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Gwasanaethau Cyhoeddus Cymru
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Implications of Brexit on public services in Wales

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About this briefing

Whether or not to leave the European Union is probably the biggest decision facing the UK for generations. It will shape the way we live, work and the services we use. This briefing looks at the policy implications Brexit could have on Wales' public services. It has been developed to help instigate debate amongst public sector leaders, practitioners and influencers. It doesn't provide decisive answers but seeks to aid the dissemination of ideas, stimulate debate and some contingency planning in light of the opportunities and risks posed by Britain leaving the European Union. It looks at three questions:

What exactly is Brexit?

How could Brexit impact Welsh public finances?

How could Brexit impact the day-to-day delivery of services?

Brexit is an unknown quantity. The official timeframe and legalities of Brexit are relatively clear: in the event of a 'leave' vote the UK Government invokes Article 50 of the Treaty on European Union¹ and has two years to negotiate exit. Even if it can be concluded in this time, there will be significant short-term uncertainties for public services. For example, what would happen to ESF and ERDF programmes currently programmed up until 2020. Should new projects be commissioned post 23rd June? What will happen about access to European Investment Bank funds? What should be the response of public bodies to the prospect of changes in the EU regulatory framework in areas such as procurement and employment? Public services will need early and clear messages. Knowing whose role it would be to prepare public services and give them a clear steer on these fundamental practical questions about Brexit would be an immediate imperative.

The funding implications are also unclear. Many economists suggest a negative impact on the economy and tax revenues, though others disagree. But it is unclear, for example, how any public finance black hole (or conversely gains) would be apportioned between the constituent parts of the UK. Nor is it clear how the UK Government would replace existing EU spending across the UK. Would the fiscal implications for Wales, Scotland and Northern Ireland be mediated through the Barnett formula or would some other new method need to be invented?

And what of the relationships within the UK: what role would devolved governments have in any negotiations over the terms of Brexit? After all, devolved bodies are already responsible for directly applying many areas of EU legislation and have a direct interest in the outcomes of the negotiations. There has been much speculation about Scotland potentially holding a second referendum in the event of a leave vote. Committees of both the Scottish Parliament and the National Assembly for Wales have criticised a lack of engagement by the UK Government over the referendum. Brexit means that Wales² would need to either continue with laws it transposed directly from EU regulations or create its own new laws in devolved areas, like agriculture, fisheries, environment, education and health. Brexit would also probably need a change to the devolution settlement, to reflect new legislative competences.

To start to address some of these questions, we have created notional scenarios to highlight the possible consequences Brexit would have on Wales. It is important to note that while they are informed by detailed analysis of the evidence that is available they are only indicative. They are

¹ <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7551>

designed to stimulate thought and discussion. They help paint a story of how Wales may look post Brexit. They are not predictions of what will happen.

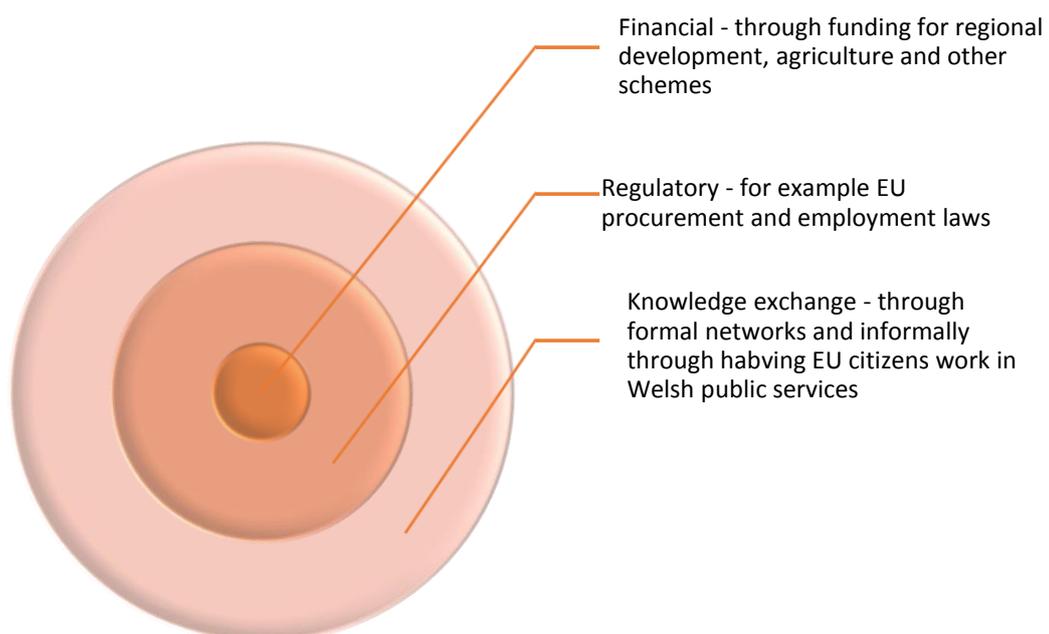
This briefing does not aim to comprehensively set out the benefits and costs of EU membership for Wales. But it is important to understand what the key issues are that have driven the agenda that has ultimately led to the referendum on members, because those concerns will feature in any negotiations over the terms of Brexit.

