



Mr D Rees AM
Chair
External Affairs and Additional Legislation Committee
National Assembly for Wales
Cardiff

15 October 2019

Dear David

I am writing in relation to your letter of 20 September 2019 seeking answers to those questions that were not reached during the External Affairs and Additional Legislation Committee meeting on 16 September 2019. Events since we met have been fast-moving; the UK Supreme Court's historic ruling that the Prime Minister's decision to suspend Parliament for five weeks was unlawful, void and of no effect has allowed Parliament to resume its work.

On Thursday 26 September the Welsh Government published, "A Brighter Future for Wales: a case for why we should remain in the EU". In this paper, a successor to *Securing Wales' Future*, we outlined the updated economic analysis that we have undertaken, with a particular focus on the impact of leaving without a deal on 31 October 2019.

On 2 October, the UK Government published its proposals to replace the backstop in the Withdrawal Agreement. We await, with interest, how this will be received in Brussels and Ireland, although it seems doubtful that it will form the basis of a new agreement. If a deal is agreed and supported in Parliament the UK Government will need to bring forward a revised Withdrawal Agreement Bill. We have been clear this will need the consent of the National Assembly for Wales.

We also expect the UK Government to abide by consent requirements in respect of any emergency primary or secondary legislation that it brings forward.

For primary legislation, we recognise the possibility of the UK Government having to introduce Bills which will need to move very quickly through the UK Parliament's legislative scrutiny process. It is clear that the Sewel Convention must be respected; even where UK Bills need to move at an accelerated pace, it is necessary for Assembly consent to be accommodated, even if time for committee scrutiny is curtailed.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

However, it must be recognised that UK Bill timetables are not within the gift of the Welsh Government. It is not therefore possible to give cast iron guarantees that the Assembly will always be afforded the proper time to consider consenting to the proposed legislation in so far as it relates to devolved competence. We will work closely with the Llywydd to find the most appropriate ways to expedite procedures if necessary.

Last year the Welsh Government set out its intention to bring forward a Wales Agriculture Bill in this Assembly term. The continuing uncertainty on the nature of Brexit, the manner of the UK's withdrawal from the EU and our future relationship and future funding are all undecided by UK Government. These issues need to be resolved before we can bring forward good legislation that is clear, accessible and will stand the test of time.

This will be a major reform of agricultural support - I want to do this Bill once and do it well.

I now believe it is best to introduce the Bill in the next term. To help us get this right a further consultation, 'Sustainable Farming and our Land', is underway setting out a more detailed proposal for Sustainable Land Management and we propose bringing forward a White Paper before the end of this Assembly term.

Until the extension of the Assembly's legislative competence is secured through the UK Fisheries Bill, it would be unwise to introduce a Welsh Fisheries Bill, which could only make provisions applying to the Welsh inshore waters, whereas our fisheries management responsibilities extend out to our offshore waters. Timings for introduction are dependent on the UK Fisheries Bill being enacted, and as such we cannot make any clearer statements on timing at this time, given the situation in UK Parliament. However, it remains our intention to bring forward a White Paper for a Welsh Fisheries Bill by the end of this Assembly Term.

At a strategic level, the senior management team has done everything possible to re-prioritise work or approach it in different ways so that the impact on the delivery of Ministerial priorities is minimised wherever possible. For example, we have recently streamlined and simplified the Ministerial advice process so that unnecessary bureaucracy is kept to a minimum and capacity can be focused on priorities.

I have written to the Prime Minister to set out our priorities in terms of financial interventions which will be needed to mitigate the catastrophic impact of 'no deal'. These include a demand that the UK Government must plan for an appropriate fiscal response to no deal, which should increase the funding of the key public services on which disadvantaged people depend; increase benefit payments to disadvantaged groups, and in particular address the growing gap between housing related benefits and real rental values; and involve a range of tax cuts to benefit disadvantaged households, which might include a reduction in VAT and fuel duty to mitigate price rises, and selective reductions in income tax for the lower paid.

We have also made clear that, based on the inflation assumptions made by the Office for Budget Responsibility (OBR) in their "stress test" of Brexit, we anticipate an immediate significant increase in the cost of providing public services in Wales, which would need to be met with an equivalent increase in our funding.

We have also argued for an increase in capital funding to bring forward the infrastructure investment that will support future productivity growth, for Barnett consequentials of any increased funding for projects in devolved areas in England in line with the normal process.

