
Withdrawal from the EU

Local Government annual audit reports 2018/19 – summary

The 2018/19 annual audit reports considered how audited bodies had prepared for EU withdrawal and how they are continuing to respond to emerging risks. This is a summary of auditors' findings across Scotland's 32 councils.

Overall, auditors concluded that councils had undertaken a reasonable level of activity to prepare for EU withdrawal, given the continuing level of uncertainty.

The general uncertainty about the potential impact (in both nature and scale) of EU withdrawal and the subsequent impact on council resources, priorities and wider financial implications was identified as an overall risk by councils. Councils' preparations have focused on the following areas of risk:

Workforce:

- Councils have undertaken work to understand the implications of EU withdrawal on their workforces. This included compiling information to better understand how many EU national staff they employ. For example, **Fife Council** has been operating an ongoing census of its employees to determine their nationality.
- Where figures are provided, EU nationals tend to constitute a relatively low proportion of staff, compared to the overall workforce. In some councils', EU nationals work in hard to fill roles. For example, **Eilean Siar Council** only employs around 30 EU national staff, but around a third of these people work in care service posts, in which the council has experienced difficulty filling vacancies.
- Activity has primarily focussed on supporting affected staff, for example by providing regular updates via key communication channels (e.g. dedicated intranet pages), signposting to further information and helping staff to apply for settled status under the EU settlement scheme.
- There is also a general recognition amongst councils of the wider economic risk to local workforces. **Glasgow City Council's** website provides information for the public about EU withdrawal – including information for EU nationals that work, study and live in Glasgow.
- Activity has also included incorporating risks into workforce planning and partnership working to establish the wider implications for shared services:
 - **Perth and Kinross Council's** Corporate Workforce Plan identifies hard to fill roles, that may become more challenging to fill as a result of EU withdrawal.
 - **Shetland Isles Council** is working closely with third and private sector organisations to assess workforce risks across Shetland.

Finance:

- Financial risks resulting from EU withdrawal are noted specifically in over half of local government annual audit reports. Key financial risks include:
 - the impact of price increases on budgets and uncertainty around to what extent future costs may be affected
 - financial planning, due to uncertainty
 - potential loss and uncertainty around longer-term replacements for EU structural funding

- continued pressure on public finances
- wider risks to the economy and the impact of this on local areas.
- Some examples are set out below:
 - **Moray Council** recognises that the loss of EU funding will place additional pressure on its ability to achieve financial sustainability and that the impact on the wider Moray economy is likely to be significant.
 - **Falkirk Council** identified a key area of risk as the impact of EU withdrawal on the local economy and the implications for poverty and the benefits system in supporting vulnerable people.
- To help mitigate financial risks, councils are considering / reflecting the impact of EU withdrawal within financial planning and other relevant plans / strategies. This is noted by some as being challenging given levels of uncertainty, particularly for longer-term planning. Key examples are outlined below:
 - **Glasgow City Council** has considered EU withdrawal within its Strategic Plan, Treasury Management Strategy and its Corporate Procurement and Commercial Improvement Strategy. In compiling the council's financial forecasts, the implications of EU withdrawal were considered but, due to uncertainty, were not specifically incorporated. The medium to longer-term financial position of the council is difficult to predict given the uncertainty of the factors likely to have a financial impact on the council.
 - **City of Edinburgh Council** has considered a range of scenarios that could result from the UK's exit from the EU – including: currency fluctuation; labour market shortages; potential changes to existing EU funding; a more general economic down-turn and the impact on tourism. Potential loss of European Social Fund projects and funding (which currently support vulnerable people to find employment, skills and training) could have a negative impact on participating education institutions. Mitigating actions in respect of these risks are incorporated within the refreshed Economic Strategy and will be incorporated into a refreshed Revenue Budget Strategy and wider analyses of funding and expenditure.
 - **East Lothian Council** has considered economic uncertainty and the impact on key sectors of its local economy (farming, food and drink and tourism), within its existing Council Plan. It has also considered the potential impact on Edinburgh's higher education sectors as it employs a significant proportion of East Lothian's population and could be negatively impacted through loss of EU subsidies, changes in trade agreements and negative changes in currency values.
- Councils have also been working together to address financial risks:
 - City of Edinburgh, Inverclyde, North Lanarkshire, Orkney, Shetland and South Lanarkshire Council have been working together with COSLA and the Scottish Government to identify the impact of loss of EU funding.
 - All 32 councils have agreed to jointly fund an officer responsible to help manage the implications of EU withdrawal.

Regulation:

- Around 40 per cent of local government annual audit reports noted the risk of disruption to supply chains and delays to the subsequent flow of goods and services from Europe.
- **Eilean Siar Council** highlights a related risk around Export Health Certificates which are required to allow businesses to continue to trade with and export to Europe. It currently issues around 200 certificates, mainly to the seafood industry, but projects this figure could increase to around 8,000 in the event of a withdrawal from the EU without an agreement.
- Activity to mitigate potential risks has focussed on joint working between councils, key suppliers, the Scottish Government, Scotland Excel and COSLA to ensure supply chains are resilient to disruption. Some examples are listed below:

- **City of Edinburgh Council** is working with COSLA and Scotland Excel to examine potential impacts on supply chains, with key areas for consideration being ICT, food, the impact of transport congestion holding up goods, and storage / stockpiling by suppliers potentially increasing costs. On-going risk assessment and contingency planning is being actively discussed at the council's Brexit Cross-Party Working Group and the Brexit Resilience Working Group.
- **South Lanarkshire Council** undertook an exercise with key suppliers to understand their level of preparedness and the likely impact on the provision of goods and services to the Council.
- At **North Lanarkshire Council** each service identified its key suppliers and carried out a risk assessment focusing on workforce issues, chain supply and business continuity. No major issues were identified from this work, with the outcome considered by the council's Brexit Preparedness Group.

Wider activity

- Organisation-wide activity by councils to monitor and mitigate these risks has included:
 - Establishing specific working / resilience groups to oversee preparations for EU withdrawal.
 - Ongoing monitoring of identified risks and consideration of these within existing risk management arrangements.
 - Updates to the board / elected members and officers / other relevant governance groups and committees on EU withdrawal negotiations and work being undertaken within councils.
 - Some councils have made use of Audit Scotland's [key questions](#) (from 2018 key issues paper), Scottish Government readiness criteria and COSLA 'Brexit preparedness' returns to support preparations for EU withdrawal.

For more information on Audit Scotland's work in this area, please see our [e-hub](#).