In large part, the referendum has been driven by concerns over sovereignty: the EU has too much influence over UK laws. There are also related financial arguments over the fact the UK contributes more to the EU than it gets directly back. Proponents of Brexit have also focussed on concerns about immigration, particularly the free movement of people into the UK and Wales. On the other side, proponents of remaining in the EU point to economic benefits of being part of a large trading block. In Wales, they also point to the social and community benefits that have come from projects funded by EU Structural Funds. We do not offer a view on the merits either way. Our aim is to consider what the practical consequences of Brexit may be for Wales public services.

What is the relationship between the EU and Wales' public services?

To understand Brexit we need to know what we would be moving away from. The relationship between the European Union and Wales' public services is deep and complex. Wales is not a member state of the European Union. So it does not have a direct seat at the EU Council. Formally, our relationship with the EU is mediated through the UK Government. However, in practice, Wales has many direct and deep relationships with the European Union.

Welsh public services' relationship with the EU



Financial

How much funding does Wales contribute to the UK?

The UK's gross contribution to the EU in 2015 is estimated to be around £13 billion after the £4 billion rebate. That makes the average contribution per head of population across the UK around £200. Using the UK average figure, we could calculate Wales' contribution as being around £620 million. However, that would significantly overstate Wales' contribution. The UK contribution is funded from the general UK tax base. Wales is one of the poorest parts of the UK and as such contributes around 29 per cent³ less tax per head than the UK average. If we treat Wales' EU contribution as being proportionate to its contribution to general taxation, it would be more like £442 million a year.

How much does it receive?

There are a range of schemes that provide EU funding to or through Welsh public services. The two largest areas are:

- agriculture/ rural development (around £250 million a year) including support for farmers in adopting more environmentally sustainable farming practices;
- structural funding for regional development (around £250 million a year) under the current programme to 2020, used for a whole host of projects, many of which are led by Welsh public services.

Examples of EU funded projects include upgrading major roads like the A465, tourism initiatives and training schemes. The Welsh Government and Welsh Local Government Association identified significant benefits from structural funding since 2007 including new jobs, business start-ups and skills development⁴. Structural funding has also supported efforts to improve public administration in Wales, including work to improve partnership working through Local Service Boards.

Wales' education system also benefits from EU funding, with financial support from Horizon 2020 (for joint research initiatives, innovation projects) and Erasmus funding (student and academic exchanges). These could be worth in the order of £20 million. With around £520 million income from the EU compared to a contribution of £442 million it appears that Wales is a net beneficiary of EU funding. CIPFA also notes that Wales, like Cornwall, is a net beneficiary of EU funding⁵.