Businesses would, of course, also be hard hit by a no deal exit, with disruption to supply chains, inflation and additional costs of sale potentially pushing some otherwise viable

enterprises into serious difficulties. The Welsh economy is particularly exposed in terms of manufacturing and has been hit hard in recent months with decisions to close or relocate companies in the automotive sector, impacting on already vulnerable communities. We have asked that the UK Government make substantial funding available to provide financial support to businesses in need as a result of no deal.

Additional funding will also be needed for a range of specific actions that we have identified to prepare for, and mitigate impacts of, a no deal Brexit and we are asking the UK Government both to fund preparedness measures we have already taken as well as those which we will need to take in the event of a no deal. The Welsh Government has already invested £200 million on mitigation actions significantly more than the consequential ones we have received to date from UK Government preparedness funding. And as the Minister for Health pointed out on Tuesday, this money is being diverted from other purposes: as he explained, the costs of the new medical supplies warehouse would have funded seven MRI scanners.

We have had no assurances to date that the UK Government will provide the necessary additional funding.

As I outlined at Committee, there remains considerable financial uncertainty with regard to future plans both in terms of the additional funding we received in the one-year Spending Round for 2020-21 and in the absence of a settlement beyond that.

For the purposes of providing financial certainty to our stakeholders and partners next year, we have to plan on the basis of the published figures. If the promised funding from the UK Government does not materialise, we may be able to go some way to mitigate these impacts by drawing on available reserves. However the reality is we would not be able to mitigate these impacts in full without reopening our plans. This would have a significant impact on public services across Wales.

Our calls to the UK Government have been clear since the 2016 referendum: replace EU funding in full and respect the devolved competence of the Welsh Government in determining how this funding is invested. There is clear support for these Welsh Government positions – views shared by the National Assembly for Wales, a wide range of partners across Wales, and an all Party Parliamentary Group. They were also supported by the Welsh Conservative Group during the debate during a Plenary debate (11 June) on the Shared Prosperity Fund.

The Welsh economy is also stimulated by a number of smaller EU programmes, and we look for continued access to European partnerships and networks such as those established through the Ireland-Wales programme, Horizon 2020, ERASMUS+, Creative Europe, and their successor programmes.

Welsh Ministers have reinforced our positions and pressed for clarity from the UK Government including through the Joint Ministerial Committee, Finance Minister quadrilateral meetings, and through correspondence.

At an official level, there is regular contact between WG and UKG on these issues, but there is still no clarity around UK Government Ministerial priorities and how the UK Government plans to distribute replacement funds etc., which adds uncertainty and constantly threatens to undermine the work underway in Wales.

Despite the lack of any decisions from UK Ministers, Welsh Government is working with stakeholders on developing future arrangements for Wales on the clear assumption that all EU funding will be replaced and that regional funding is a fully devolved matter.

In respect of the Structural Funds, we have engaged with stakeholders across Wales since our policy paper, 'Regional Investment in Wales After Brexit', was published in December 2017. This includes a reflection exercise in early 2018 and publication of an independent summary of findings in July 2018.

We have also established a Regional Investment for Wales Steering Group, chaired by Huw Irranca-Davies AM, to provide advice to Welsh Ministers on successor arrangements. Membership is from a wide range of stakeholders including business, local government, academic institutions, and the third sector. The Steering Group has met three times since January, and will meet again on 10 October.

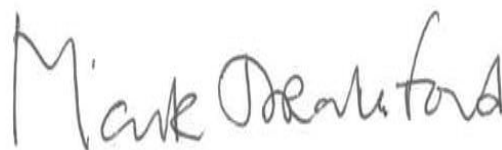
In 2020 our financial planning assumption for the Common Agricultural Policy is that we will continue to receive at least €320m to cover the Basic Payments Scheme, (BPS) 2020. We are also planning to receive a further €50m for rural development programmes in 2021. This reflects the UK Government manifesto commitment not to reduce agricultural support this Parliament.

We are urgently pushing for further clarity from UK Government on this. At the spending round on 4th September, HMT did not confirm the budget for making direct payments to farmers in 2020.

The manner of the UK's withdrawal from the European Union (EU) and the future economic relationship are far from decided. This particularly applies to the terms of any Withdrawal Agreement. Resolution of these issues will determine how long the UK stays within different parts of the Common Agricultural Policy (CAP) and, therefore, when it is possible to start moving to different arrangements.

I hope this information is helpful to the Committee. I have copied this letter to the Chair of the Finance Committee and the Chair of the Climate Change, Environment and Rural Affairs Committee.

Yours sincerely

A handwritten signature in black ink that reads "Mark Drakeford". The signature is written in a cursive, slightly slanted style.

MARK DRAKEFORD