The Women in Scotland’s Economy Research Centre (WiSE), established in October 2011, takes an innovative, multidisciplinary approach to gender analysis of economic and public policy both in Scotland and internationally. Using a feminist economics lens WiSE highlights women’s visible and invisible economic contribution by challenging established norms and models. Through high quality, high impact research and knowledge transfer WiSE engages widely with policymakers, equality practitioners, the business community and gender equality activists. We focuses on gender and equality analysis of poverty, income inequality, financial exclusion, living standards within households, gender budgeting, labour market and occupational segregation, employability and skills, European employment and gender equality policies, and comparative gender equality policy. We welcome the opportunity to provide evidence to the Finance and Constitution Committee on the short term implication of Brexit for the Scottish budget.

Are there any indications of a differential economic impact in Scotland separately from rUK?

A recent report by the Fraser of Allander for the Scottish Parliament suggested that the economic impact of Brexit is likely to be greater for the rUK than for Scotland (Fraser of Allander, 2016). However they conclude that the impact on Scotland will still be significant and is likely to be similar to rUK, not least because even if the initial impact is greater for the rest of UK because of the level of integration between the Scottish economy and the rUK any fall in GDP in rUK will have a knock on effect on economic growth in Scotland. However, it is difficult to accurately predict the impact since we do not know what the post Brexit relationship with the EU will look like. Also, it seems increasingly likely that there will be a transitional arrangement in place from March 2019 to allow more time for negotiations on the UKs future relationship with the EU. That might mitigate against some of the economic uncertainty although the Bank of England recently downgraded their growth forecasts for the UK over the next couple of years. In addition, Brexit is likely to have a negative impact on foreign direct investment both in terms of attracting new FDI but also on existing FDI who may decide to relocate part or all of their existing UK operations in the EU if Britain is no longer part of the single market and they consequently face increased barriers when supplying or sourcing goods and services from the EU. There is some evidence to suggest that this is already happening in the financial services sector as a number of financial institutions have announced plans to expand their mainland EU operations in anticipation of the UKs exit from the EU. Outside of London Scotland receives the highest share of FDI into the UK and has done for the past five years. Scotland is also recognized as the most important UK financial centre outside of London. Therefore, Brexit does pose a serious threat to future levels of growth and employment in Scotland because of the potential impact on future levels of FDI and also existing FDI. In addition Scottish based businesses who export their goods and services to the EU may decide to move some or all of their operations to the EU to avoid the extra costs which exclusion from the single market will involve.
What additional spending pressures are there on the public finances as a consequence of Brexit?

Government at UK and Scottish level will need to formulate replacement policies in agriculture, fisheries, regional development and technology to replace EU spending in these areas after March 2019. Although in the medium term this can be funded from savings resulting from no longer having to contribute to the EU budget in the short run it is likely to involve additional expenditure since the UK will need to pay to leave the EU. The divorce bill is part of the Brexit negotiation and has been estimated to be between €25bn to €75bn. In addition, if as seems likely the UK exits both the customs union and the single market the UK government will need to invest in a new customs control system to regulate the movement of goods into and out of the UK primarily at the main points of entry and exit. This is likely to involve investment in both people and infrastructure; HMRC estimates that Brexit will result in an increase in the number of customs declarations from £55m to £255m per annum. Prior to the Brexit vote HMRC was developing a new Customs Declaration Service which is now expected to be able to handle the 180 000 traders who will have to make customs declarations for the first time from March 2019. The new system is due to go online in 2019 however the National Audit Office have raised concerns about whether that timetable can be met and also whether the new system will have the capacity to handle the significant increase in customs declarations after Brexit (National Audit Office, 2017).

What should the Scottish Government’s priorities be in formulating Draft Budget 2018-19 in response to the initial economic impact of Brexit?

Most of the economic forecasts would suggest that growth in Scotland over the next couple of years is likely to be lower than it otherwise would have been as a result of Brexit (Fraser of Allander, 2016). The precise impact is difficult to predict in part because it depends upon the outcome of the Brexit negotiations and whether some transitional arrangements are put in place in March 2019 which ensures that the UK has tariff free access to the EU and also maintains barrier free access to the single market. However even if such arrangements are agreed the Scottish government should be looking at ways in which their spending can contribute to faster growth in the short and medium term, for example support for SMEs to continue exporting to EU but also additional spending in certain areas which might stimulate employment growth and in turn economic growth.