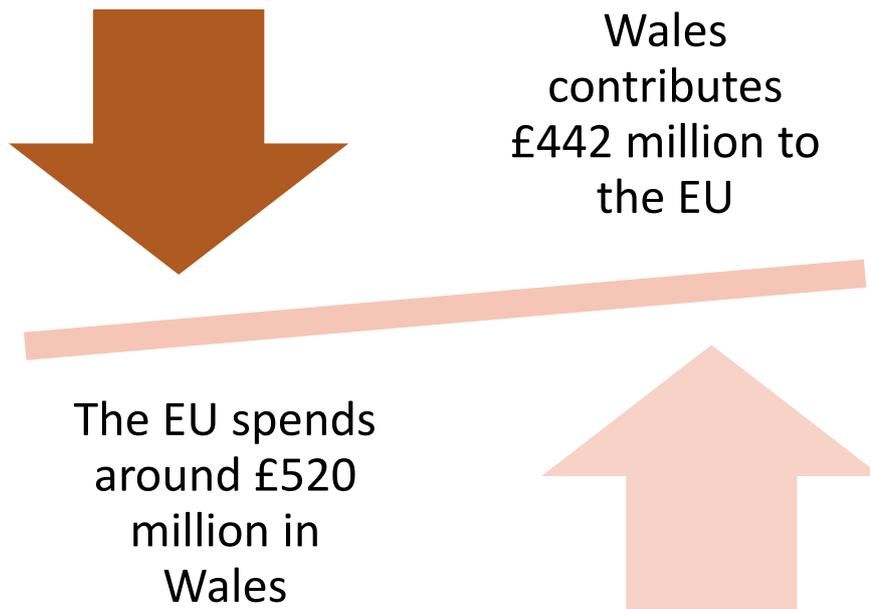
What is the net balance?

² HMRC -

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/464196/HMRC_disaggregated_receipts_-_Information_Analysis.pdf

³ <http://gov.wales/funding/eu-funds/?lang=en>; <http://www.wlga.gov.uk/e-publications/eu-referendum-report>

⁴ http://www.cipfa.org/~media/files/cipfa%20thinks/eu_treble-and-strife.pdf



There are also substantial EU investments in the form of loans from the European Investment Bank. In 2014-15 there was around £500m invested in projects in Wales. Depending on the post-Brexit agreement, this investment could be lost to Wales.

EU law and legislation

Welsh public services are also shaped by EU law – regulations and directives. The two most obvious ways are rules on employment and procurement. In some areas, Wales is already responsible for transposing into law EU regulations as well as applying EU Directives in areas of devolved policy, such as agriculture, fisheries, education and health.

Labour market

EU legislation has a significant impact on working conditions across Wales' public services. One of the key pieces of legislation has been the EU working time directive, which had a profound impact on the healthcare workforce. Before the directive many clinicians, especially junior doctors worked much longer hours than they do now. The other key impact has come from the principle of free movement of labour. Citizens from any EU country are free to travel, work and settle in Wales without restrictions. Wales has been able to fill staffing gaps across the NHS by employing doctors and nurses from the EU. The social care sector is particularly reliant on migrants, many from Eastern Europe, who work for relatively low wages. The Wales Migration Service has analysed the Labour Force Survey data. Their figures show that there are around 69,000 EU citizens working in Wales: around 4 per cent of the work-force. The Wales Migratory Service analysis shows that around a third of all migrant workers (EU and non-EU) work in public services. If the pattern is the same for both EU and non-EU migrants, that would mean around 23,000 EU citizens working in Wales' public services.

Procurement

Welsh public bodies spend about £5 billion a year on procurement and are subject to EU rules to ensure that companies from across the EU have an opportunity to bid for public sector contracts in the UK. This includes following specific rules above a specific threshold including inviting tenders through the Official Journal of the European Union (OJEU). Within the framework of recent EU procurement directives, Wales has placed a strong emphasis on a closer dialogue with business to drive increasing economic and social benefit from public procurement expenditure.

Knowledge sharing

Welsh public services also have a knowledge sharing relationship with other member states through EU institutions. Many of Wales' public services are part of EU networks that share knowledge and research on a whole range of issues from economic development through to the latest clinical research. The many public servants from around the EU who have made their home and career in Wales also impact on public services in subtle ways. They bring with them ideas and experiences of other ways of working that can help innovation. These softer relationships between Wales and the EU are impossible to quantify but are nonetheless important.

What exactly is Brexit?

What would Brexit look like?

As the current public debate demonstrates, there is no consensus about what Brexit would mean for Wales. Understanding Brexit is not simply a case of imagining what would happen if the EU's influence disappeared. A vote for Brexit won't mean the UK hauls anchor and floats away into the Atlantic. We'll still be part of geographical Europe. So we'll need to have trade and have other relationships with the European Union and its members.

