

# Welsh Government Response to Recommendations from the External Affairs and Additional Legislation Committee Report: How is the Welsh Government preparing for Brexit?

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## Introduction

As outlined in the Cabinet Secretary for Finance's written evidence to the External Affairs and Additional Legislation committee last November, the Welsh Government mobilised quickly following the result of the referendum to build capability across Government to respond to the challenges and explore the opportunities presented by EU withdrawal. Our response to the Committee's recommendations below demonstrates that we have intensified our Brexit preparedness work, with this taking place despite the deeply worrying and unhelpful lack of clarity coming from the UK Government. In contrast, we clearly set out our priorities in "Securing Wales' Future", published jointly with Plaid Cymru over a year ago, and these continue to be our key priorities.

We have always said nobody has a monopoly of good ideas on how Brexit should be approached, and we are very open to hearing new ideas. I therefore welcome the Committee's report.

## Detailed responses to the Committee's recommendations

**Recommendation 1:** We recommend that the Welsh Government urgently examines the likely parameters of various Brexit scenarios, including a "no deal scenario", and reports on progress within 6 months.

**Response:** Accept in principle

The Welsh Government has already been considering the implications of various Brexit scenarios, and this work will continue as the validity and probabilities of different scenarios become clearer. "Securing Wales' Future" set out evidence of the early work undertaken, which included an analysis of the potential overall economic impact on Wales from Brexit in line with the best available data. This work has been reinforced by analysis included in both our "Brexit and Fair Movement of People" and "Trade Policy: the issues for Wales" policy documents. Last month, a summary of the EU Exit Scenario Planning Workshops (covering the food, fisheries, farming, forestry and the environment sectors) was published by the Cabinet Secretary for Energy, Planning and Rural Affairs' Brexit Roundtable Stakeholder Group. Five scenarios were developed as part of this work, including defaulting to World Trade Organisation terms and a Free Trade Agreement with the EU, and the implications of those scenarios are assessed.

Robust evidence will play a vital part in informing EU exit negotiation positions, and in developing subsequent policies and programmes. We have therefore commissioned various research to support this. For example, we commissioned the Cardiff Business School to examine how various post Brexit options would affect large and medium sized firms in Wales, and which sectors could be most vulnerable. We also commissioned the recently published Wales Centre for Public Policy (formerly the Public Policy Institute for Wales) reports - “Implications of Brexit for Fishing Opportunities in Wales”, and “The implications of Brexit for Agriculture, Rural Areas and Land Use in Wales”.

With specific reference to a no deal scenario, we have continuously emphasised that this would be catastrophic for Wales. We therefore do not want to normalise such a disastrous outcome, but we recognise that should the UK Government fail to reach a deal with the EU27, the Welsh Government has a responsibility, in devolved areas, for ensuring that necessary arrangements would be in place. Work is intensifying across Welsh Government departments in relation to potential operational arrangements needed to ensure we are prepared for our exit from the EU, based on different scenarios. It is important to stress however that it will not be possible to completely mitigate the impacts of a no deal outcome on Wales, and it will be the responsibility of the UK Government to make the necessary arrangements in many key areas. We would also look to the UK Government to resource us, the Welsh Government, sufficiently to deal with the increased challenges that we would face as a consequence of their actions in allowing such a scenario to occur.

**Financial implications:** Any further analysis and publication costs will be met from prioritisation within existing budgets over the course of the current budget planning period. Resource requirements beyond the current planning period will be considered in future Welsh Government Budgets.

**Recommendation 2:** We recommend that the Welsh Government publish both the nine sectoral analyses described by the Cabinet Secretary for Economy and Infrastructure and the outcome of the forthcoming research being undertaken by Cardiff Business School.

**Response:** Accept in principle

The work that we have been undertaking to understand the issues and areas of concern for companies and businesses in Wales is wider than the priority sectors, which comprised our approach to economic policy at the time. As indicated in our Economic Action Plan, we have moved towards a thematic approach to sector definitions.

We have been working closely with our entire sector teams to identify the gaps in our data and to better understand the picture across each of the sectors impacted by the UK’s withdrawal from the European Union. Our initial internal work led us to commission wider research, which has overtaken the early analysis. Examples

would include the research into issues facing larger businesses in Wales which was subsequently carried out by the Cardiff Business School; the report of which was published on 2 February 2018.

We are currently drawing up a specification for research into the impact of Brexit on small and medium-sized enterprises in Wales to improve our understanding of the extent of business exposure to and preparedness for Brexit, and the direct and indirect impacts on small and medium-sized enterprises through the supply chain. This research will also be published.

**Financial implications:** None that relate directly to the acceptance of the recommendation. The financial implications of any future analysis will be considered at the time of their completion.

**Recommendation 3:** We recommend that the Welsh Government improves communication with individual organisations through greater encouragement of representative bodies to cascade information to those organisations. We also recommend that individual organisations undertake two-way engagement on the issue of Brexit within their own structures.

**Response:** Accept

We see engagement with our stakeholders as extremely important, and we have been working closely with them to build a detailed understanding of their priorities, concerns and vulnerabilities, while communicating the Welsh Government's position on a range of Brexit issues and this activity will continue. The EU and the UK have now agreed that there will be a period from the point of the UK leaving the EU (29 March 2019) until 31 December 2020 during which the UK will adhere to EU regulations. The European Council on 22-23 March is scheduled to confirm this. Against this backdrop, now is the right time to increase engagement with stakeholders to prepare them for this phase and the changes and challenges it will bring.

