

## Audit Scotland Report: Withdrawal from the European Union

- To provide the Committee with the [Audit Scotland report: Withdrawal from the European Union](#).

### Recommendations

- The Committee is invited to note:
  - The [Audit Scotland report: Withdrawal from the European Union](#) report.
  - The work SFC is undertaking with colleges and universities to prepare for leaving the European Union (EU).

### Financial implications

- Withdrawal from the EU will have significant financial implications for universities and colleges, including:
  - The teaching grant and fee income (allocated by SFC and SAAS) associated with EU students studying in higher education institutions totals around £90m annually. In 2016-17, EU students who applied from outside the UK made up 7.9% of undergraduates, 10.7% of taught postgraduates and 16.2% of research postgraduates in Scottish HEIs.
  - The number of people living in EU countries who apply to study at Scottish Colleges is relatively small, but the grant associated with college provision delivered to EU nationals now resident in Scotland accounted for 7.3% of the sector's total credits in 2016-17. With an overall core college budget of £513m for 2016-17, this represents around £37m.
  - University research income from EU Commission sources averaged about £83m annually in the three year period up to 2016-17. This represents an average of 10.7% of total university research income over the three year period.
  - In 2017-18, SFC allocated about £24 million for European Social Funds (ESF) activity. This funding is provided on a match basis and SFC expects to claim back around £14 million from the EU, via the Scottish Government.
  - Institutions also benefit from ESF monies either directly or indirectly from other sources, such as Skills Development Scotland for apprenticeship programmes as well as from local authorities and third sector bodies.



## Audit Scotland Report: Withdrawal from the European Union

### Purpose

1. This paper provides the committee with the [Audit Scotland report: Withdrawal from the European Union \(EU\)](#). It also sets out details of the work SFC is currently undertaking with colleges and universities to prepare for leaving the EU.

### Background

2. The UK will leave the EU on 29 March 2019. The UK Government has developed a proposed withdrawal agreement with the EU, setting out the proposed terms and timescales for withdrawal. Under this agreement, there will be a transition period to the end of 2020. This will be voted on in the UK Parliament on 11 December 2018. However, there is a material risk that the proposed withdrawal agreement will not be approved by the Parliament. Therefore, there remain significant uncertainties around both the terms and the timing of the withdrawal.

### Audit Scotland Report: Key issues

3. The [report can be found on the Audit Scotland](#) website. It presents its findings in three sections:
  - **People:** The report notes the potential for skills gaps in key areas that will negatively impact on Scotland's future economic performance, if EU citizens lose their rights to work and free tuition in Scotland. The report highlights the significant number of university staff and students who come from the EU to Scotland to work and study.
  - **Finance:** The report summarises the sources of EU funding which Scotland can typically access, noting the availability of two – amongst others – key sources which Scottish universities and colleges typically access: the Horizon 2020 Fund and European Structural Funds.
  - **Rules and Regulations:** The report focuses on the potential costs and timing impacts if trade and customs tariffs are introduced. It also notes the loss of regulatory legislation, such as the common recognition of qualifications in recruitment, and the UK's loss of access to large-scale EU data and information sharing projects.
4. The report presents a list of questions for public bodies to consider under each of the above headings. These questions are summarised in Annex A, along with a summary of the work SFC is currently undertaking in each of these areas.

## **Work currently being undertaken by SFC with colleges and universities**

5. SFC has established a temporary team to work with the sector to identify the impacts of leaving the EU and to develop actions to mitigate the risks, as far as is possible. However, given the continued level of uncertainty and the fact that the key policy areas (such as immigration and customs) are not under the control of the Scottish Government, there remain important issues which have not yet been resolved.
6. Whilst we await confirmation of the terms and timing of the withdrawal and any transitional arrangements, our work has focussed on understanding and – where possible – quantifying the contribution and impact of our ties with the EU on the college and university sector. Working with Universities, Colleges and other stakeholders such as Scottish Government and the Scottish Skills, Enterprise and Development Agencies, we have begun work to develop broad policy options which could be put in place, once the terms of the withdrawal are known. Annex A provides a short summary of the work SFC is currently undertaking under the three headings used in the the Audit Scotland report.

## **Risk assessment**

7. The key risks associated with EU Withdrawal are as follows:
  - The loss of EU staff from university and college workforce and the impact of this on teaching quality and Scottish reputation and influence on the world stage.
  - The loss of student numbers, particularly in key subject areas, such as STEM.
  - The knock-on impact of reduced numbers of EU staff and students on Scotland's workforce.
  - The loss of EU income, specifically research income which is particularly geared towards STEM subjects and ESF funding which supports projects to improve social diversity and widening access at colleges.
  - The loss of Scottish engagement and influence on EU research and innovation projects and the impact of this on the Scottish economy.
  - Potential difficulties in accessing goods, produce and services because of increased costs or time delays as a result of changes to trade and customs regulations.