The extent to which a post-Brexit Welsh public service would be different depends on the outcome of negotiations between the UK Government and the EU. If the UK votes 'leave' the UK Government will invoke Article 50 of the Treaty of European Union. While the Treat sets out a timetable of two years, many commentators think it would take much longer to negotiate an agreement. However, extending an agreement would require the agreement of all 27 member states. Until agreement is reached or the period ends and is not extended, the UK remains a full member of the EU. In terms of the content of any agreement, it depends on the form it takes. HM Treasury describes three options:

1. UK joins the European Economic Area (EEA), stays part of the single market and signs up to most of the EU rules.
2. UK negotiates a bilateral deal involving signing-up to some but not all EU rules.
3. UK has a simple World Trade Organisation (WTO) trade deal and is able to repeal all laws implementing EU law.

The financial and service delivery impact of Brexit on Wales' public services depends on which type of relationship the UK Government and EU negotiate. Given that much of the debate has been about immigration, it is likely that the UK would try to opt out of the principle of free movement of workers and people. That would potentially rule out staying within the EEA as other members are all subject to the principle of free movement and other rules related to the single market. A bilateral deal is completely uncertain as are the terms of any financial contribution and regulations the UK

would have to sign up to. The third option is essentially the default option, if the UK does not join the EEA and fails to negotiate a bilateral agreement. In that scenario, the UK would have the same relationship with the EU as any other member of the World Trade Organisation.

How could Brexit impact Welsh public finances?

Would it impact the basic fiscal rules?

The UK, like all EU countries, signed up to certain fiscal rules as part of the Maastricht Treaty. Those rules include limiting public deficits to 3% of GDP. Each year, the UK must submit a report on its deficit to the European Commission. The Commission can fine Eurozone countries if they breach these rules. As the UK is outside of the Eurozone any negative commentary from the Commission, as occurred for example in 2008 following the economic crash, essentially amounts to a rap over the knuckles. Whether the UK being freed from the EU fiscal rules would have any effect on the general fiscal climate in the future is unclear. At present, there is a political environment in the UK that sees deficits as inherently undesirable. The Chancellor has embedded the principle that the UK Government should spend less than it earns into law. So, without a significant change in political philosophy in the UK, it seems unlikely that escaping from the EU fiscal rules would lead to a loosening of fiscal policy and higher borrowing and spending across the UK, including in Wales.

How would Brexit impact UK public finances?

The fiscal impact of the different options is hugely uncertain. It depends fundamentally on the impact of Brexit on the UK economy, tax revenues and public finances. HM Treasury⁶ draws on a range of analyses to calculate the long term impact on the UK economy and public finances. All three options result in substantial negative impacts. While they do not present precise figures, other independent bodies including the Office for Budget Responsibility, the Institute for Fiscal Studies, the Bank of England and the IMF also raise concerns about Brexit negatively impacting the economy and public finances. Such analysis is vigorously disputed by the Leave campaign who argue that leaving the EU would free the shackles restraining UK economic enterprise and growth.

Another key aspect is what would happen with the £13 billion a year the UK currently contributes to the EU. It seems likely that the UK would have to make some financial contribution to the EU in any post-Brexit deal. How the UK Government decides to use any savings on its EU contribution would have consequences for Welsh public finances. Of particular importance is whether the UK Government would use the Barnett formula to apportion the money around the constituent parts of the UK or whether some new mechanism would need to be found.

Brexit could also impact on credit risk ratings and the cost of borrowing. The Bank of England says: "Looking ahead, heightened and prolonged uncertainty has the potential to increase the risk premia investors require on a wider range of UK assets, which could lead to a further depreciation of sterling and affect the cost and availability of financing for a broad range of UK borrowers." Higher borrowing costs would impact the overall UK finances and indirectly the amount of funding available for Wales. It would also have a direct impact on Welsh public services: with the Welsh Government getting new

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/517415/treasury_analysis_economic_impact_of_eu_membership_web.pdf

borrowing powers and local government increasingly using its borrowing powers to fund infrastructure projects.

Would Wales' public finances be better or worse off after Brexit?

Because of the impossibility of forecasting the overall fiscal impact of leaving the EU on Wales with any certainty, we have created some illustrative scenarios in the annex. These are the variables:

- What is the projected impact on tax revenues, and therefore on public finances, of the various relationships, as projected by the Treasury? For example, HMT suggests a loss of £45 billion tax receipts under a WTO option. The Treasury analysis is highly contested by the Leave campaign.
- What is the impact for Wales of any consequent hole in public finances?
- What happens to the £13 billion currently paid by the UK to the EU and what is the impact on Wales public spending? In illustrating the net impact, we have assumed that Wales would continue to receive the same level of contribution from EU programmes beyond the end of the current structural funds programme in 2020. This is contestable.

