

# **External Affairs and Additional Legislation Committee: Written Evidence submitted by the Cabinet Secretary for Finance**

## **Introduction**

1. The External Affairs and Additional Legislation Committee has invited me to give oral evidence to the Committee on 20 November as part of its inquiry - Resilience and preparedness: the Welsh Government's administrative and financial response to Brexit. This written evidence paper has been structured to reflect the terms of reference for the inquiry, which are to examine:
  - the Welsh Government's internal administrative and financial response to Brexit; and
  - how the Welsh Government is supporting public services, higher education, third sector and economic sectors to prepare for exiting the European Union.
2. This paper demonstrates how the Welsh Government mobilised following the result of the referendum, to build capability across government to respond to the challenges and explore opportunities presented by European Union (EU) withdrawal. This has ensured that we have engaged extensively with stakeholders right from the start to understand their concerns and priorities, and to be active in setting out coherent policy positions to influence the UK Government's approach to exit negotiations.

## **The Welsh Government's internal administrative and financial response to Brexit**

### **Strategic response**

3. The Cabinet Sub-Committee on European Transition was established to provide strategic direction to, and ensure the coherent development and implementation of, the Welsh Government's strategy on European Transition, to secure the best outcome for the people of Wales. It is supported by the European Transition Officials Group comprised of senior officials. The Group draws together legal, economic and constitutional experts, as well as specific policy area leads, and supports joint working across Government. Sub-groups have also been established as needed, for example on the development of UK frameworks, and to focus on economic issues. A sub-group has also been established to bring together officials with legislation experience from across the organisation and provides coordination on the Welsh Government's approach to Brexit-related legislation. In addition, a specific Liaison Committee with Plaid Cymru was set up to focus on Brexit-related issues, and the European Advisory Group was also established, comprising of business

leaders, politicians, trade unions and others with European expertise to advise the Welsh Government on the implications for Wales of EU withdrawal.

4. This joined up and collaborative approach has enabled the Welsh Government to be on the front foot in responding to the decision to leave the EU. This has allowed us to contribute constructively to the debate in order to influence UK Government positions, and to provide robust proposals for the future based on strong evidence. Examples include our White Paper “Securing Wales’ Future” published jointly with Plaid Cymru in January, and our follow up policy documents “Brexit and Devolution” and “Brexit and Fair Movement of People”. Further papers are in development.

### Staffing

5. Following the referendum immediate action was taken by the Welsh Government, including prioritising staff resources to establish a dedicated European Transition Team, located centrally in the Office of the First Minister and Cabinet Office, to lead on the development of strategic policy and to coordinate Welsh Government work on our withdrawal from the EU. The team liaises with other devolved administrations and Whitehall departments, in particular the Cabinet Office and the Department for Exiting the EU, and co-ordinates other Welsh Government departments’ engagement with their Whitehall counterparts. The team also leads on governance arrangements in relation to Brexit, and works across Welsh Government to consider and examine the potential implications of EU withdrawal.
6. The team has grown since its establishment, and continues to expand in line with the development of work on European transition. The number of posts within the team has increased from an equivalent of three Wales-based posts working on EU policy at the time of the referendum to 19 posts currently working on EU Transition policy and legislation (and will grow by several more posts in the coming weeks), with a Director for European Transition having been appointed, along with two Deputy Directors.
7. The European Transition Team has worked closely on Brexit-related matters with the Welsh Government team based in the Brussels Office which currently has six posts working on policy related issues. Staff in Brussels have continued with their work on ongoing EU business, alongside supporting work related to Brexit, for example providing intelligence and analysis on the negotiations and wider EU policy developments that relate to UK withdrawal. The Office, co-located with the Welsh Local Government Association and Wales Higher Education Brussels, represents the Welsh Government in Brussels. It develops and maintains relationships and facilitates ministerial and official level engagement with the EU Institutions, UK Government and

devolved administration representatives and other stakeholders such as regional governments, non-EU governments, NGOs, industry bodies and think tanks, including participation in relevant networks.

