal at our [e-hub](#) .



Withdrawal from the European Union:
Key audit issues for the Scottish
public sector

October 2018 



Withdrawal from the European Union
eHub: 

The Scottish Government

1. The Scottish Government made changes to its governance arrangements, processes and how it deployed its staff to support its preparations for the UK's withdrawal from the EU. The need to continue to deliver the Scottish Government's Programme for Government and business as usual placed additional pressure on staff wellbeing.¹

2. In advance of the initial date for withdrawing from the EU on 29 March 2019, the Scottish Government activated its 24/7 emergency resilience structures and systems to enable it to respond rapidly to any emerging events with a focus on civil contingencies such as food supply, public order and access to medicines. It wound down these operations following the extension of the timetable to the end of October 2019. They were reactivated again in the run-up to 31 October 2019, before being wound down following the extension of the timetable for withdrawal to 31 January 2020.

3. In October 2019, the Scottish Government published an overview of its preparations for the possibility of the UK leaving the EU without an agreement (a 'no deal' scenario).² It grouped the potential impacts under six risk areas:

- Managing civil contingencies, including the movement of transport and supply of goods.
- Protecting vulnerable communities.
- Supporting businesses and the economy.
- Supporting the rural economy, including fisheries, agriculture and the environment.
- Making labour market interventions to support employability and skills.
- Protecting citizens' rights and international connections.

4. Between 2017/18 and 2019/20, the Scottish Government received £98.6 million from the UK Government as a result of EU withdrawal preparations (£6.6 million in 2017/18; £37.3 million in 2018/19; £54.7 million in 2019/20).³ It spent this money to help manage the costs of preparing for EU withdrawal ([Appendix 1, page 15](#)). In addition to this, the Scottish Government bid for a further £52 million from the UK Government's EU Exit Operational Contingency Fund in September 2019, of which £20.2 million has been approved.

5. Preparing for withdrawal from the EU has strained the Scottish Government's relationships with the UK Government over the last 18 months. However, there has been joint working between the two governments, for example, in terms of protecting the supply of medicines and medical supplies, which the UK Government has coordinated ([Case study 1, page 6](#)).

6. The economic effect of EU withdrawal in the short, medium and long-term will depend on the final nature of any trade deals agreed between the UK Government and the EU. This is important as Scotland's devolved financial powers mean its economic performance relative to the rest of the UK is central to determining future Scottish Government and public-sector budgets. The Fraser of Allander Institute estimates that the Scottish economy is now about two per cent smaller (equivalent to £3 billion) than it was prior to the 2016 EU referendum.⁴ The Scottish Government's medium-term financial strategy, published in May 2019, suggests that leaving the EU 'will result in economic loss compared to remaining in the EU.'⁵ Any economic impact may place additional strain on household budgets and could increase demands for public services and social security payments

Overall, the Scottish Government's preparations for withdrawal from the EU were reasonable and proportionate given the level of uncertainty.⁶



Case study 1

Continuity of medicines and other medical supplies



The UK Government's Department of Health and Social Care is leading planning for the continued supply of medicines once the UK has left the EU. It engaged with the pharmaceutical industry to coordinate the stockpiling of medicines across the UK in advance of 31 October 2019. The Scottish Government is a member of the UK Medicines Shortage Response Group and established an equivalent Scottish group to work with the UK group in identifying, assessing and responding to any shortages of medicines.

NHS National Services Scotland (NSS) plays a pivotal role in contingency arrangements, engaging with the UK and Scottish governments, other devolved administrations, and NHS boards in Scotland. Its role includes stockpiling medical devices and clinical supplies on the direction of the Scottish Government. NSS also acts as a liaison between NHS Scotland and the UK-wide National Supply Disruption Response Centre on contingency planning arrangements for medical supplies.

The wider public sector

7. Since 2000, population growth in Scotland has been largely due to positive net migration, but the rate of growth has slowed since 2016.⁷ People coming to Scotland to work make an important contribution to the working-age population and to economic growth. Given that Scotland's economically-active working-age population is already declining, any reduction in the number of EU nationals able to work in Scotland will exacerbate these pressures. This could, in turn, affect the resilience of ageing workforces and their ability to deliver usual services.