Our scenarios are set out in the annex. Many others could have been posited.

The outcomes vary from a positive result for Wales of an additional £220 million a year (on some very optimistic assumptions) to an annual loss of £860 million. The point is that so much depends on the precise terms of disengagement, the economic impacts of exit and the fiscal policy and priorities of future UK Governments.

How could Brexit impact on the day-to-day delivery of public services?

EU legislation has numerous impacts on Welsh public services. Two of the key areas are employment legislation and procurement legislation. The extent to which Brexit would see the UK or Wales free to repeal such legislation depends on the nature of the post-Brexit deal. If the UK remains as part of the EEA, it would have to sign up to all rules governing the single market, including employment rules, the principle of free movement and procurement. A bespoke bilateral agreement could see the UK signing up to some but not all rules. The default position of a relationship with EU along the lines of all other members of the World Trade Organisation would probably see the UK free to repeal all EU legislation.

It is worth saying here that the issue of the costs and benefits of immigration have featured heavily in debates about Brexit. Clearly, EU migrants impact on demand for public services including healthcare and education. But they also contribute through taxation to the funding of those services. Whether EU migrants are a net contributor or beneficiary is highly contested. There are no absolute answers as all the analysis is based on a range of assumptions. As the Migration Observatory reports⁷, some academics report significant net benefits whereas organisations like Migration Watch claim net costs.

How would Brexit impact the Welsh public service workforce?

The extent to which Brexit would impact employment law and practice is unclear. As with finances, much depends on the nature of a post-Brexit agreement with the EU. To be part of the European

⁶ <http://migrationobservatory.ox.ac.uk/briefings/fiscal-impact-immigration-uk>

Economic Area (EEA) like Norway, Lichtenstein and Iceland the UK would have to sign up to all of the regulations governing the single market, including employment, social and procurement rules. Those countries also have to sign-up to the principle of free movement of labour. Given the focus of the referendum debate on immigration, it seems likely that any post-Brexit deal would seek to restrict or prohibit free movement.

How would Brexit impact public procurement?

Public bodies often complain about burden and cost of EU procurement. If the UK Government negotiated a deal to be part of the EEA, it would have to apply the OJEU rules for procurement. The UK may negotiate a bilateral agreement on the basis of exemption from EU procurement rules. It is likely that the EU would resist or extract a high price for such an exemption as members would want fair access to the UK market for public sector contracts. In such a scenario, Parliament would ultimately have to recreate new procurement rules. It is far from certain that new rules would actually be any less onerous/ burdensome if they are designed to ensure competition, transparency and value for money.

Would delivery of Wales' public finances be better or worse after Brexit?

Because of the impossibility of the overall fiscal impact of leaving the EU on Wales with any certainty, we have created some illustrative factors that could play into it. These are located in the annex. They look at the relatively large spending areas of health, social care, education and housing. These are the variables:

- What is the projected impact on regulation – particularly employment and procurement - of the various possible post Brexit UK-EU relationships?
- How would regulatory changes interact with wider economic and fiscal impacts of Brexit?

As with the public finances scenarios, many other factors could have been posited.

The picture these paint is of greater challenge for public services, in part from recruitment challenges. They vary considerably depending on the type of relationship. In some areas the bigger impacts come from the economic impacts of Brexit rather than regulatory changes.

Concluding remarks

The purpose of this briefing is not to present a case either for or against Brexit. There are risks and opportunities. However, because Wales' public service is a net beneficiary from EU funding it makes the bar much higher for Brexit to achieve positive impacts. Our scenarios are notional but generally plausible. They show that Wales' public services potentially have much to lose from Brexit and there are significant risks.

There are few plausible scenarios based on Treasury evidence and our analysis in Welsh public services are better off financially. That is in part because Wales does much better financially out of the EU than many other parts of the UK. How much worse off Wales is likely to be depends on the nature of the relationship the UK negotiates. That is not to say there are no potential financial benefits. At a UK level we would probably keep some of our net contribution. And in Higher Education Wales would not be required in some scenarios to pay EU student tuition fees and could instead charge the higher fees that non-EU students have to pay to study on the UK. The problem is

that these financial gains are wiped out by the economic impacts and the resultant loss of tax revenues if the Treasury's projections prove correct.