The Scottish government is already committed to increasing the amount of free childcare available for 3 and 4 year olds and vulnerable 2 year old to 1150 hours per annum or 30 hours per week during term time by 2020. A number of international studies have suggested that expansion of the care sector generates more jobs than most of the other sectors of the economy, a recent report demonstrated that investing 2% of UK GDP in the care industries would create 1.5m jobs compared to 750 000 jobs if 2% of GDP was invested in construction (De Henau et al, 2016). Given that care sector employment is dominated by women increased investment in this area would contribute to greater gender equality in terms of employment whereas additional investment in physical infrastructure would tend to increase the employment gap. However, the care sector is also characterised by low pay and precarious employment contracts, which has implications for the quality of the
service provided. To ensure an increase in the quality of care services it has to become more professionalised with better pay and more opportunities for career progression.

**Given that increased inflation is likely to disproportionately impact on the poorest, what measures should the Scottish Government take in its Budget to address this?**

The depreciation of the £ since the referendum result has contributed to a rise in inflation, in July 2017 the CPI rate stood at 2.6%. The National Institute of Economic & Social Research most recent forecast suggests inflation will rise to 3% by the end of this year before falling back to 2% by the end of 2019 (NIESR, 2017). In other words the UK inflation rate is likely to remain above the Bank of England’s 2% target for the next couple of years. Given that the growth in average pay in the UK since the great recession has practically been zero this means that peoples living standards are likely to fall over the next couple of years as a result of higher inflation. In particular, those on low wages and reliant on social security benefits such as pensioners will tend to suffer most as a result of the rise in the cost of living. The Scottish Government’s capacity to respond to this challenge is constrained to some extent. The rise in inflation means that the budget needs to increase just to provide the same level of service. Nonetheless there are certain measures which the Scottish government could take in order to mitigate the effects of higher inflation on the poorest and most vulnerable in society. As an employer and commissioner of services particularly care services the Scottish Government could use its power to ensure that the pay of those employed directly and indirectly by the public sector keeps pace with inflation. Although most of the social security benefits are still controlled by the UK government the Scottish government has discretion over some benefits which could be used to ease the impact on some of the most vulnerable groups in society. This implies additional spending by the Scottish government at a time when tax revenue is likely to be declining due to lower growth and where inflation has reduced the spending power of the budget. In these circumstances the Scottish government should seriously consider whether it is now time to use their tax raising power to ensure they have adequate resources available not only to mitigate against the impact of higher inflation but also to fund measures to enhance economic growth such as expansion of the care sector.

**What issues require to be considered from the loss of EU funding mechanisms arising from Brexit?**

As previously mentioned the UK/Scottish government will need to put into place policies and finance to replace a number of areas currently funded directly by the EU, the main ones being agriculture, regional development and research and technological development. Agriculture receives the largest amount of cash from the EU around €4bn in the 2014-20 period compared to about €1bn from EU structural funds over the same time period. The UK government has promised to match CAP subsidies up to 2020 thereafter some form of UK CAP will need to be implemented.

The amount of money Scotland receives from EU Structural funds has declined over recent years as the EU has expanded regional development resources have been diverted to the new member states. However, one of the most important impacts of
EU Structural Funds has been its promotion of gender mainstreaming. The implication of this inclusion in EU Structural Funds was that funds targeted at economic development should benefit men and women equally. In the absence of EU leadership on gender mainstreaming in the form of Structural Funds and more general leadership in the promotion of gender equalities, Scotland will need to ensure that adequate procedural and legal frameworks are in place to maintain commitments to Gender Equality. Here, assessments of The Great Repeal Bill and its impact on existing equality commitments should be considered in detail, to ensure that legislation and powers related to equalities are not watered-down, or relocated.

Some aspects of the Brexit settlement may however also present an opportunity to enhance the Scottish Government’s promotion of gender and other equalities. For example, public procurement can be used strategically to foster equality within the workforce or to promote employer good practice. However public procurement practices are currently restricted by a number of EU Directives which make it more difficult to use social and non-economic factors in the competitive bidding procedures to award contracts. Depending on the content of the Great Repeal Bill these restrictions are likely to loosen, freeing the Scottish Government to put greater weight on equalities in the public procurement processes. In Scotland alone public procurement accounts for over £10bn per annum, and accounts for about 30% of total government spending, (Sarter 2016) as such, using this spending to strategically lever policy outcomes makes sense.
References