## **Equality and diversity**

8. The key equality and diversity issues associated with EU Withdrawal will be the change to the demographic profile of universtiy and college staff and students, resulting in less diversity. A less diverse student body is likely to result in a less diverse Scottish workforce in the longer term.

## Financial implications

9. The main financial implications of EU Withdrawal are:
- The teaching grant and fee income (allocated by SFC and SAAS) associated with EU students studying in higher education institutions totals around £90m annually. In 2016-17, EU students who applied from outside the UK made up 7.9% of undergraduates, 10.7% of taught postgraduates and 16.2% of research postgraduates in Scottish HEIs.
  - The number of people living in EU countries who apply to study at Scottish Colleges is relatively small, but the grant associated with college provision delivered to EU nationals now resident in Scotland accounted for 7.3% of the sector's total credits in 2016-17. With an overall core college budget of £513m for 2016-17, this represents around £37m.
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  - Institutions also benefit from ESF monies either directly or indirectly from other sources, such as Skills Development Scotland for apprenticeship programmes as well as from local authorities and third sector bodies.

## Recommendations

10. The Committee is invited to note:
- The [Audit Scotland report: Withdrawal from the European Union \(EU\)](#) report.
  - The work SFC is undertaking with colleges and universities to prepare for leaving the EU.

## Publication

11. This paper will be published on the Council website.

## Further information

12. Contact: Sarah Kirkpatrick, tel: 0131 313 6696, email: [skirkpatrick@sfc.ac.uk](mailto:skirkpatrick@sfc.ac.uk).



## **Annex A**

### **Audit Scotland Report: Withdrawal from the European Union – Summary of key questions**

#### **People**

1. Questions posed in Audit Scotland report:
  - How are we communicating with staff about the potential impact of EU withdrawal and preparing to support any employees who may be affected?
  - How are we reflecting the implications of EU withdrawal in our long-term workforce planning?
  - What are the workforce implications for the third sector and private organisations that provide services in partnership with us or on our behalf?
  - Which parts of the workforce (sectors/skills/services/regions) are most at risk from the impact of EU withdrawal?
  - How are we reflecting the implications for the local workforce in our economic strategies?
2. Universities and Colleges are currently awaiting details of the exit agreement to establish what the future arrangements will be for EU staff and students. We are aware that most institutions have sought legal advice on staffing issues and some have put in place schemes to pay the settlement fee for EU staff wishing to apply for permanent residency.
3. Until the position on student eligibility for funding is known, SFC has been working to quantify the numbers of students and staff currently in the Scottish tertiary education system and to identify areas where there are likely to be gaps in graduate output. We are engaging with Universities Scotland to develop proposals for alternative uses for the funding currently associated with EU students. We are also engaging with other stakeholders such as Scottish Government and the Scottish Skills, Enterprise and Development Agencies to influence their policies to address predicted skills shortages.

#### **Finance**

4. Questions posed in Audit Scotland report:
  - What level of funding do we, and our partners, receive from the EU and through which funding streams?
  - What financial risks are associated with any changes after the UK has left the EU, during any transition period and beyond?
  - How are we reflecting the implications of EU withdrawal in our long-term financial planning?

- How can we capitalise on opportunities to access alternative funds or redesign replacement funding streams?
5. As part of SFC's analysis of the impact of the EU Exit, we have also quantified the EU funding that Universities and Colleges currently access and the purposes for which it is provided. Some of the core financial implications are summarised in paragraph 9 of this paper.
  6. We have shared details of the European Structural Funds – where SFC is a lead partner – with Scottish Government's Brexit Finance Commission to inform future contingency planning. We await full details of the UK Government's Shared Prosperity Fund. We will use the data we are gathering on the EU funds that Scottish Universities and Colleges currently receive to inform our responses to future UK Government consultation on the roll-out of the Shared Prosperity Fund.

### **Rules and regulations**

7. Questions posed in Audit Scotland report:
  - What are the potential implications of changes to trade and customs rules to our supply chains and the cost and availability of products and services?
  - What EU regulations/legislation are directly relevant to our role (e.g., monitoring compliance)?
  - What impact would potential changes to regulations/legislation have on how we deliver services and our service users?
  - How can we capitalise on opportunities to streamline or improve the regulatory environment?
  - How are we planning for the possibility that the UK Government and the EU fail to reach an agreement on arrangements for the UK's exit from the EU?
8. Universities and Colleges are aware of the potential disruption to supply chain and the costs of goods and services and are factoring this in to their business plans. The key changes to legislation are those discussed and being taken forward under the **People** and **Finance** headings.