The impact on the way public services are delivered and managed is unclear and depends on negotiations. It is quite feasible that changes to the way public services operate are marginal if we stay within the EEA, with changes mainly arising as a result of wider economic impacts rather than operating under different rules. Alternatively, there could be profound changes if the UK Government repeals and rips up many of the regulatory frameworks on employment, procurement etc. and goes back to the drawing board.

In this briefing we've focused on the biggest service areas. Given the treasury projections that Brexit would lead to less public spending following a period of historic austerity, pressure to protect the larger spending areas could see whole areas of public service – like arts, culture and some environmental services – become unsustainable.

We fully recognise that this analysis is based on the public finance and delivery implications of Brexit. For many people that may not be the main or even an important consideration in voting to remain or leave the EU. Many consider issues around sovereignty and border control to trump these concerns. Those are legitimate and real concerns but are not our focus for this report.

Annex

Scenarios

Public finance scenarios

To illustrate the possible impacts of Brexit on Welsh public finances we have generated a range of scenarios. These scenarios consider three key variables:

1. What happens to the £13 billion the UK currently pays to the EU
2. How the UK Government would replace the £4.5 billion spent by the EU in the UK, including the £520 million spent in Wales
3. The impact of Brexit on the tax revenues of the UK government and any consequent impact on Welsh public finances

In developing these scenarios we have used some assumptions. The first is that the EU would continue to provide Wales with structural funds after the current round which ends in 2020. While the funds are likely to change, Wales continues to be amongst the poorest parts of the EU and it is reasonable assumption, though by no means a certainty, that Wales will continue to receive support at similar levels. In considering the economic impacts we have drawn from the Treasury's analysis. While this is contested by Leave campaigners, it is the most authoritative assessment available. It draws not only from HMT's own analysis but also from projections by a range of other organisations including the accounting firms. Its assessments also reflect similar analysis by international organisations like the OECD. However, we fully recognise that there are considerable uncertainties and some economists, notably Professor Patrick Mindford, have produced models showing economic benefits arising from Brexit.

Before getting into the scenarios we need to deal with the key issue of the funding formula used to allocate the £13 billion 'recouped' from Europe. The default position would be for the funding to reach Wales through the block grant, via the Barnett formula. The Barnett formula is used to allocate increases (or decreases) in spending across the four nations of the UK based on spending decisions for England. The Barnett formula does not set the underlying baseline of spending, just annual changes. Under the Barnett formula, any increase in funding is applied equally across the four nations. So, for example, if the UK Government decided to use money recouped from its EU contribution to raise spending on agriculture in England by £10 per head there would be a £10 per head rise in the block grants allocated to Wales, Scotland and Northern Ireland. Wales could lose out in this scenario because the Barnett formula would allocate the money equally, whereas the EU funding was previously unequally allocated in Wales' favour. The alternative would be a one off deal that treats the EU funding as an exceptional re-adjustment that alters the baselines rather than allocating it via the Barnett formula.

Scenario 1: Barnett highly optimistic scenario

This scenario assumes that the UK Government has not made an agreement with the EU and has defaulted to a WTO relationship.

What happens to the £13 billion EU contributions? Because there is no agreement, the UK has to make no contribution to the EU in a post Brexit agreement. In this optimistic scenario, the UK Government uses its share of the £13 billion recouped from Europe entirely for purposes that are devolved: so increasing spending on areas including agriculture, regional development, health and

education but not areas like defence and policing. Through the Barnett formula, Wales would get around £740 million.

We have assumed no negative economic impact. The Treasury's projections of a £45 million reduction in tax have not come about.

So is Wales better off? In this most positive of scenarios, Wales would do better from Brexit by around £220 million.

Scenario 2: Barnett optimistic but plausible scenario

In this scenario, the UK Government strikes a post Brexit deal to stay in the EEA.

What happens to the £13 billion EU contribution? In our scenario, under the terms of the agreement to join the EEA the UK contributes around £4 billion (just under half of the net contribution in 2015). This leaves around £9 billion. The UK Government spends £4.0 billion in areas matching existing EU spending (for example agriculture, regional development). This results in Wales getting around £230 million. The UK Government negotiates to retain access to funding for innovation and Higher Education, worth £20 million.