8. The European Transition Team also works closely with other Welsh Government departments, who have prioritised their existing resources for dealing with specific Brexit issues following the referendum result.
9. Within Environment and Rural Affairs (ERA) for example, a small, Brexit team was created from ERA's existing resources to establish and coordinate a number of key programmes and work streams. This element of ERA's EU Exit & Strategy Unit comprises of approximately 19 individuals, lead by a Deputy Director. This team coordinates the work across ERA, but given the scale and implications of Brexit to ERA responsibilities, the work is being delivered by officials across the department as part of their substantive roles.
10. Having scoped priority work arising as a result of EU withdrawal, which indicates the need for approximately a further 50 Brexit-dedicated staff across the ERA divisions, the Cabinet Secretary for Energy, Planning and Rural Affairs has agreed to scale up ERA's dedicated Brexit operations. Given the pressures on permanent headcount remain, options to fill a number of these posts through secondments, loans and time-limited, internally recruited posts are being pursued.
11. Trade will remain an area of EU exclusive competence until we leave the EU, but future decisions on new trading relationships with the EU and third countries will directly impact on a wide range of devolved policy areas – for example, environmental standards, economic development, agriculture, skills and qualifications. A Trade Policy Team to support all departments and Ministers across Welsh Government has therefore been established to work alongside the existing Trade and Investment team. The Trade Policy team consists of three permanent staff and one temporary appointment from the civil service fast-stream staff, and is lead by a Deputy Director who also has responsibility of Natural Resources Wales sponsorship.
12. Work on European transition within the Economy and Infrastructure portfolio is being led by senior officials across the department, and teams whose policy areas are affected by Brexit are also considering the implications of European transition as part of their day to day work. The focus has largely been on working with businesses to discuss the implications of Brexit for them, and to identify how and where support can best be offered. In addition, officials have been engaging with UK Government on matters that are principally its responsibility, but which have significant implications for Welsh Government

responsibilities, e.g. detailed work on the implications for Welsh ports and other infrastructure of potential new customs arrangements.

13. A change to the structure of the Legal Services Department was made in the latter part of 2016. This involved the creation of a Europe Team in order to provide support to the European Transition Team and the emerging legal workloads arising from EU Exit. The team comprises a Team Leader together with four lawyers, which will shortly increase to five lawyers. The team is overseen by a Deputy Director and forms part of a wider Division comprising the Constitution Team and the Health and Food Safety Team. A number of other teams within the Legal Services Department undertake legal workloads arising from Brexit, notably the Rural Affairs Team, Environment Team and Health & Food Safety Team.
14. In addition, there are of course large numbers of staff, particularly in both the Welsh European Funding Office (WEFO) and the Environment and Rural Affairs department, working on the ongoing delivery of European programmes, who are also engaged with thinking about the operational aspects of European transition.
15. For Higher Education, a dedicated Deputy Director was appointed in November 2016 to lead and co-ordinate work in relation to Brexit and Higher Education.
16. The implications for Health and other public services are being addressed by senior officials across the organisation and co-ordinated through the Cabinet Sub-Committee and the European Transition Officials Group. The policy document on Migration, "Brexit and the Fair Movement of People", is an example of how the issues affecting public services have been considered and contributed to the development of Welsh Government policy.
17. As is suggested above, while around 50 staff are working more or less exclusively on work directly related to Brexit, a significant number of other staff across Welsh Government departments are working on issues related to European transition alongside delivery of the overall Programme for Government and specific commitments within it, as set out in Taking Wales Forward and Prosperity for All. It is not possible, therefore, to provide a meaningful single total headcount of, or financial cost for, all staff working on European transition issues.
18. The Welsh Government will keep staffing and resourcing issues related to European transition under review.