8. The public sector workforce is already facing staffing and service pressures that will intensify as the working-age population decreases. Sectors including health, social care and teaching are already experiencing workforce pressures both in terms of staff shortages and increased demand for services. These pressures are acute in some parts of Scotland. Outside the public sector, workers from other parts of the EU are critical for key industries such as tourism, food and drink and the creative sector.⁸

9. The public sector also faces ongoing financial pressure, which could be increased further by EU withdrawal in the immediate and longer term. Public bodies and councils have identified potential increases in the cost of goods as the most immediate risk to their financial sustainability.

10. If the UK Government and the EU do not agree trade arrangements before the UK leaves the EU, goods entering the UK will be subject to additional customs checks and trade tariffs. This could lead to slower deliveries and an increase in the price of goods and services coming into the UK. Any restrictions on the supply of goods such as food, medicines, medical equipment and fuel have the potential to affect people receiving public services. Any increase in the price of goods will also affect public-sector budgets and could mean increased costs for service users.

11. The Scottish Government has produced a [Brexid Vulnerabilities Index](#) , which assesses how exposed different areas of Scotland are to EU withdrawal.⁹ The index includes EU worker migration, working-age population, and recipients of EU funding streams. The analysis predicts that EU withdrawal would have significant social and economic consequences for all parts of Scotland, but that more rural areas (and particularly the islands) are at proportionately greater risk.

Preparing for withdrawal from the EU during 2019 diverted management attention and resources across the Scottish public sector.

12. The potential impact of EU withdrawal varies across public bodies, as does the extent to which they have had to prepare. Actions taken to mitigate the effects of EU withdrawal include:

- supporting affected employees by offering assurance, information, tailored advice, and support to complete applications for the EU Settlement Scheme
- establishing specific groups to oversee preparations and manage internal risks and to provide updates through existing governance structures
- incorporating risks relating to EU withdrawal into existing risk management arrangements and workforce and financial planning (although continuing uncertainty has made long-term planning more challenging)
- working collaboratively with other organisations, including contingency planning to ensure continuity in supply chains ([Case study 1, page 6](#) and [Case study 2](#)).



Case study 2 Continuity of food supplies



Scotland Excel, which provides a shared procurement service for Scotland's 32 councils, undertook contingency planning to ensure continuity of food supplies following the UK's departure from the EU. This work involved regular communication with its largest suppliers about the cost and availability of products under different scenarios. Scotland Excel provided advice to councils to ensure that adequate supplies of food would be in place for frontline services, including schools, council-run care homes and nurseries, in advance of 31 October 2019.

Public bodies and councils are involved in a public-sector food group, which has been mapping food supply chains and transport links. The group is engaging regularly with food suppliers to assess risks and monitor contingency planning and has created a resilience plan.

Councils have been monitoring developments and working with suppliers and catering providers to establish planning arrangements to deal with potential disruption to food supplies. Activity has involved reviewing contracts and identifying alternative suppliers where possible, and taking part in resilience planning and reporting at a local and national level.

The extent of preparation for EU withdrawal across the Scottish public sector has been reasonable given the level of uncertainty. Withdrawal from the EU has the potential to compound existing pressures that the wider Scottish public sector is facing.

13. Issues emerged during preparations for leaving the EU without an agreement and, in some cases, led to a significant amount of work being required. For example, councils' environmental health services had to put systems in place to ensure regulation, guidance and administrative arrangements would allow businesses to continue to trade with and export to the EU in the event of leaving without an agreement.

14. For some public bodies, leaving the EU will have immediate and major implications for their role and operations. For instance, Food Standards Scotland has been planning for legislative changes that will affect its work ([Case study 3, page 10](#)).

15. Some public bodies have had to respond more quickly to the UK's withdrawal from the EU than others. For example, the Scottish Police Authority (SPA) decided to postpone a planned reduction of 750 police officers by 2020/21, in response to a potential increase in workload associated with the UK's withdrawal from the EU. This decision has delayed SPA's progress towards achieving long-term financial sustainability ([Case study 4, page 11](#)).

The uncertainty over when and how the UK will leave the EU has meant that there has been only limited consideration of the longer-term implications for the Scottish public sector.