What happens to the UK public finances? The Treasury predicts a loss of £20 billion. So the remaining funding recouped from the EU contribution is completely subsumed by the loss of revenue. To bridge the funding gap, the UK government makes cuts to spending, including £5 billion in devolved areas. That would result in a cut to the Welsh budget of £285 million.

Is Wales better off? In this scenario, Wales is down by around £535 million.

Scenario 3: Barnett pessimistic but plausible scenario

In this scenario, the UK Government negotiates a bilateral arrangement with the EU.

What happens to the £13 billion EU contribution? In our scenario, the EU plays hard ball to make the UK pay heavily to opt out of the principle of free movement with a contribution of £8.5 billion a year, matching its current net contribution. Due to funding pressures, the UK Government makes available a pot of just £1 billion for agricultural payments in England and does not replace other EU funding. That means just £60 million for Wales.

What happens to the UK public finances? The remainder of the reclaimed EU contribution is more than offset by the £36 billion loss of tax receipts as predicted by HM Treasury. To help repair the public finances, alongside tax rises and other cuts the UK Government makes £7 billion cuts to devolved areas, including health, local government and education. That results in a cut of £400 million for Wales.

Is Wales better off? Wales is worst off to the tune of £860 million.

Scenario 4: Re-adjust baseline optimistic but plausible scenario

This is a variation on scenario 2, which involves the UK entering the EEA and making a £4 billion contribution.

The UK Government agrees with the devolved countries to ensure that the £4.5 billion spent by the EU across the UK is fully protected through an adjustment to each country's underlying baseline. That is, the £4.5 billion is not allocated through the formula but simply replaces existing EU funding. This means Wales starts from a position of keeping the £520 million currently spent with no net loss

or gain. The remaining funding recouped is completely subsumed by the £20 billion loss of tax, as predicted by HM Treasury. To bridge this gap, the UK government makes cuts to spending, including £5 billion in devolved areas. That would result in a cut to the Welsh budget of £285 million. In this scenario, Wales is £285 million worse off.

Scenario 5: Re-adjust baseline pessimistic but plausible scenario

This is a variation on scenario 4 in which the UK Government negotiates a bilateral arrangement with the EU and pays around £8.5 billion a year. In this scenario, the UK Government agrees to adjust the baselines, but due to changing economic circumstances will only provide half of the funding (a total of £2.25 billion), meaning, Wales gets £260 million. The remaining funding is more than offset by the £36 billion loss of tax receipts as predicted by HM Treasury. To help repair the public finances, the UK Government makes £7 billion cuts to devolved areas, including health, local government and education. That results in a cut of £400 million for Wales. Wales is worst off by £660 million.

Public service impact

Exactly how public services would look different is impossible to predict as there are so many different variables. We have highlighted some factors below to look at some of the practical consequences of Brexit that may occur. We have split these between the UK staying in the EEA and outside (a combination of a bespoke deal and WTO). We have created scenarios based on possible changes to workforce rules, procurement rules and the general impact of the financial issues set out in the earlier financial scenarios. It is important to note that while they are informed by detailed analysis they are fictitious and are designed to stimulate thought and discussion. They are stories. They are not predictions of what will happen.

Health and social care 1: Brexit outside EEA

Looking at impact we could see hospitals struggling with staffing shortages because staff from Europe, concerned about their status in the UK have left Wales. However, a repeal of working time legislation enables Health Boards to make up some of the capacity gap by requiring doctors to work longer hours. Welsh NHS bodies are scouring the developing world for doctors and nurses.

The Welsh Government promises to retain the working time limits when England became the first to lift the regulations. However, controversies over staff shortages, long waiting times and stories of poor care forced a change. The introduction of longer working weeks, leads to relations between clinicians and the Welsh Government deteriorating significantly. Cuts to UK public finances mean that spending on Wales' NHS has fallen and the Welsh Government has to impose pay freezes across the NHS.

Changes to procurement rules have also pushed up costs for the NHS. NHS bodies have made some savings from administration as a result of not being required to follow EU rules. However, the pressure to buy local and contracts only being advertised in the UK means there is less competition from EU firms. This pushes up the cost of some clinical equipment.