## Financial response

19. The Welsh Government welcomed the guarantee from the UK Government in October 2016 in respect of the current round of EU programmes. It is now critical to have certainty that the Welsh Government will continue to have at least the same level of funding as currently and that this funding is not subject to any new UK Government constraints or top-slicing.
20. The Welsh Government is also ensuring we receive the relevant and fair consequential funding being allocated to UK departments to prepare for the UK's exit from the EU. This includes consequential funding as a result of the £250m being allocated from reserves in 2017-18 as set out in the Written Statement from the Chief Secretary to the Treasury on 12 October 2017.
21. Brexit-related uncertainty comes alongside a long period of sustained austerity, and we are facing the continuing challenge of delivering our priorities within the context of growing pressures and an ever-decreasing budget.
22. As a first step to easing the uncertainty we face in future years, we have continually urged the UK Government to reconsider its plans to make an additional £3.5bn of departmental reductions in 2019-20.
23. Ahead of the UK Government's Budget, I have written to the Chief Secretary to the Treasury urging the UK Government to end austerity and commit to key infrastructure projects in Wales and provide much-needed clarity about future investments. It is time for the UK Government to listen to the expert views of the OECD and the IMF to take advantage of low interest rates in order to fund increased investment in infrastructure.
24. Our recently published draft Budget 2018-19 was set, for the first time, under our new fiscal framework. This framework provides for a number of additional flexibilities to manage the Welsh Government's resources, such as a new Welsh reserve and increased borrowing powers. While we will not know the outcome of the UK Government's "efficiency review" until the UK Budget on 22 November, the expected impact of this reduction in Wales has been taken into account in the draft Budget.
25. The new Welsh reserve, which will be introduced from April 2018, offers considerable additional flexibility compared to the previous budget exchange process, holding up to £350m. We have taken a prudent approach to reserves during this Assembly term to ensure we maximise the flexibility afforded through the new Welsh reserve. Given the uncertainty we face and the pending efficiency cuts by the UK Government, the Welsh reserve will provide

us with the capacity to protect public services from the worst of the cuts in future years and deploy resources strategically to meet future challenges. In setting this draft Budget we have planned to draw down £75m in 2019-20 from the Welsh reserve.

### Engagement with UK Government

26. We have actively sought opportunities to engage with the UK Government to ensure we maximise our influence on the UK's negotiating position, and we genuinely feel that our evidenced-based arguments, along with those of other key stakeholders, have had an impact on their approach, notably in recognising the vital importance of transitional arrangements, which we clearly emphasised in our White Paper published back in January. We have also made it clear in our White Paper the importance of "full and unfettered access" to the Single Market, with the UK Government subsequently calling for "freest and most frictionless trade possible" with the EU.
27. We have clearly made the case of the importance of robust intergovernmental machinery and engagement in order to ensure that the interests of Wales are protected and we now welcome the fact that the UK Government has re-launched the Joint Ministerial Committee (EU Negotiations), and has given a renewed commitment to have more regular and purposeful meetings. We are committed to using this forum as the basis for substantive joint working, supplemented by the cross-portfolio Ministerial level ongoing bilateral engagement with UK Government counterparts.
28. This has been supported by a large amount of regular, ongoing discussion at senior official levels across a range of Welsh Government departments in order to seek to protect the interests and promote the priorities of Wales in development of the UK Government policy thinking. For example, the Permanent Secretary attends a meeting of all Permanent Secretaries across Whitehall and Devolved Administrations each week, and also has regular meetings with the Permanent Secretary for the Department for Exiting the European Union. Our Brussels office staff also work closely with UK Government colleagues in the UK Permanent Representation to the EU, forming part of the wider UK team there.
29. We continue to emphasise the need for the UK Government to engage us much more fully in the development of their policy thinking and negotiating positions. This is particularly the case on aspects of Brexit which impact on devolved competences, so that they can put forward a UK-wide position in the negotiations with the EU-27 in a way which reflects established practice in regard to ongoing EU business. It is also imperative that the UK Government, with its much greater resources, shares its analysis and research with us in a

way that they have not done to date (as demonstrated by the UK Government's reluctance to share detailed economic impact assessments), and opens up greater engagement on operational readiness issues. There is a limit to what the Welsh Government can do to prepare for different outcomes if the UK Government do not work with us in this way.