Case study 3

Planning for legislative changes in Food Standards Scotland



Minimum standards for the majority of food law are set at an EU level. Food Standards Scotland (FSS) implements and monitors EU and Scottish regulations in certain food businesses. It also assesses the performance of Scottish councils in regulating food and animal feed businesses. The uncertainty surrounding the UK's withdrawal from the EU had a significant impact on FSS. EU withdrawal features as the highest category of risk on FSS's strategic risk register. This is supplemented by a specific EU withdrawal risk register, which is subject to review and scrutiny at each meeting of the Audit and Scrutiny Committee. This register provides detailed information on the risks, including those related to food law, supply chains and resources, and the actions being taken to mitigate them.

FSS was proactive in planning for the impact of EU withdrawal and recognising and mitigating the risks involved. It started a programme of work in 2016, aimed at protecting consumers following the UK's exit from the EU. Initiatives included:

- Commissioning research to understand the potential impacts of an exit from the EU without an agreement on Scottish food chains.
- Considering what capability and capacity might be required in Scotland to deliver statutory functions currently administered by EU institutions, which would transfer to Scottish ministers and FSS after the UK leaves the EU.
- Working with colleagues in Scotland and the rest of the UK to make the necessary changes to EU food law to ensure this works in Scotland.
- Working with the Food Standards Agency, other UK bodies and government departments to ensure the same level of public protection would be available through legal standards and regulations applicable to food when the UK leaves the EU.
- Developing UK-wide frameworks and interim working level agreements with UK Government departments and other devolved administrations to ensure coordination and implementation of functions from EU institutions to the UK.
- Providing information to consumers and businesses on the implications of EU withdrawal for food law and standards.

FSS deployed a large amount of resource to prepare for EU withdrawal. The Scottish Government increased the FSS budget allocation for 2018/19 from £15.3 million to £16.2 million to reflect the scale of preparations for EU withdrawal. FSS utilised the additional funding to bring in more resources to support preparations and prevent further diversion of resources from other areas of work.



Case study 4

Financial planning in the Scottish Police Authority



The Scottish Police Authority's (SPA) three-year financial plan was approved by the board in May 2018. At the time, a key factor in achieving financial balance was through a planned reduction of 750 police officers by the end of 2020/21. Since then, SPA's planned reduction in officers has been postponed, to allow it to respond to issues relating to EU withdrawal. This includes requirements for Police Scotland officers to provide support at the border and to customs officials, to deal with potential civil unrest, or to support other services in the UK.

This has placed pressure on the budget for 2019/20, which included a 'Brexit operating deficit' of £17 million. SPA recruited 100 police officers in early 2019 to reverse a reduction of 100 officers which had taken place earlier in 2018/19. In addition to this, the planned reduction of 300 officers in 2019/20 has been postponed. The Chief Constable has directed Police Scotland to reassess its projected recruitment profiling for the remainder of 2019/20 to account for the continued uncertainty.

The delay in reducing officer numbers, as a result of EU withdrawal, means the SPA is no longer on track to achieve financial balance by the end of 2020/21. Additional funding was provided by the Scottish Government in 2019/20 to fully fund the 'Brexit operating deficit', creating provision for 400 additional police officers for the full year. However, beyond 2019/20 there is currently no available funding to support the additional officers, with costs to September 2019 reaching £8.6 million. While the SPA has taken reasonable steps to prepare for EU withdrawal, medium-term financial planning remains challenging and the planned balanced budget for 2020/21 is now unachievable.

Looking forward

16. At the time of writing, the level of uncertainty about the details of how the UK will leave the EU and what the implications will be remains high. This presents a challenge to public bodies as they continue to balance this uncertainty and planning for it with the need to continue to deliver essential public services.

17. The effects of EU withdrawal will influence the Scottish public sector for many years. In addition to addressing any short-term pressures, the public sector will also need to manage the transition to new partnership or trade arrangements, a different economic context, new funding mechanisms and legislation, as well as responding to demographic changes and any subsequent impacts on the public finances.

18. The impact of EU withdrawal will affect many aspects of our audit work. We will continue to monitor the effects on the Scottish public sector and will review our audit approach as the terms of the UK's exit from the EU become clearer.