The social care sector has been particularly hard hit with many EU citizens, especially from Eastern Europe, leaving. The sector is currently reliant on this group of workers who are generally paid close to the minimum wage. As a result, social care providers have had to increase wages in order to recruit local people. This alone has not filled the gaps, so access to some care has been restricted. The Welsh Government and several councils are involved in a public spat as this rationing of care

runs counter to the requirements of the Social Services (Well-being) Act. Councils are arguing that they cannot meet their obligations because their funding has been squeezed substantially as a result of the wider fiscal pressures. The squeeze on councils means that they are trying to drive down costs of residential care and care homes. Ultimately, this has led to several care homes and small social care providers going out of business, leaving people temporarily without access to the support they need. The Welsh Government is considering introducing significantly higher charges for some care services or raising income tax to fund social care, but these proposals are proving deeply unpopular and difficult to get through the Assembly.

Health and social care 2: Brexit part of EEA

Here Brexit has a more limited impact than above. In order to be part of the EEA all of the EU regulations governing working times have been retained. With free movement of people also a requirement of joining the EEA, hospitals are still recruiting freely from within Europe. However, they are finding it more difficult to recruit, due to a greater reluctance to move to the UK as it is not a full member of the EU. Despite overall funding cuts to its budget, the Welsh Government has slightly increased spending on the NHS to offer recruitment 'golden hellos' to encourage clinicians to come to Wales.

Once again there are likely to be substantial difficulties in social care. With staff from the EU likely to show some reluctance to move to UK, the scenario could lead to slightly higher wages. These issues would be less stark than in the bilateral scenario. However, the small changes in costs for providers have been accompanied by large cuts to local government spending as a result of wider fiscal pressures and decisions to protect the Welsh NHS spending. As above this could lead to a number of care homes and providers going out of business and the Welsh Government is still having to face difficult, and potentially unpopular, decisions about how to continue to fund social care.

Education

Education 1: Brexit outside EEA

The Welsh Government's programme for building new schools has been significantly impacted by the availability of funding as a result of the economic down-turn resulting from Brexit. This means it could have less capital and has to pay more for private finance/ borrowing to fund the programme. Lack of competitive bids from EU based companies and rising wages as a result of shortages in the construction workforce after skilled EU construction workers left, have also driven up costs. The net result is that the programme delivers fewer new schools than expected.

In this imagined future, the loss of EU structural funds impacts on parts of the further education sector heavily. It leads to large cuts to several work-based learning programmes. Some small and medium sized training institutions are pushed to the margins of viability. The positive progress that had been made in improving the skills of the adult population has stalled.

Higher education could also note significant impacts. The loss of funding for research and student exchanges would hit Universities. Whilst some savings would be made from not subsidising EU students' tuition fees, these could be marginal and not close enough to offset losses. As a result, some universities may struggle to attract and retain high quality lecturers and researchers. This would put their research status and international rankings at risk. The academia could also complain about being excluded from important information sharing networks and they could be less likely to be invited to or be involved in collaborative projects and programmes.

Education 2: Brexit within the EEA

The schools building programme has slightly been impacted by a downturn and skills shortages in the construction sector. Some of the Structural Funds could be ring-fenced. However, some WBL providers could struggle and their skills may not improve at same rate. Whilst Higher Education funding from Europe could still be provided and HE could still be gaining funding from EU students' tuition fees, they would struggle to attract students for exchanges.

Housing

Housing 1: Brexit outside of EEA

In terms of impact we could see a shortage of construction workers due to restriction on immigration and free movement from EU countries, as well as higher borrowing costs. Housing providers⁸ could also find it difficult to access construction materials from Europe and may face higher costs.

The slowdown in creation of new social housing means that demand has significantly outstripped supply. While there is lower demand for social housing from EU migrants, this is dwarfed by the increase in demand as the result of wider economic pressures. In this scenario, we see longer queues for social housing, more people living in poor quality private housing and a rise in homelessness.

Housing 2: Brexit within EEA

The impacts are less pronounced than in the previous scenario. Because Wales remains in the EEA construction workers are free to work in the UK and bring their families without the need for visas. Nevertheless, there is still a skills shortage driving up wages, some initial difficulties accessing materials and housing providers would be hit by higher borrowing costs. The net result is a small slowdown in the creation of social housing. The impacts are the same as above but less pronounced – supply lags demand for social housing and there is a rise in low quality private rented housing and a small increase in homeless.

⁷ http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/EU_referendum_-_member_briefing.pdf