**How the Welsh Government is supporting public services, higher education, third sector and economic sectors to prepare for exiting the European Union.**

30. Close working and intensive engagement with all parts of Welsh society is vital in responding to EU withdrawal. As previously referred to, the European Advisory Group has been established to advise the Welsh Government on challenges and potential opportunities arising from the UK's withdrawal from the European Union. It brings together individuals with experience and expertise of European issues from across civil society and political sectors in Wales. Members have generally been invited on an individual basis rather than as formal representatives of specific organisations.
31. We are engaging extensively with businesses, farmers, trade unions, educational institutions, public services, the third sector, communities and the public. Examples of Welsh Government working groups which are considering and discussing Brexit issues are the Workforce Partnership Council, Faith Forum and Third Sector Partnership Council. The Programme Monitoring Committee for the European Structural and Investment funds also support us to capture views of key partners in thinking about current and future regional policy.
32. In terms of engagement with Higher Education institutions, the Higher Education Working Group was established in September 2016 comprising representatives of the Higher Education sector, including Universities Wales, Welsh Higher Education Brussels, National Union of Students and Higher Education Funding Council for Wales.
33. Health officials are also regularly engaging with relevant stakeholders, for example Brexit has been a standing agenda item at the Wales NHS Partnership Forum, chaired by Welsh Government, since the result of the referendum, and Brexit related issues are discussed in individual organisation meetings for example joint oversight meetings with the British Medical Association, meetings with the Royal College of Nursing and Foods Standards Agency.
34. Since the referendum we have been engaging widely with businesses of all sizes right across Wales to understand the risks and opportunities of Brexit. We are committed to developing policies based on robust evidence and have

commissioned various research to support this, for example the research prepared by the Public Policy Institute for Wales included in our “Brexit and Fair Movement of People” policy document. Research which we have undertaken to understand the way in which larger companies are preparing for Brexit will also be published in the near future.

35. One of our biggest efforts to address the potential negative impact of Brexit is supporting businesses, and we are increasing our efforts to grow the number and scale of Welsh based businesses that are exporting through bringing forward a pro-active plan for export support. As part of the Budget Agreement between the Welsh Government and Plaid Cymru, additional funding was also included in the draft budget for 2018-19 to support businesses with the impact of Brexit.
36. We have been talking to businesses and business representatives across Wales (for example, through the Council for Economic Development and its Brexit working group) in order to understand their concerns and needs and ensure their views are fed into Welsh Government policy positions and our representations to influence the UK Government.
37. Work on Brexit scenario planning is also being initiated through our priority sector teams. The establishment of the working group with representatives from the Council for Economic Development, business community, Wales TUC and the Wales Cooperative will develop increased understanding of the challenges and opportunities of the exit from the EU.
38. The proposed UK Government legislation in relation to Customs and Trade is likely to have an economic impact, and will particularly impact on the ports and harbours of Wales. We are working with counterparts in the UK Government to understand what is proposed in this legislation, in order that we can mitigate the risks for Wales and maximise the benefits.
39. Given the relevance of European driven legislation on the ERA portfolio, almost immediately after the Brexit referendum result, the then titled, Cabinet Secretary for Environment and Rural Affairs formed a Brexit Roundtable Group of key stakeholders from across her portfolio. Meeting every six weeks or so, this group has been working to identify the likely impacts and opportunities arising from exiting the EU. In order to consider certain areas in more detail, the main group has created a series of sub-groups. These sub-groups, chaired by senior officials from within ERA, are: Air & Climate, Evidence & Scenarios, Land Management, Rivers & Seas, People & Communities, Regulation & Legislation, and Trade & Supply Chains.



40. Their work is being used to inform ERA's policy development, our discussions and negotiations with Defra and the wider UK Government, and has already contributed to a number of Welsh Government's published documents. They are now progressing to readiness considerations (i.e. what they will need to do to manage these issues and what support they will need from Welsh Government as part of this).

#### Conclusion

41. I hope the Committee finds this written evidence paper useful in outlining how the Welsh Government has built its capability in response to the outcome of the EU referendum. Members will appreciate that arrangements will continue to evolve quickly as we move closer towards EU withdrawal, and I will be happy to update the committee further in future.

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