As the Committee will be aware, we are talking to a range of stakeholders, including businesses, farmers, trade unions, educational institutions, public services, the third sector, communities and the public. This engagement work will continue and expand as we enter this critical period in the Brexit process, and we have noted the Committee's recommendations. We will increase our stakeholder engagement, including the more effective use of representative organisations and work with them to cascade information to their members. We are developing a more detailed programme of engagement that will build upon our previous activity, including Ministerial roundtables and other engagements, materials to be cascaded to individual organisations, further engagement through existing forums and standing bodies, direct support for businesses and using our social media and newsletter channels to inform stakeholders.

**Financial implications:** Further stakeholder engagement work will be met through existing budgets over the course of the current budget planning period. Resource requirements beyond the current planning period will be considered in future Welsh Government Budgets.

**Recommendation 4:** We recommend that the Welsh Government issues clear and accessible guidance to businesses, public sector organisations, and the third sector on what the implications of various Brexit scenarios, including a “no deal” scenario, could mean for those organisations. This guidance should be issued as soon as practically possible after the publication of this report.

**Response:** Accept in principle

Given that the second phase of the negotiations have only recently begun, we believe issuing guidance to such a diverse range of stakeholders could be lengthy and confusing at this stage, and would likely fuel further uncertainty. As the negotiations progress, and the validity and probability of different scenarios become clearer, we will doubtless wish to offer helpful guidance to our stakeholders, especially to public sector organisations. Providing guidance to business and the third sector will need some further careful thought, given the diverse range of interests involved. As previously outlined, the EU and the UK have now agreed that there will be a period from the point of the UK leaving the EU (29 March 2019) until 31 December 2020 during which the UK will adhere to EU regulations. The European Council on 22-23 March is scheduled to confirm this. We will provide guidance to stakeholders on what this means as soon as possible.

**Financial implications:** Production of guidance to be met through existing budgets over the course of the current budget planning period. Resource requirements beyond the current planning period will be considered in future Welsh Government Budgets.

**Recommendation 5:** We call upon the Welsh Government to seek clarity from the UK Government on how the proposed Shared Prosperity Fund would be allocated and administered.

**Response:** Accept.

We currently have no detailed information from the UK Government about this proposed fund and therefore continue to press for detailed discussions to begin about how any options for replacing structural funds can work effectively within a devolved context. Economic development is a devolved competence and the possibility of a centrally-administered UK fund is not compatible with the distinctive approaches to regional development adapted by the different UK nations. Any proposal would need to reflect devolution settlements, respect different policy and legislative contexts, and reflect partnership and governance arrangements across the different nations of the UK.

As outlined in our “Regional Investment in Wales after Brexit” policy document, we firmly reject the idea of a regional development policy centrally directed from London, and are calling for regional investment decisions to continue to be made in Wales, building on our experience of nearly 20 years of managing regional policy and regional funds. We have made this clear to the UK Government and will continue to do so, drawing on the positive responses to our policy paper and the work of this Committee as evidence of a growing consensus in Wales.

**Financial implications:** The nature and level of arrangements to replace European Structural and Investment Funds will have a significant impact on the Welsh Government’s overall budget position. This forms part of ongoing discussions with the UK Government.

**Recommendation 6:** We recommend that the Welsh Government – in conjunction with the Higher Education Working Group – publish any work that it has conducted to date in reviewing its strategy in relation to research and innovation in the higher education sector to take account of the implications of Brexit in this area.

**Response:** Accept

The Reid Review into government-funded research and innovation was commissioned by the Welsh Government last year. One aspect of the review is to consider implications of Brexit for Government funded research and innovation in Wales, and the pressure this creates in terms of loss of financial support, loss of students to Wales and the potential impact to skill gaps in the future and to growing high skilled jobs in Wales. The Welsh Government is considering its response to the Reid Review and plans to publish this in due course.

**Financial implications:** Any additional work to be met in the first instance through existing budgets.

**Recommendation 7:** We recommend that the Welsh Government set out in its response to our report how it intends to spend the anticipated consequential allocations arising from additional money being spent at UK level to prepare for Brexit and clarifies whether these will be ring-fenced for supporting activities in relation to Brexit in Wales.

**Response:** Accept in principle

The Welsh Government does not as a matter of routine, passport the funding consequentials arising from spending decisions made by the UK Government. It is for the Welsh Government to decide how, together with the existing block grant, any additional allocations we receive as a consequence of spending decisions made in England in areas of devolved responsibility are allocated to reflect our priorities. The National Assembly for Wales then votes on our final Budget following scrutiny from the Finance Committee.

The UK Government confirmed in the Spring Statement that Wales will receive just over £21m in Barnett consequential for 2018-19 as a result of the £3bn announced in its autumn Budget for Brexit preparedness. Consequential for 2019-20 are expected to be announced at the end of this calendar year.

To help meet the challenges that lie ahead as the UK prepares to leave the EU, the Welsh Government has announced a £50m EU Transition Fund. The fund will be developed in partnership with our businesses and public services to provide targeted and innovative support. The fund is supported by an initial £10m down payment in the 2018-19 final Budget over two years, which is additional to the £5m allocated for Brexit preparedness over 2018-19 and 2019-20 as part of the two-year Budget agreement with Plaid Cymru.

The funding will be a mix of capital and revenue and will be drawn from a number of funding streams available to us, including available capital as a result of the UK Budget, our 'share' of the £3bn announced by the UK Government in the UK Budget for Brexit preparedness and drawing on the new flexibilities available to us through the Welsh reserve.

**Financial implications:** Building on the additional £5m announced in the draft Budget, an additional £10m of revenue funding has been allocated over the next two years in the final Budget as an initial investment in the EU Transition Fund.

Carwyn Jones

First Minister