Key questions for public bodies

Public bodies should consider the following questions in their ongoing planning for EU withdrawal:



-  What have we learned from our preparations to date for the UK's withdrawal from the EU?
-  Has the extended timescale for EU withdrawal generated any new risks for our organisation?
-  How are we ensuring our planning for EU withdrawal is proportionate to the level of risk to our organisation and relative to other business risks?
-  Does our medium and long-term financial planning consider the potential impact of EU withdrawal?
-  Are we continuing to provide effective support for colleagues from elsewhere in the EU?
-  Are our workforce planning arrangements reflecting any changes in workforce pressures in our organisation, or that of the organisations and sectors we work with?
-  Are we assured that we have appropriate contingency arrangements in place to protect our supply chains and manage the cost and availability of products and services?
-  How might we need to adapt our work once the UK has left the EU?

Endnotes

- 1 [*The 2018/19 audit of the Scottish Government Consolidated Accounts*](#) , Auditor General for Scotland, September 2019.
- 2 *Scottish Government overview of 'no deal' Brexit preparations*, Scottish Government, October 2019.
- 3 Ibid.
- 4 Economic Commentary, Fraser of Allander Institute, October 2019.
- 5 *Scotland's Fiscal Outlook: The Scottish Government's Medium-Term Financial Strategy*, Scottish Government, May 2019.
- 6 [*The 2018/19 audit of the Scottish Government Consolidated Accounts*](#) , Auditor General for Scotland, September 2019.
- 7 *Mid-Year Population Estimates, Scotland, Mid-2018*, National Records of Scotland, April 2019.
- 8 *Non-UK nationals in Scotland's workforce: Statistics from the Annual Population Survey 2018*, Scottish Government, May 2019.
- 9 *Local level Brexit vulnerabilities in Scotland: Brexit Vulnerabilities Index*, Scottish Government, October 2019.

Appendix 1

Scottish Government spending on preparations for EU withdrawal

Activity	Approved spend	Description
 EU exit-related operational and readiness costs	£70.9m	Scottish Government and public body spend on legislation, policy and organisational readiness activity. £66.6 million related to staff costs and £4.3 million related primarily to administrative support and legal fees.
 Police numbers	£17.0m	Maintaining 400 officers in 2019/20 so that the service has capacity to respond to EU exit-related issues such as potential protests and civil unrest, if required.
 Prepare for Brexit campaign	£2.2m	Scottish Enterprise led campaign to help Scottish businesses prepare for EU exit.
 Local authority coordination funding	£1.6m	£50,000 per local authority for ongoing local coordination work on EU exit preparedness arrangements.
 Brexit Support Grant for SME	£1.5m	£2,000 to £4,000 grant to help small to medium-sized enterprises manage a wide range of EU exit impacts.
 Supporting community food initiatives	£1.5m	Providing funds to the charity FareShare to increase the help given to organisations responding to food insecurity.
 Promoting Scotland internationally	£1.4m	'Scotland is Now' global marketing campaign (£1m), combined with a range of other activity to promote Scotland as a place to visit, study, work and invest.
 Health and social care	£1.1m	International recruitment unit (£0.64m), contribution to UK Government response arrangements for medical devices and clinical consumables, wider recruitment efforts, and support to the social care sector.
 Advice service and community-based support for EU citizens	£0.75m	Establishing an advice service (£0.5m) and a 'Stay in Scotland' campaign (£0.25m), both aimed at EU citizens currently living in Scotland.
 Rural industry and marine readiness	£0.3m	Scotland's Rural College policy development and stakeholder analysis to boost rural industry readiness.

Notes:

- Approved spend includes actual spend in 2017/18 and 2018/19 and spend approved for 2019/20 at end September 2019.
- As a result of mid-year allocations to UK Departments for EU exit preparation, the Scottish Government will receive further Barnett consequential of £43.3 million in 2019/20. It has allocated £7 million to a Rapid Poverty Mitigation Fund, to enhance existing measures (eg, Scottish Welfare Fund and Discretionary Housing Payments) in the event of exiting the EU without an agreement.

Source: *Scottish Government overview of 'no deal' Brexit preparations*, Scottish Government, October 2019

Preparing for withdrawal from the European Union

This report is available in PDF and RTF formats, along with a podcast summary at:

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